



**EXTERNAL RELATIONS OFFICE
THE UNIVERSITY OF HONG KONG**

Enquiry: 2859 2600

For Immediate Release

Economic Growth to be Stable in 2005 According to HKU APEC Study Centre

Hong Kong Economic Outlook

The APEC Study Centre of the University of Hong Kong (HKU) released its quarterly Hong Kong Macroeconomic Forecast today, announcing an estimation of 5.3% in real GDP growth in the first quarter of 2005 on a year-on-year basis.

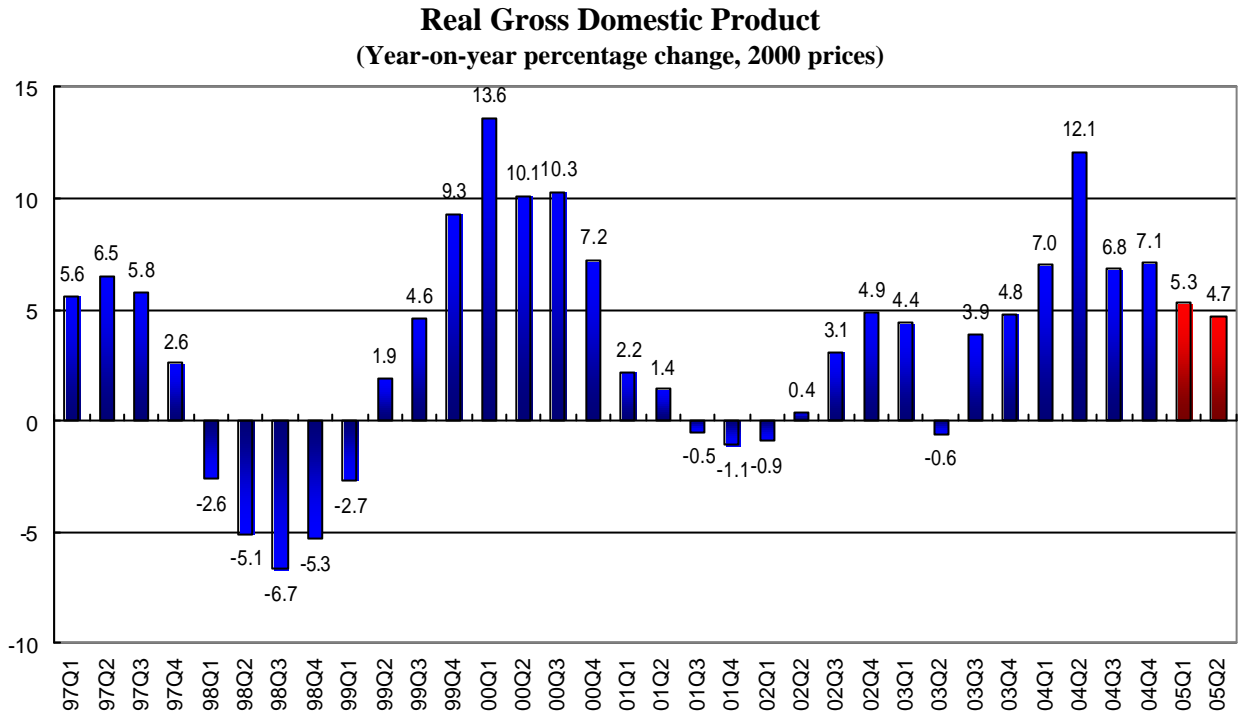
This growth estimate is an upward revision of the 4.4% forecast released on January 11, 2004 due to stronger than expected growth in external demand.

Professor Richard Wong Yue-Chim, Director of the APEC Study Centre at HKU, remarked, "Following the broad-based economic recovery last year with real GDP growing by 8.1%, the Hong Kong economy is forecast to continue to grow at above its trend rate in the current year."

"The labour market is expected to keep on improving with the unemployment rate projected to fall to 5.7% by the end of the second quarter. Inflation rate will remain moderate with the Composite CPI increasing by around 0.7% in the current quarter," He added.

"In the second quarter of 2005, real GDP is forecast to grow at 4.7% when compared with the same period last year. The deceleration in output growth is primarily accounted for by a slowdown in the growth of private consumption spending," said Dr Alan Siu, Executive Director of the APEC Study Center at HKU.

