



EXTERNAL RELATIONS OFFICE  
THE UNIVERSITY OF HONG KONG

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*For Immediate Release*

## **Economic Growth will Slow Down According to HKU APEC Study Center**

### **Hong Kong Economic Outlook**

The APEC Study Center of the University of Hong Kong (HKU) released its quarterly Hong Kong Macroeconomic Forecast today, announcing an estimation of 5.6% in real GDP growth in the 2<sup>nd</sup> quarter of 2005 on a year-on-year basis.

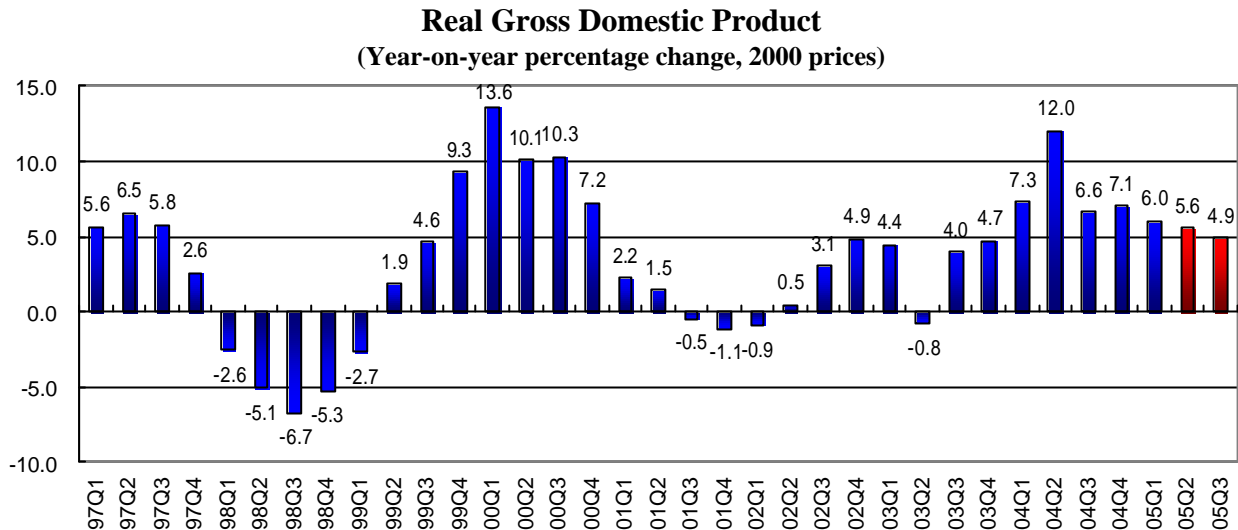
This growth estimation is an upward revision of the 4.7% forecast released on April 7, 2005 due to the stronger than expected growth in fixed asset investment. In the 3<sup>rd</sup> quarter of 2005, real GDP growth is forecast to slow down to 4.9% when compared with the same period last year.

Professor Richard Wong Yue-Chim, Director of the APEC Study Center at HKU, remarked, "Global economic growth is expected to moderate from its spectacular performance last year."

"Hong Kong's real GDP growth will follow this world-wide trend, growing by 5.8% in the first half of this year, and slowing down to 4.7% in the second half. The full-year growth estimate is around 5.2%, dropping from the 8.1% annual growth recorded last year," he added.

"The output growth in the third quarter will be driven evenly by both domestic and external demand factors. Private consumption spending is estimated to contribute 2.3 percentage points to the 4.9% total real GDP growth, while net exports of goods and services will contribute 2.5 percentage points. Despite a weaker external environment, external trade will remain an important driver for the growth of the economy in the current quarter," said Dr Alan Siu, Executive Director of the APEC Study Center at HKU.

