



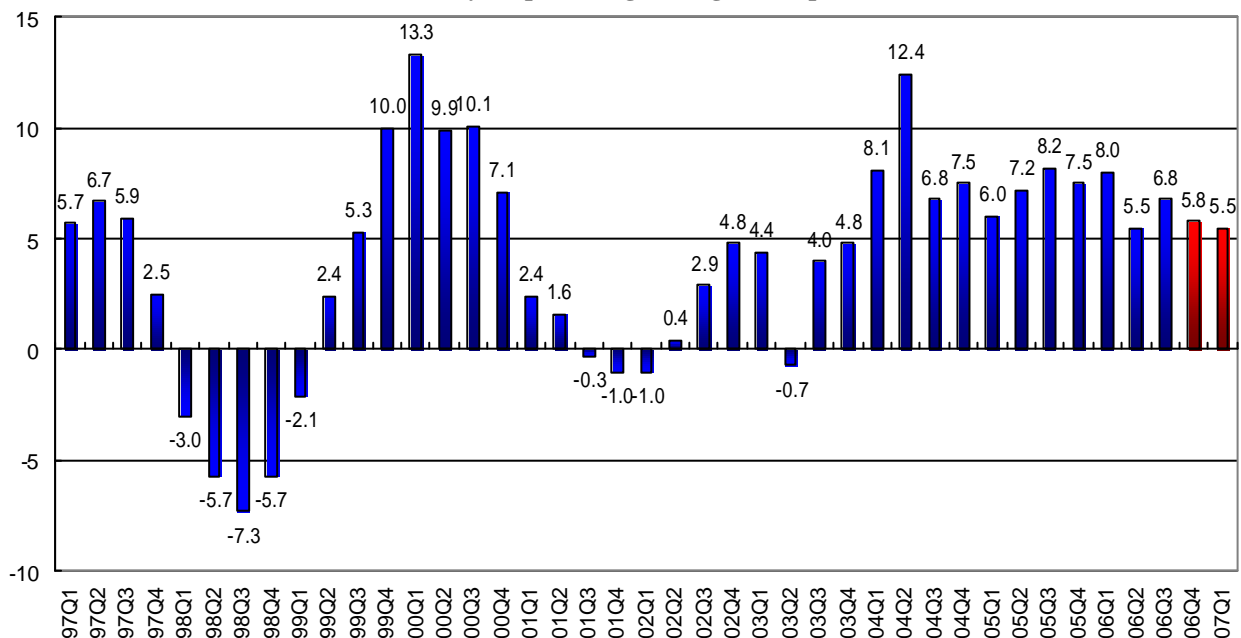
High Frequency Macroeconomic Forecasts Current Quarter Model: 2007Q1

APEC Study Center
The University of Hong Kong

January 10, 2007

Hong Kong Economic Outlook

Real Gross Domestic Product
(Year-on-year percentage change, 2000 prices)



The APEC Study Center of the University of Hong Kong released its quarterly Hong Kong Macroeconomic Forecast today. According to its High Frequency Macroeconomic Forecast, Hong Kong's real GDP in Q4 of 2006 is forecast to grow by 5.8% on a year-on-year basis. This growth estimate is an upward revision of the 4.5% forecast released on October 10, 2006 due to stronger growth in domestic spending. In the first quarter of 2007, real GDP growth is projected to moderate to 5.5%, reflecting a mild slowdown in the global economy.

Professor Richard Wong Yue-Chim, Director of the APEC Study Center at HKU said that, "Riding the tide of the strong global economy, Hong Kong experienced another year of robust economic growth, with real GDP growth estimated to be 6.5% in 2006, following the high growth of 8.6% in 2004 and 7.3% in 2005. The economic growth in last year was mainly driven by domestic demand, with private consumption and gross investment contributed 2.7 and 1.7 percentage points respectively to the overall growth."

"After three consecutive years of strong growth, the global economy is expected to have a mild slowdown. The Mainland economy is projected to grow at 9.5% in 2007, down from the estimated 10.5% growth in 2006, while the US economy is expected to grow at around 3% in 2007, down from the estimated 3.4% in 2006. Given a weaker external environment, Hong Kong's real GDP growth will moderate, but will still be above trend. Buoyed by robust consumption spending, real GDP is forecast to be 5.5% in the current quarter," according to Dr Alan Siu, Executive Director of the APEC Study Center at HKU.

The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3. All growth rates reported are on a year-on-year basis.