Chart 1



Forecast Highlights

The highlights of our current forecasts are:

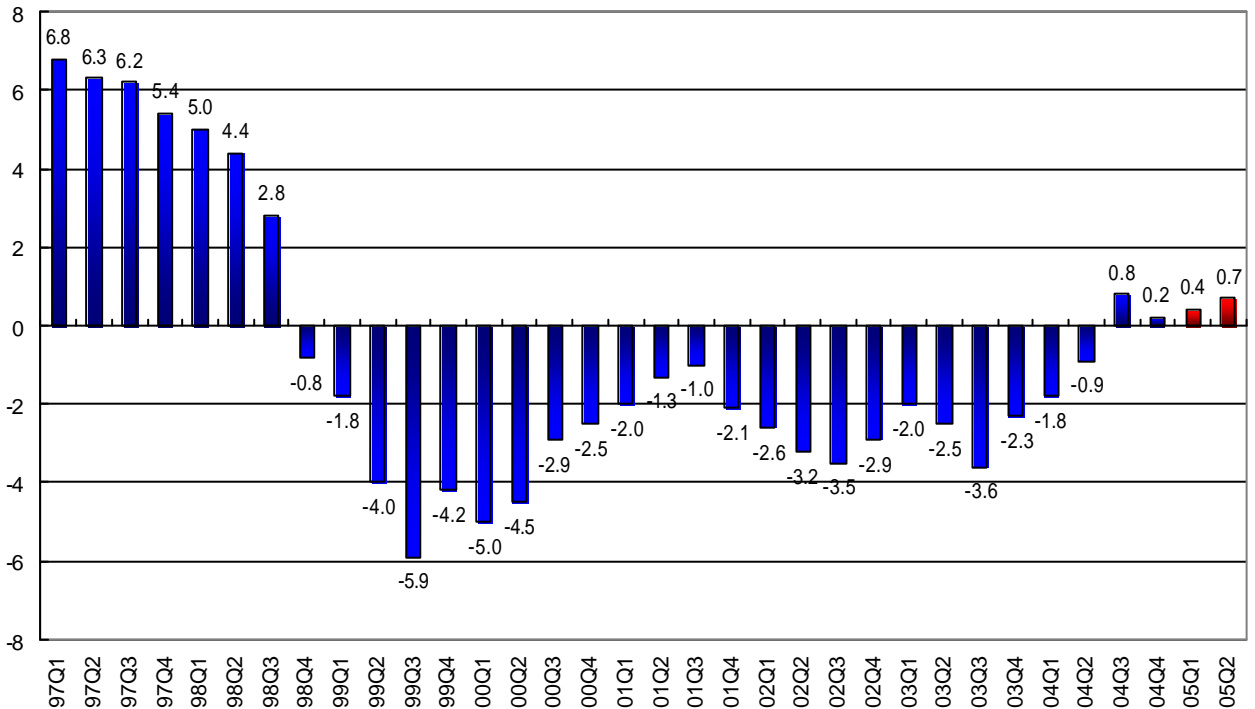
- Private consumption grew by 5.7% in the fourth quarter of 2004. Buoyed by improving consumer sentiment underpinned by lower unemployment level, it is projected to expand by 5.3% in the first quarter of 2005 and 4.3% in the second quarter of 2005.
- The volume of retail sales grew by 3.0% in January 2005. Due to the continued strengthening of local demand and the influx of the Mainland visitors, the volume of retail sales is forecast to grow by 5.6% in the first quarter of 2005. The growth in the volume of retail sales will moderate to 2.9% in the current quarter.
- In real terms, total exports of goods rose by 12.6% and attained a record high in the fourth quarter of 2004. It is projected to grow by 13.5% in the first quarter of 2005. In the second quarter, export growth will moderate to 9.5% reflecting a deceleration in the growth rates of Hong Kong's major trading partners.

- Domestic Exports grew by 4.7% in the fourth quarter of 2004, reverting the decrease of 0.6% in the third quarter of 2004. Domestic exports is forecast to fall by 4.4% and 2.1% in the first and second quarter of 2005.
- Re-exports grew by 13.2% in the fourth quarter of 2004. The double-digit growth in re-exports is expected to be maintained, growing by 14.7% in the first quarter of 2005, but moderating to 10.2% in the second quarter of 2005.
- Service exports grew by 7.3% in the fourth quarter of 2004. The outlook in the service exports stays positive. The opening of the Disneyland theme park in September is expected to draw in record number of visitors from the region, particularly from the Mainland. The robust growth in the total exports of goods will provide support for the growth of trade related services Service exports is forecasted to grow by 8.1% and 8.3% in the first and second quarter of 2005, respectively.
- The growth of imports of goods slowed down to 7.0% in the fourth quarter of 2004, compared to 14.2% in the third quarter of 2004. The weakening of the US Dollars made imports more expensive, with the unit value index of end-user imports rising by 4.2% in January 2005. Imports of goods is expected to grow more slowly than the exports of goods, growing by 9.0% in the first quarter, and moderating to 6.5% in the current quarter.
- The import of services rose by 6.0% in the fourth quarter of 2004. The broad-based economic recovery in 2004 helps to stimulate outbound tourism. The number of aircraft movements was at record high during the holiday season. Service imports is forecast to grow by 6.7% and 4.5% in the first and second quarter of 2005, respectively.
- The trade balance, as measured by the net exports of goods and services, is estimated to be 17.7% of GDP in the fourth quarter of 2004, and forecast to be 11.3% of GDP in the first quarter of 2004, and 10.2% of GDP in the current quarter.
- The investment outlook is neutral. The total gross fixed investment is expected to remain flat in the first quarter of 2005 and drop slightly by 0.2% in the second quarter of 2005.