## Chart 1



## Forecast Highlights

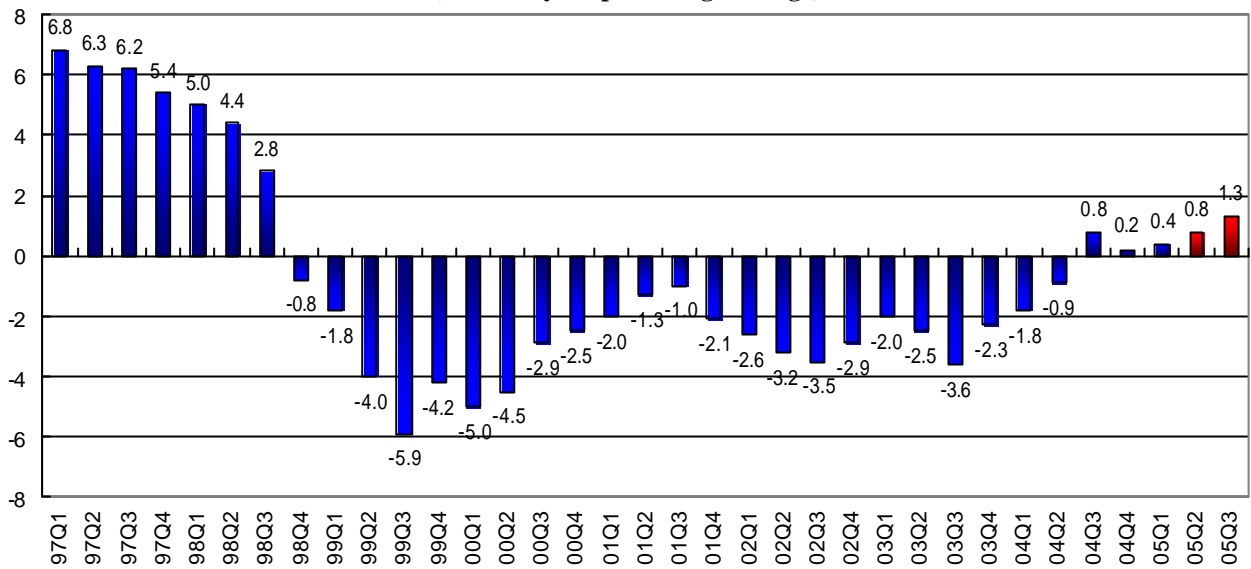
The highlights of the current forecasts are:

- Buoyed by improving economic outlook and strong performance in the asset markets, private consumption spending is expected to maintain its growing momentum. It is forecast to grow by 3.9% in the second quarter and strengthen to 4.3% in the third quarter.
- The volume of retail sales in April 2005 recorded a year-on-year increase of 7.8%, with an across-the-board improvement amongst all categories of consumer goods. Clothing, footwear and allied products, consumer durable goods and jewellery grew at 8.1%, 8.3% and 15.5% respectively. The volume of retail sales is forecast to grow by 6.4% in the second quarter of 2005, and creep up to 7.8% in the third quarter.
- After 10 consecutive quarters of double-digit growth starting from the third quarter of 2002, the growth in total exports is slowing down due to a weaker external environment. Total exports of goods rose by 9.3% in the second quarter of 2005, and is forecast to decelerate to 7.5% in the third quarter.
- Domestic Exports experienced a sharp drop of 9.6% in the first quarter of 2005, due to a significant reduction of domestic exports to US which is Hong Kong's second major trading partner. Domestic exports is forecast to fall by 9.9% and 11.8% in the second and third quarters, respectively.