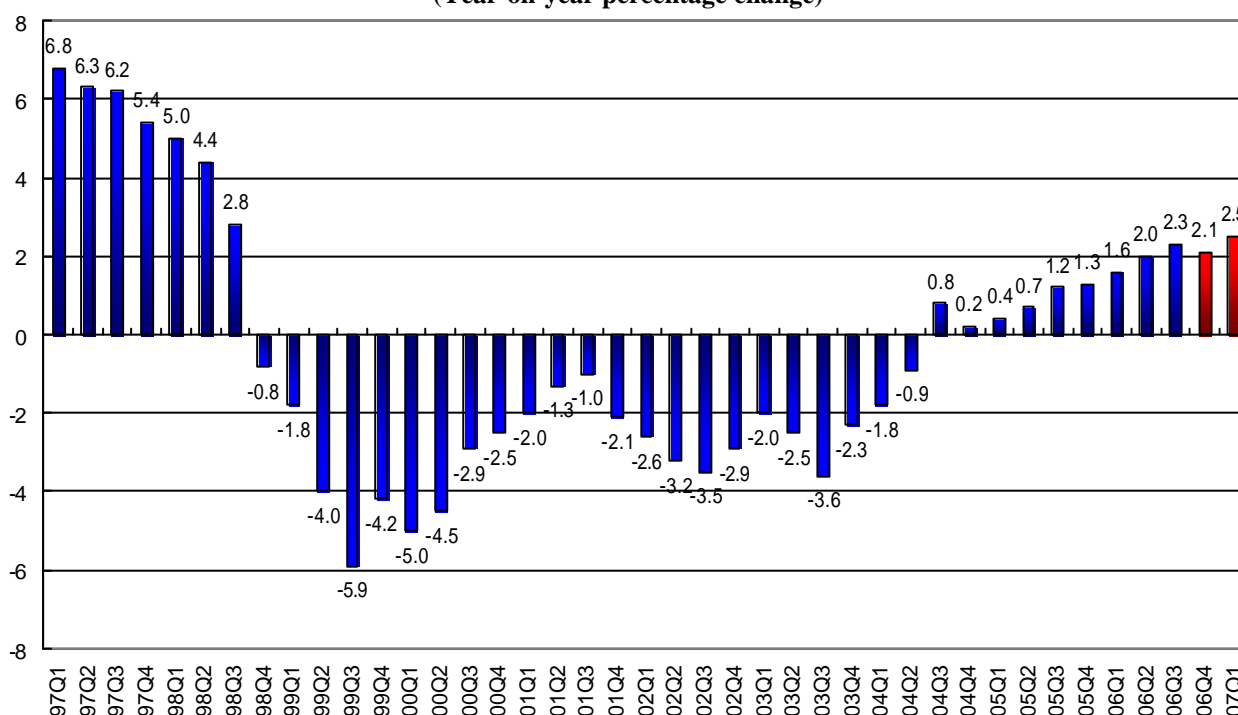
Forecast Highlights

The highlights of our current forecasts are:

- Private consumption spending provided much of the growth impetus last year. Following the strong growth of 4.4% in 06Q3, it is projected to grow by 6.3% in 06Q4. For the year as a whole, private consumption grew by 5.1%. In the current quarter, private consumption spending is forecast to grow by 5.8%.
- Total exports of goods grew by 8.9% in 06Q3, faster than the 6.4% growth in 06Q2. The growth momentum is expected to continue. It is estimated to be 11.4% in Q4 of 2006 and 10.1% for year 2006 as a whole. Total exports growth is forecast to moderate to 8.3% in Q1 of 2007, reflecting a mild slowdown in the global economy.
- After surging by 44.4% and 25.7% in 06Q1 and 06Q2 respectively, domestic exports reverted to fall by 3.2% in 06Q3. Domestic exports is projected to drop by 17.4% in Q4 of 2006 but still maintained 6.5% growth for the year of 2006 as a whole. It is forecast to decrease by 15.0% in Q1 of 2007.
- Re-exports grew by 9.8% in 06Q3 and expected to remain strong. It is estimated to grow by 13.7% in 06Q4 and 10.4% for 2006 as a whole. In the Q1 of 2007, it is projected to grow by 9.9%.
- Service exports grew by 8.6% in 06Q3. The total number of visitor arrivals is expected to be around 25.1 million in 2006, growing by 7.5% from the 23.4 million arrivals in 2005. Service exports is forecast to expand by 7.0% in 06Q4 and by 8.3% for 2006 as a whole. The growth in the Q1 of 2007 is estimated to be 6.2%.
- Imports of goods grew by 8.5% in 06Q3. The growth of imports of goods is estimated to be 11.6% in 06Q4 and 10.1% for the year 2006 as a whole. The growth is forecast to be 8.0% for the current quarter.
- Import of services grew by 5.5% in 06Q3. Service imports is forecast to grow by 6.2% in 06Q4 and 6.2% for the year of 2006. It is estimated to grow by 8.7% in the Q1 of 2007.
- The trade balance, as measured by the net exports of goods and services, is estimated to be 20.3% of GDP in 06Q3. It is forecast to be 19.2% of GDP in 06Q4 and 17.2% for the year 2006. It is projected to be 15.0% of GDP in the current quarter.

