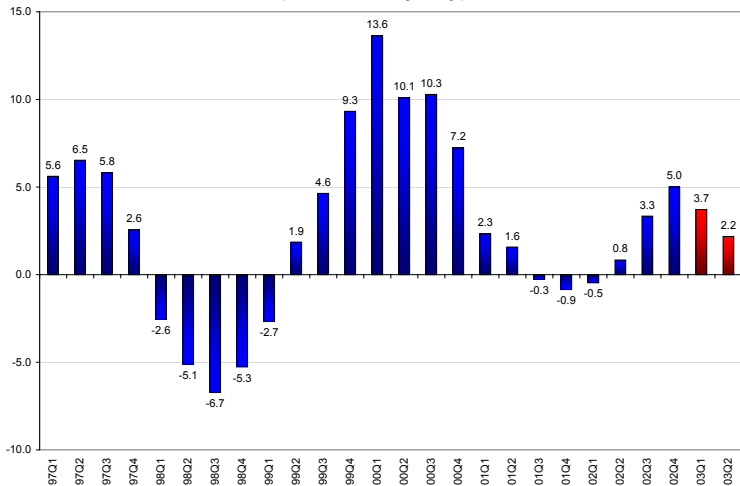


# High-Frequency Macro Forecasts: Second Quarter 2003

April 10, 2003

<http://www.hku.hk/apec/cqm/03Q2/>

### Real Gross Domestic Product (Year-on-Year Percentage Change)



## War and Pneumonia

- The outbreak of atypical pneumonia, coupled with the uncertainties over how the war in Iraq, will hamper the recovery of the weak Hong Kong economy.
- Given the worldwide concern over the spread of the infectious disease, output growth will slowdown in the first half of this year.
- Travel, tourism, catering, retail and entertainment will be the hardest hit sectors.
- External trade sector will grow more slowly, but will remain as the growth engine of the whole economy.
- Real GDP is estimated to increase by 3.7% year-on-year in the first quarter of 2003, and by 2.2% in the current quarter.

## Consumption Spending

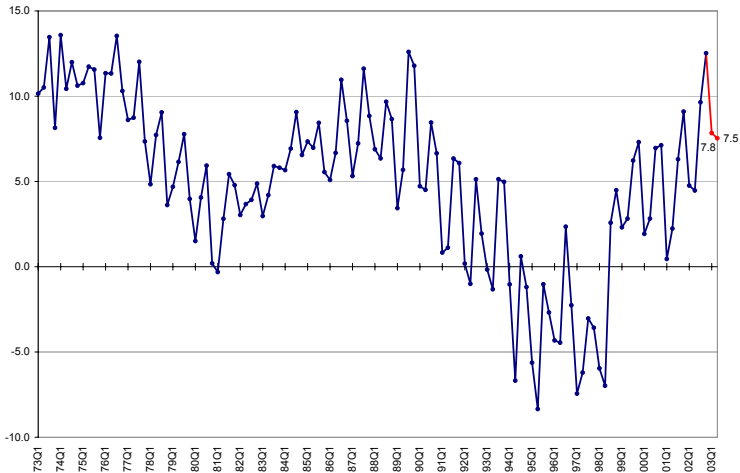
- Private consumption spending declined by 2.1% in the fourth quarter of 2002.
- It is expected to continue to contract by 1.8% in the first quarter of 2003, and by 2.2% in the current quarter.

## External Trade

- Domestic exports shrank by 12.9% in the fourth quarter of 2002, and by a lesser amount of 7.9% in January due to the rush of shipment before the Chinese New Year. It is estimated to contract further in the coming quarters, dropping by 10.4% in the first quarter and 8.5% in the second quarter of 2003.
- Re-exports recorded strong growth of 22.2% in the fourth quarter of 2002 over the same period of comparison. The growth in re-exports is projected to continue in the first quarter of 2003 at 20.3% on a year-on-year basis, and is forecasted to moderate to 14.5% in the second quarter.
- The export of services is estimated to grow by 12.6% in the first quarters, but the growth is forecasted to drop sharply to 8.0% in the second quarter.

