

**PROSPECTS FOR 2001: MODERATE GROWTH EXPECTED  
FOR THE HONGKONG SPECIAL ADMINISTRATIVE REGION**

As it becomes more and more apparent that interest rates in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) have to come down, in line with falling interest rates in the US, so it will impact, favourably, on the economy, in general.

For certain, property prices will start to rise as the gap between bank interest rates and yields on investments in properties widens.

Although, in the first few weeks of the new year, things did not appear to bode well for the HKSAR, at least, not on the surface, with share prices, falling on The Stock Exchange of Hongkong Ltd, and with property prices in many areas, seeming to soften, further from 2000 lows, in fact, behind the scenes, it did appear that things were on the mend, after all.

The unemployment rate in the HKSAR has fallen from a high in 2000 of about 6.30 percent to the present level of about 4.80 percent. And it continues to fall.

Meanwhile, private consumption and investment, key components in the calculation of Q3 Gross Domestic Product, are both indicating sustained recovery from the 2000 level of about 10.40 percent, year-on-year.

Many companies in the HKSAR are looking at healthy profits for the current fiscal year; this health will cascade down to labour, which, in turn, will impact on the retail market as wages rise.

Higher consumption of durables – motor vehicles, large household appliances, etc -- is expected to rise more noticeably in the second half of this year as labour starts to feel more confident of the immediate future and the retail market improves, one leading to the other.

As the US economy shows signs of improvement, which is, also, expected in the second and third quarters of this year, so it, in turn, will impact on the HKSAR economy since the US is, still, the most important single market for these 416 square miles.

The improvement in retail sales will, more than likely, spill over into 2002, but the extent of a continued stronger retail sector, relative to 1999, will depend on a number of factors, the most important of which, of course, is what happens in the US with its economy.

All this will help the HKSAR property market since, at the end of the day, the value of bricks and mortar is, still, the backbone of any economy. And it, always, will be the backbone.

If property has little value, relative to high demand-supply factors, it means that something is terribly wrong with the economy and/or there is a very real, political risk that inhibits investors from wanting to own their own home.

(In the Philippines, just last week, riots in the streets of Manila, the Capital City, touched off by widespread dissatisfaction over the events at the impeachment trial of President Joseph Estrada when the case was adjourned, indefinitely, brought down share prices on The Manila Stock Exchange by 6 percent and more.)

**Correlation**

As interest rates fall, so the differential between mortgage costs and rentals will narrow.

This will mean that it makes economic sense for end-users to buy their own homes, rather than rent them.

Due to an oversupply of flats in various categories, at present, it is unlikely that the owners of large caches of residential units will seek to increase prices: They would prefer to cash out while the going was good.

This is in spite of the fact that, at present, prices of many residential units are selling at levels, which are about 50 percent of what the same units were fetching in early 1997.

Further, over the past few years, margins of profit have been squeezed; and, this has resulted in cash-flows, being tight for many companies involved in the HKSAR property market.

It will only be when supply starts to dry up that property prices will start to rise by any appreciable amount.

Another factor in the equation is that, as interest rates fall, speculative investment in property is more than likely to rise, too.

This is because yields from rentals will outpace interest at HKSAR banks.

The average rental returns have risen from the 1998 level of just below the 4-percent mark to the 5.90-percent level as at about the end of last year.

It is estimated that about 36,000 new residential units will come on stream this year.

To this figure, one must add another 14,000 residential units or so, those units that were left unsold in the 2000 year.

At the higher end of the residential market, there is still a shortage, of sorts, but it will be at the lower end of the market that developers will seek to invest since it is in this category of housing unit that, historically, it has been demonstrated that the risks are less.

On the assumption that there will be political stability in both the HKSAR and the PRC, and provided that there is no interference in the free-market forces, it would appear that the HKSAR could well be on the mend, economically.

Estimates from banking powerhouses, such as Dresdner Bank, put the 2001GDP for the HKSAR at about 5 percent.

For the PRC, proper, Dresdner bank estimates GDP at 8 percent-plus.

For the PRC, it would appear that the growing affluence of the population could well help to fuel the economy from within.

This will become clearer after the first quarter when important trade statistics are released.

When the PRC enters the World Trade Organisation, later this year, there could well be a surge in direct foreign investment in the country since, as the saying goes, it would be a more level playing field for all competitors (which is not the situation, today).

This may well stimulate the economy, even further, and this, once again, is likely to cascade down into the HKSAR.

**Conclusion:** Things looks moderately bullish for 2001 for the HKSAR.

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