- Investment in land and construction dropped by 1.6% in the fourth quarter of 2004. Due to the lack of commencement of major construction projects, the investment in land and construction is forecast to drop by 3.8% in the first quarter of 2005 and 5.2% in the second quarter of 2005.
- Investment spending in machinery, equipment and computer software decreased by 2.4% in the fourth quarter of 2004. It is estimated to revert to positive growth by 2.9% in the first quarter of 2005 and 3.1% in the current quarter.

Chart 2

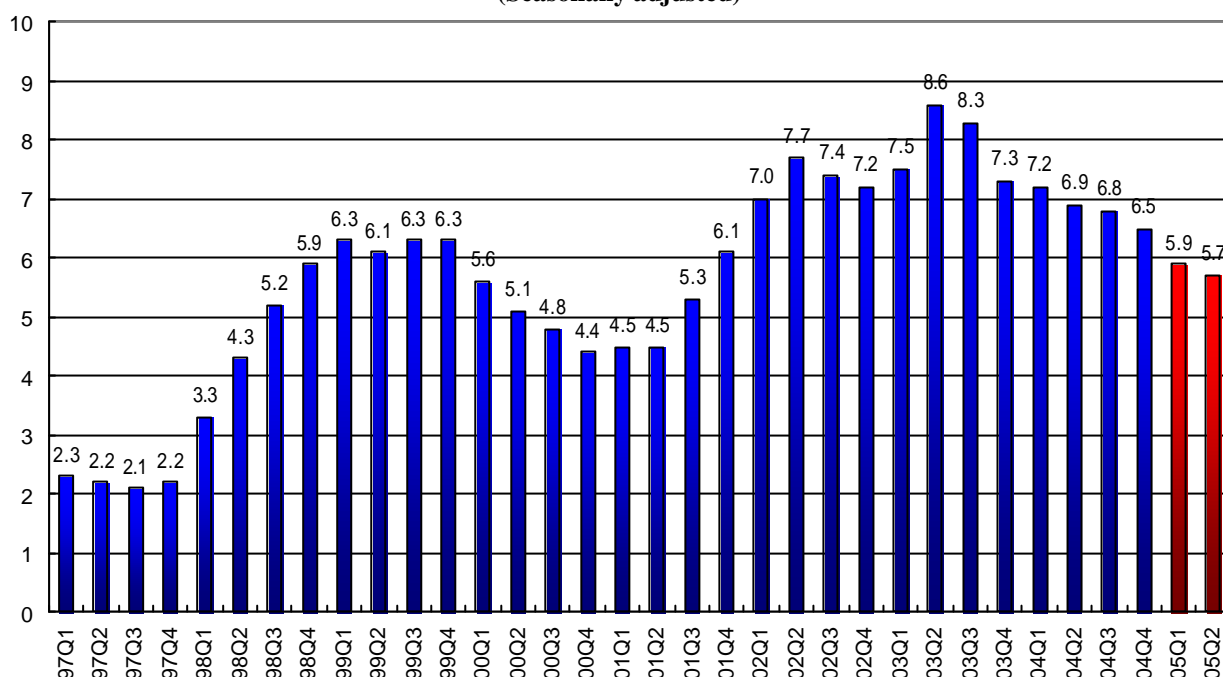
**Composite Consumer Price Index
(Year-on-year percentage change)**



- Better consumer sentiment, rising import prices, increasing rents and the influx of Mainland visitors all contributed to the 0.2% increase in the Composite CPI in the fourth quarter of 2004. As the rental contracts signed during the SARS period in 2003 expired this year, the rental component of the CPI will start to reflect the current higher market rents. The Composite CPI is forecasted to increase by 0.4% in the first quarter of 2005 and by 0.7% in the current quarter.