- Re-exports grew by 10.2% in the first quarter of 2005. Compared to the 16.3% annual growth of re-exports in 2004, this slowdown was due to a weaker external environment and the stronger US dollar which had appreciated by 8% on a trade-weighted basis since the beginning of this year. The rising competitiveness of the ports in Shenzhen is another cause for the slower growth of Hong Kong's re-exports. Re-exports is estimated to grow by 10.6% in the second quarter and moderate to 8.9% in the third quarter.
- Service exports grew by 8.6% in the first quarter of 2005. As predicted, tourism continued to have good performance with the number of visitor arrivals grew by 11.9% in April 2005. The opening of the Disney theme park in September will further promote tourism related sectors. Service exports is forecast to expand by 8.4% and 7.9% in the second and third quarters of 2005, respectively.
- Imports of goods grew more slowly at 3.8% in the first quarter, partly due to rising import prices. Retained imports of goods dropped by 8.6% in the first quarter, reflecting the running down of inventories. The growth of imports of goods is expected to be 5.2% in the second quarter and 6.7% in the third quarter of 2005.
- Import of services rose by 5.5% in the first quarter. Outbound tourism continues to be vibrant. Service imports is forecast to grow by 2.9% and 6.3% in the second and third quarters, respectively.
- The trade balance, as measured by the net exports of goods and services, is estimated to be 13.0% of GDP in the first quarter. It is forecast to be 12.5% of GDP in the second quarter of 2005, and 16.6% of GDP in the current quarter.
- Gross fixed investment rose by 2.2% in the first quarter of 2005. It is expected to grow slightly by 0.4% in the second quarter but forecast to contract by 1.8% in the third quarter.
- Investment in land and construction went up unexpectedly by 4.1% in the first quarter of 2005. However, construction related investment will remain weak. The investment in land and construction is forecast to drop by 1.4% in the second quarter and by 2.7% in the third quarter.
- Investment spending in machinery, equipment and computer software increased by 0.8% in the first quarter of 2005. It is estimated to grow by 1.6% in the second quarter and to decrease by 1.2% in the current quarter.

**Chart 2**

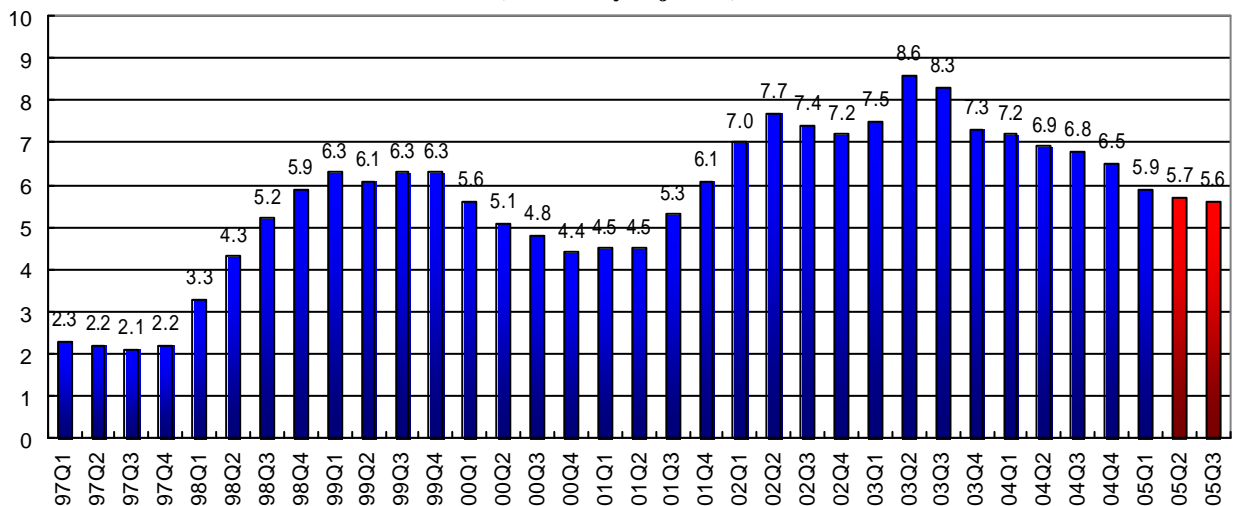
**Composite Consumer Price Index**  
(Year-on-year percentage change)



- Inflation, as measured by the year-on-year percentage change of the Composite CPI, grew by 0.4% in the first quarter, rising from the 0.2% increase in the fourth quarter of last year. Pulled up by rising private rentals, coupled with increasing energy prices, inflation rate is forecast to pick up to 0.8% in the second quarter and further accelerate to 1.3% in the current quarter.

