

THE DOG, ONLY, WAVES THE TAIL

Deflation (a persistent decrease in the level of consumer prices) in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) is causing real interest rates in the territory to be consistently high.

This is dissuading any large-scale investment in the 416 square miles.

The promise of lower prices for goods and services is acting as an incentive for consumers to postpone many purchases.

As such, little improvement in the employment growth rate can be expected for the remainder of the year.

But the HKSAR's short-term and intermediate-term rebound from its present, relatively low position will depend, to a great extent, on global absorption of domestic exports and a diminution in the level of local deflation.

In May, it was reported that the unemployment rate in the HKSAR remained steady at about 4.60 percent of the workforce for the 3-month period, ended May 1.

As at May 1, the Government of the HKSAR reported 156,000 people without work.

That figure was, actually, lower by about 2,200 workers, compared with the average number of workers, looking for employment in the previous quarter.

This seeming anomaly was due to the size of the HKSAR workforce, which, also, rose in that period.

There was, in the last quarter under review, a fall in the number of people unemployed in the construction and business services sectors of the economy, but this was more than offset by an increase in the number of people, absorbed in trade-related industries: Hotels and communications, etc.

Fragile consumer confidence and weaker exports are both contributing to a weak housing market – and, thus, the economy of the territory is stuck.

In the first quarter of this year, economic growth in the HKSAR slowed, markedly, thus aggravating the weakening demand for labour.

This is causing a decided loss of confidence in the Administration of the Chief Executive, Mr Tung Chee Hwa, and considerable disenchantment by the working classes as the PRC, proper, appears to be the '*dog*'; the HKSAR, the '*tail*'.

School-leavers and those students, planning for their future, especially, are, certainly, feeling the brunt of the downturn in the economy of this once, prospering enclave at the foot of the PRC, proper.

The prospects for the future appear to be unclear, with some school-leavers, thinking that their future may well lie in the PRC, proper, rather than in the HKSAR.

The Chief Executive, of course, cannot be held responsible for the economic situation in the HKSAR, today, since he inherited the present deteriorating economic situation, which was brought about by a reduction in the wealth effect in both the US and Europe as stock markets, worldwide, went into reverse and investors saw their savings eroded in short order.

Falling consumer demand in the HKSAR is 'feeding' weaker consumer spending patterns.

Waning corporate demand for office space and a decided reluctance by the majority of the population to purchase their own residential premises are but 2 examples of the growing problems in the territory, brought about by the present, deteriorating economic situation.

Continued weak demand for HKSAR-manufactured goods is likely to continue to the end of the year – at least.

As economic growth in the US remains sluggish, the situation in Europe is not helping the HKSAR economy, too.

Predictions in Europe point to downward revisions in many important economies, especially in those countries that are part of the European Union (EU).

This does not bode well for exporters, export-related entities, and manufacturers in the HKSAR.

Slower domestic growth is likely to continue and this, in turn, will dampen consumer demand, cascading down the line and eroding, even further, business confidence.

And this will, without question, prolong the economic sluggishness of the HKSAR.

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