Chart 3

Unemployment Rate
(Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate dropped to 6.1% in the three months average ending in Feb 2005 from its previous estimate of 6.4% for the three months ending in Jan 2005. The improvement in the labour market is expected to continue. The unemployment rate is forecast to fall to 5.9% in the first quarter of 2005, and drop further to 5.7% in the current quarter.

Concluding Remarks

US interest rates are expected to increase further in 2005, and local rates are set to follow suit. In 2004, the spread between Hong Kong and US interest rates had widened, as substantial fund inflows in the latter part of the year drove local rates substantially below that of the U.S. The divergence between the Hong Kong and US rates last year is unusual. Given the Linked Exchange Rate System, interest rate arbitrage will work to close the gap over the long term. The speed of adjustment depends on uncertain fund flows. There is a risk that sharp hikes in local interest rates would lower growth.

About Hong Kong Macroeconomic Forecast Project

The Hong Kong Macroeconomic Forecast is based on research conducted by the APEC Study Centre of the HKU's Faculty of Business and Economics. It aims to provide the community with timely information useful for tracking the short-term fluctuations of the economy. The current quarter macro forecasts have been released on a quarterly basis since 1999.

The high frequency forecasting system was originally developed in collaboration with Professor Lawrence Klein of the University of Pennsylvania in 1999-2000. Since then, the system has been maintained and further refined by the HKU APEC Study Centre.

The project is sponsored by the HKU Foundation for Educational Development and Research. The Steering Committee is chaired by Dr Chow Yei-Ching, Chairman & Managing Director of Chevalier International Holdings Ltd, with Mr Michael Leung, Executive Chairman of Onwel Group, as Deputy Chairman. Both Dr Chow and Mr Leung are members of the Board of Directors of the HKU Foundation.

The Hong Kong Centre for Economic Research at HKU provides administrative support to the project. Researchers at the APEC Study Center are solely responsible for the accuracy and interpretation of the forecasts. Our quarterly forecasts can be accessed at <http://www.hku.hk/apec/cqm/>

April 7, 2005

For media enquiries, please contact Miss Polo Leung at HKU's External Relations Office at 2859 2600.

High Frequency Macroeconomic Forecasts
APEC Study Center
The University of Hong Kong

Table 1: Current Quarter Model Forecast
(Million of 2000 Dollar)

	2004					2005	
	Q1	Q2	Q3	Q4	Annual	Q1 (forecast)	Q2 (forecast)
Gross Domestic Product	344,433	352,796	379,334	395,451	1,472,014	362,556	369,322
Private Consumption Expenditure	195,651	204,986	201,652	212,992	815,281	205,949	213,707
Government Consumption Expenditure	36,063	31,251	32,810	33,589	133,713	36,243	31,407
Total Export of Goods	469,964	535,608	583,867	586,246	2,175,685	533,449	586,244
Domestic Export of Goods	28,685	32,991	38,173	37,162	137,011	27,416	32,285
Re-export of Goods	441,279	502,617	545,694	549,084	2,038,674	506,033	553,959
Import of Goods	503,287	564,271	588,404	580,680	2,236,642	548,373	600,777
Export of Services	101,101	97,942	115,911	119,921	434,875	109,273	106,081
Import of Services	50,121	51,388	56,820	55,508	213,837	53,457	53,704
Gross Investment	86,669	89,652	92,281	87,420	356,022	86,709	89,428
Investment in Land & Construction	37,100	35,984	35,197	36,592	144,873	35,684	34,122
Investment in Machinery & Equip.	49,569	53,668	57,084	50,828	211,149	51,025	55,306
Changes in Inventories	8,393	9,016	-1,963	-8,529	6,917	-7,238	-3,063
Date of Forecast: March 31st, 2005							

High Frequency Macroeconomic Forecasts
APEC Study Center
The University of Hong Kong

Table 2: Current Quarter Model Forecast
Year-on-Year Growth Rate (%)

