

## Oil: Indirect Effect NOT = Potentially Little Impact

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**Many people tend to have the following inclination = they instinctively feel that the impact of direct factors is higher than the impact of indirect factors.** While this is understandable and may even be generally true, this is also perhaps the reason why people underestimate certain events or situations whether in the past, present or future.

**The recent oil price escalations for instance.** Subject to other possibilities and perhaps enlightenment from expert economists, its direct impact may seem small for Hong Kong. There is (relatively) low private car ownership and our major industries have either moved north or to other Asian locations. Further, our homes average only 450 ft<sup>2</sup> in net floor area and thus energy consumption is under control even if most buildings are not designed for energy or fuel-saving. However, this may mask the indirect but even more potentially impacting effects which can arise from oil price escalations. A couple of reasons:

- a) **IF we are to assume that oil price escalations will NOT create a great (adverse) impact on Hong Kong, THEN we must also assume at the same time that the oil price escalations will have no or little impact on the USA economy** = in short, their economy will not slow down much and perhaps most importantly, people will continue to spend (collectively in a large way). Should this not be the case, then there may be some challenges for most of Asia including Hong Kong because the macro picture of Americans buying up goods and services produced in Asia still remains by and large applicable. Even a 5-10% decrease in household spending would already induce more fierce competition, tighter margins, and even issues of survival for manufacturers and suppliers. Further, investment funds from the USA also constitute a significant portion of the investment capital. At the same time, Asians have also (re)invested some of their earnings and proceeds in North America. When a certain “threshold” is broken, the impact may be felt in “geometrically progressive” terms.
- b) **China is likely to use more oil** = the author had months ago attended a business lunch-time seminar which featured an energy expert on China. According to his projections, while China may still use a lot of coal even in decades to come, the use of oil will become more significant both in quantities and proportions. Based on media reports, China while being an oil producer actually needs to import oil already as her own production does not meet demand. Thus, a prolonged high oil price situation may slow down economic development though to a certain extent, there may be room for adopting more efficient ways to using fuel and oil in China. The latter may help reduce part of the impact.

**Hong Kong's economic wellbeing is connected to the economic performance of the USA and China (note the underscored 'and').** Any events in either of the two places may mean vital challenges for Hong Kong. As real estate reflects economic performance, especially the residential sector, the health of the Hong Kong real estate market in a way is also connected to the events in the USA and China.

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