**Chart 3**

**Unemployment Rate**  
(Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate dropped further to 5.7% in the three months average ending in May 2005 from its previous estimate of 5.9% for the three months ending in April 2005. Taking the new entrance of graduates into account in the next couple of months, further improvement in the labour market is expected to continue but at a slower pace. The unemployment rate is forecast to be 5.7% in the second quarter of 2005, and drop slightly to 5.6% in the current quarter.

## **Concluding Remarks**

US interest rates are expected to increase further in 2005, and Hong Kong rates are set to follow suit. In 2004, the spread between Hong Kong and US interest rates widened, as substantial fund inflows in the latter part of the year drove local rates substantially below those of the US. The divergence between the Hong Kong and US rates last year is unusual. The gap has now been closed after the introduction of the two-way convertibility undertaking introduced by the Hong Kong Monetary Authority on May 23, 2005. There is a risk that further increase in 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 Center 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 Center.

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>

July 7, 2005

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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	Q2 (forecast)	Q3 (forecast)
Gross Domestic Product	345,817	351,973	378,909	395,066	1,471,765	366,611	371,533	397,442
Private Consumption Expenditure	194,607	203,420	200,620	212,137	810,784	203,536	211,310	209,210
Government Consumption Expenditure	36,161	31,327	32,845	33,605	133,938	34,643	31,484	33,009
Total Export of Goods	469,964	535,608	583,867	586,246	2,175,685	512,026	585,404	627,720
Domestic Export of Goods	28,685	32,991	38,173	37,162	137,011	25,938	29,727	33,682
Re-export of Goods	441,279	502,617	545,694	549,084	2,038,674	486,088	555,677	594,038
Import of Goods	503,287	564,271	588,404	580,680	2,236,642	522,364	593,866	627,649
Export of Services	102,835	100,817	119,013	122,557	445,222	111,699	109,260	128,427
Import of Services	51,071	52,838	58,806	57,091	219,806	53,869	54,354	62,500
Gross Investment	86,981	89,266	92,588	88,622	357,457	88,882	89,641	90,946
Investment in Land & Construction	37,317	35,336	35,497	37,308	145,458	38,840	34,855	34,527
Investment in Machinery & Equip.	49,664	53,930	57,091	51,314	211,999	50,042	54,786	56,419
Changes in Inventories	9,627	8,644	-2,814	-10,330	5,127	-7,942	-7,347	-1,722