	2004					2005	
	Q1	Q2	Q3	Q4	Annual	Q1 (forecast)	Q2 (forecast)
Gross Domestic Product	7.0	12.1	6.8	7.1	8.1	5.3	4.7
Private Consumption Expenditure	5.4	10.7	5.0	5.7	6.7	5.3	4.3
Government Consumption Expenditure	5.4	-0.2	-1.4	-1.8	0.5	0.5	0.5
Total Export of Goods	15.0	18.7	15.3	12.6	15.3	13.5	9.5
Domestic Export of Goods	0.8	5.0	-0.6	4.7	2.4	-4.4	-2.1
Re-export of Goods	16.1	19.7	16.6	13.2	16.3	14.7	10.2
Import of Goods	16.3	20.3	14.2	7.0	14.1	9.0	6.5
Export of Services	14.0	32.8	11.1	7.3	14.9	8.1	8.3
Import of Services	4.1	30.3	6.1	6.0	10.5	6.7	4.5
Gross Investment	5.5	12.7	2.7	-2.0	4.5	0.0	-0.2
Investment in Land & Construction	-6.0	-2.7	-9.8	-1.6	-5.1	-3.8	-5.2
Investment in Machinery & Equip.	16.0	26.1	12.2	-2.4	12.2	2.9	3.1
GDP Deflator Growth Rate	-4.1	-2.6	-2.5	-2.2	-2.8	-1.9	-1.8
CPI (Composite) Inflation Rate	-1.8	-0.9	0.8	0.2	-0.4	0.4	0.7
Unemployment Rate	7.2	6.9	6.8	6.5	6.9	5.9	5.7
Date of Forecast: March 31st, 2005							

High Frequency Macroeconomic Forecasts

APEC Study Center

The University of Hong Kong

Table 3: Selected Monthly Indicators
Year-on-Year Growth Rate (%)

	2004						2005					
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Unit Value Trade Index (Domestic Exports)	0.9	1.6	3.0	3.9	4.0	4.5	5.1	5.1	4.8	4.2	4.1	4.7
Unit Value Trade Index (Imports of Foodstuffs)	4.3	3.5	4.3	4.7	3.5	2.7	3.1	2.7	2.9	3.3	3.1	2.7
Unit Value Trade Index (Imports of Consumer Goods)	0.8	2.1	2.0	1.9	2.5	1.5	2.8	2.4	3.4	3.9	3.8	3.4
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	6.7	6.8	7.3	7.6	7.2	6.5	6.6	5.9	4.7	4.5	4.2	4.0
Unit Value Trade Index (Imports of Fuels)	32.3	36.8	42.2	46.8	42.7	37.2	19.6	21.0	21.0	16.2	11.6	9.2
Unit Value Trade Index (Imports of Capital Goods)	0.3	1.1	0.6	0.7	0.5	0.2	1.5	0.9	0.9	1.0	1.8	2.2
Real Retained Imports of Foodstuffs	6.1	3.7	7.7	10.5	-9.3	-8.5	11.4	2.6	-0.2	4.5	7.1	-0.3
Real Retained Imports of Consumer Goods	4.6	-13.8	11.2	-17.2	-6.7	-6.6	135.5	-45.3	1.2	-9.4	1.3	-12.6
Real Retained Imports of Raw Materials & Semi-Manufactures	5.6	10.9	62.8	-9.3	-27.3	6.2	-10.5	-20.6	-15.3	-14.4	-13.7	3.3
Real Retained Imports of Fuels	13.8	11.6	-12.3	9.2	-14.0	-6.0	-1.5	9.7	-16.6	-9.9	18.2	2.6
Real Retained Imports of Capital Goods	19.0	25.4	5.3	2.3	3.0	-13.0	61.3	-17.9	4.5	11.8	9.3	1.8
Total Motor Vehicles Newly Registered	16.2	17.8	4.2	9.0	44.5	1.5	22.1	13.0	-3.1	4.7	7.2	-1.1
Private Cars Newly Registered	21.4	27.1	11.7	15.8	50.8	1.3	26.1	21.8	-5.2	0.9	4.2	-0.3
Volume Index of Retail Sales	8.4	4.0	7.7	7.3	6.9	7.8	3.0	9.0	5.6	3.0	2.3	3.2
Money Supply (M2)	5.9	5.8	6.4	5.7	10.3	9.3	6.5	6.5	10.7	12.3	13.5	14.1
Loans and Advances	1.3	2.1	3.0	1.0	6.6	5.9	5.2	3.9	8.6	9.1	9.6	8.0
Visitors Arrivals	54.1	25.6	14.2	18.9	15.8	16.3	8.3	20.0	13.9	18.3	16.9	11.6
Hong Kong Resident Departures	12.4	0.7	8.1	9.4	5.6	6.8	-1.2	16.7	6.6	5.2	4.5	3.1
Electricity Consumption	2.5	-0.1	2.2	-9.6	15.5	7.5	12.5	6.0	9.1	10.3	17.5	8.2
Gas Consumption	0.5	-1.3	-0.7	0.2	0.1	-5.9	0.3	1.6	-2.0	0.6	2.0	0.0

Date of Forecast: March 31st, 2005