- Imports of goods grew by 18.2% in the fourth quarter of 2002 on an annual basis, and the growth is projected to slowdown to 16.4% in the first quarter and 10.3% in the second quarter.
- The trade balance, as measured by the net exports of goods and services, was 12.5  
the weakening in the exports of services, the trade balance is forecasted to fall to 7.8  
to 7.5

**External Trade Balance of Goods and Services**  
(Percentage of GDP, 2000 HK Dollars)



## Investment

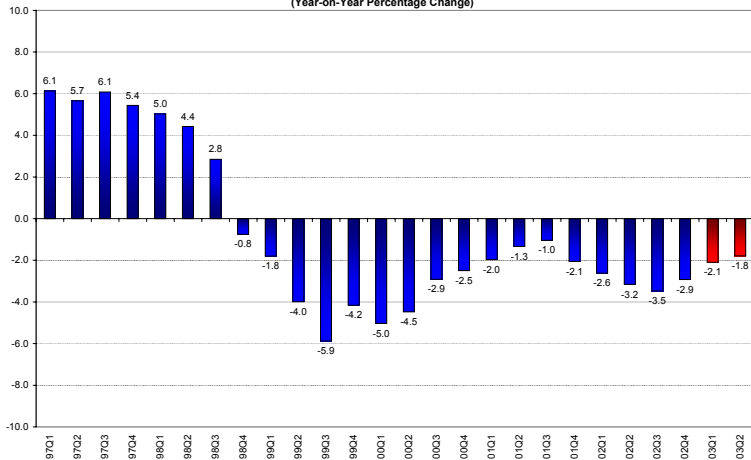
- Investment in land and construction declined by 1.4% in the fourth quarter of 2002. It is forecasted to go up by 1.9% in the first quarter and decline by 1.0% in the second quarter of 2003.
- Following the 2.4% increase in the fourth quarter of 2002, investment spending on machinery and equipment is forecasted to expand by 8.6% in the first quarter of 2003 and 6.6 in the second quarter on a year-on-year basis. The pick-up in the growth rates is mainly due to the lower base of comparison.



## Consumer Prices

- Deflation pressure will continue.
- Poor consumer sentiment and the sharp fall in the number of tourists visiting Hong Kong will put downward pressure on consumer prices.
- In February, the composite CPI declined by 2.1%, with clothing prices down to 4.4%, housing by 2.3% and food by 2% and transport prices by 0.5%.
- The deflation rate is forecasted to decrease by 2.0% in the first quarter of 2003 and 1.7% in the second quarter of 2003.

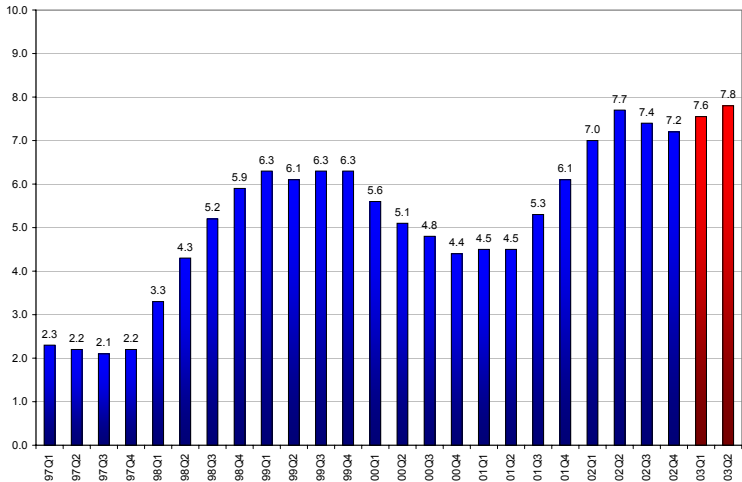
## Composite Consumer Price Index (Year-on-Year Percentage Change)



## Employment

- For the period of December to February, the provisional seasonally adjusted unemployment rate increased again to 7.4%.
- The median duration of unemployment also increased from 82 days in the third quarter to 90 days in the fourth quarter of 2002.
- The unemployment situation will deteriorate, with the unemployment rate forecasted to increase to 7.6% in the first quarter and 7.8% in the current quarter.

### Unemployment Rate (Seasonally Adjusted)



## Concluding Remark

- The outbreak of atypical pneumonia will slowdown the recovery of the Hong Kong economy.
- Domestic final demand will remain weak in the second quarter and external demand will grow more slowly.
- The negative shock to the economy will take several months to filter through the whole economy.
- Effective control of the outbreak is necessary before the economy can revert to its normal growth path.

## 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/>.