A Dynamic Factor Model for Current-Quarter Estimates of Economic Activity in Hong Kong

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Summary
This paper applies the single-index dynamic factor model developed by Stock and Watson (1991) to construct current-quarter estimates of economic activity in Hong Kong. The Hang Seng index, a residential property price index, retail sales and total exports are used as coincident indicators. Principal Component Analysis is first used to obtain an impression of the common component of the indicator series. This component and the dynamic factor identified by the Stock-Watson methodology are strongly correlated and seem to account for economic fluctuations in Hong Kong reasonably well. These estimates can provide indicators for policy-makers of the turn points of the Hong Kong business cycle before the dissemination of the current-quarter GDP data.