Date of Forecast: June 27, 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)	Q3 (forecast)
Gross Domestic Product	7.3	12.0	6.6	7.1	8.1	6.0	5.6	4.9
Private Consumption Expenditure	5.7	10.9	5.3	5.9	6.9	4.6	3.9	4.3
Government Consumption Expenditure	5.6	0.0	-1.3	-1.7	0.7	-4.2	0.5	0.5
Total Export of Goods	15.0	18.7	15.3	12.6	15.3	9.0	9.3	7.5
Domestic Export of Goods	0.8	5.0	-0.6	4.7	2.4	-9.6	-9.9	-11.8
Re-export of Goods	16.1	19.7	16.6	13.2	16.3	10.2	10.6	8.9
Import of Goods	16.3	20.3	14.2	7.0	14.1	3.8	5.2	6.7
Export of Services	13.8	33.0	11.7	7.2	15.0	8.6	8.4	7.9
Import of Services	3.5	34.0	7.2	6.2	11.4	5.5	2.9	6.3
Gross Investment	5.1	11.5	2.1	-1.4	4.1	2.2	0.4	-1.8
Investment in Land & Construction	-6.9	-6.0	-10.4	-0.5	-6.0	4.1	-1.4	-2.7
Investment in Machinery & Equip.	16.3	26.9	11.9	-2.1	12.4	0.8	1.6	-1.2
GDP Deflator Growth Rate	-4.0	-2.8	-2.6	-2.1	-2.8	-1.9	-1.4	-1.0
CPI (Composite) Inflation Rate	-1.8	-0.9	0.8	0.2	-0.4	0.4	0.8	1.3
Unemployment Rate	7.2	6.9	6.8	6.5	6.9	6.1	5.7	5.6
Date of Forecast: June 27, 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								
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Unit Value Trade Index (Domestic Exports)	3.9	4.0	4.5	5.1	4.2	4.9	4.9	4.9	5.6	4.7	4.2	3.5
Unit Value Trade Index (Imports of Foodstuffs)	4.7	3.5	2.7	3.1	2.8	2.4	2.2	1.8	1.2	0.1	0.7	-0.3
Unit Value Trade Index (Imports of Consumer Goods)	1.9	2.5	1.5	2.8	3.3	3.7	3.9	3.7	3.2	3.3	2.8	2.7
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	7.6	7.2	6.5	6.6	6.1	4.9	4.0	3.6	3.4	2.4	1.9	1.2
Unit Value Trade Index (Imports of Fuels)	46.8	42.7	37.2	19.6	24.7	36.9	42.3	40.9	38.5	34.9	28.2	25.3
Unit Value Trade Index (Imports of Capital Goods)	0.7	0.5	0.2	1.5	0.5	0.0	-0.3	0.1	0.5	0.1	0.4	1.0
Real Retained Imports of Foodstuffs	10.5	-9.3	-8.5	11.4	-5.5	-5.9	0.4	3.3	-3.8	10.5	2.7	3.5
Real Retained Imports of Consumer Goods	-17.2	-6.7	-6.6	136.2	-55.3	8.6	-21.8	-3.0	-18.5	-10.2	-2.0	-13.4
Real Retained Imports of Raw Materials & Semi-Manufactures	-9.3	-27.3	6.2	-10.5	-20.3	-22.6	-25.6	-20.1	-5.6	-4.7	-10.7	-14.6
Real Retained Imports of Fuels	9.2	-14.0	-6.0	-1.5	0.9	-3.9	-16.1	18.0	2.4	21.0	7.3	23.5
Real Retained Imports of Capital Goods	2.3	3.0	-13.0	60.5	-23.6	-13.9	11.9	-0.3	-4.6	1.8	-1.5	2.8
Total Motor Vehicles Newly Registered	9.0	44.5	1.5	11.6	-17.8	-5.9	18.5	4.1	-2.9	9.0	8.1	11.1
Private Cars Newly Registered	15.8	50.8	1.3	6.0	-18.6	-3.3	16.8	6.6	1.9	11.8	8.0	12.9
Volume Index of Retail Sales	7.3	6.9	7.8	3.0	16.0	5.2	7.8	5.1	6.3	7.1	8.5	7.9
Money Supply (M2)	5.7	10.3	9.3	6.5	7.0	9.2	9.9	11.8	12.3	13.7	14.6	14.2
Loans and Advances	1.0	6.6	5.9	5.2	4.1	6.8	7.8	8.4	6.4	8.1	8.4	7.1
Visitors Arrivals	18.9	15.8	16.3	8.3	20.0	5.7	11.9	11.7	6.6	3.1	6.8	13.3
Hong Kong Resident Departures	9.4	5.6	6.8	-1.2	16.7	15.0	-4.0	2.2	4.8	4.8	10.5	3.3
Electricity Consumption	-9.6	15.5	7.5	12.5	6.0	10.5	6.6	17.5	7.5	6.3	7.0	6.1
Gas Consumption	0.2	0.1	-5.9	0.3	1.6	1.0	1.1	0.0	-0.8	1.1	1.4	1.8

Date of Forecast: June 27, 2005