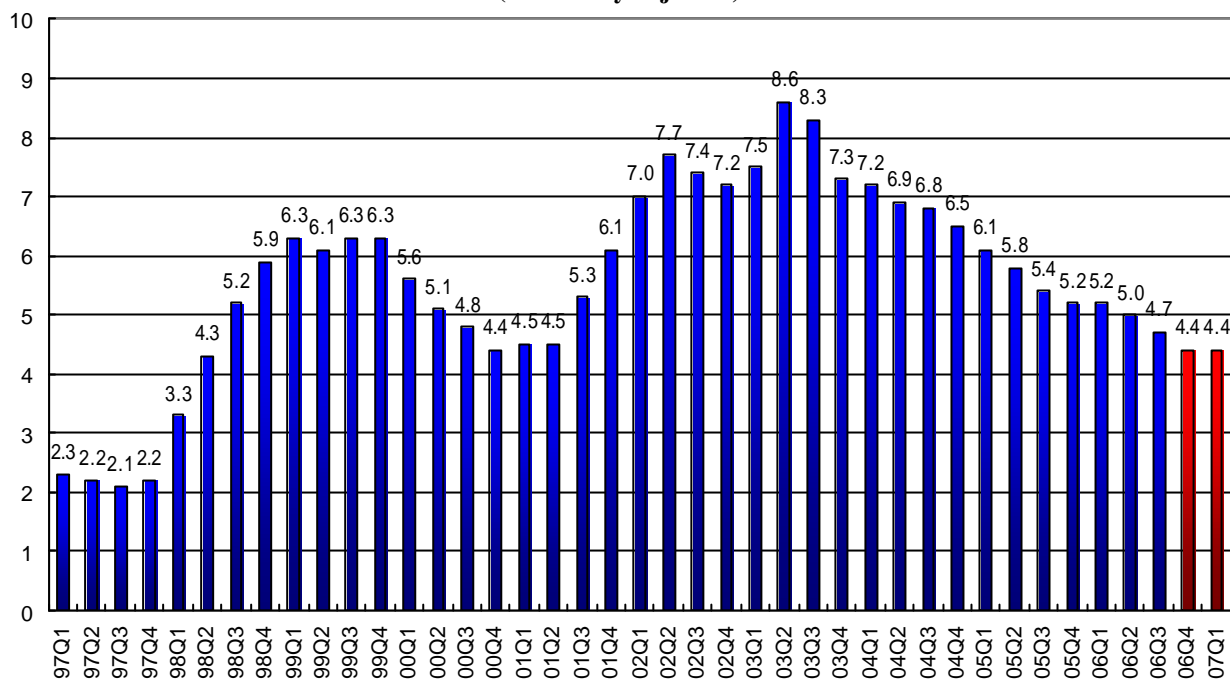
- Gross domestic fixed capital formation rose by 12.7% in Q3 of 2006. Due to the higher base of comparison, the growth is expected to continue but at a lower rate of 3.9% in 06Q4 and 7.3% for the year of 2006. In the Q1 of 2007, it is expected to grow by 4.1%.
- Investment in land and construction dropped by 4.6% in Q3 of 2006. Due to the lack of the commencement of major projects, the investment in land and construction is forecast to drop by 9.0% in 06Q4 and by 9.0% for the year of 2006. It is estimated to fall by 5.8% in Q1 of 2007.
- Investment spending in machinery, equipment and computer software increased sharply by 22.4% in Q3 of 2006, and is projected to grow by 10.4% in Q4 of 2006. It is forecast to go up by 16.9% for the whole year of 2006, and up by 9.3% in the current quarter.

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 2.3% in 06Q3, rising further from the 2.0% increase in 06Q2. The easing of oil prices softened the upward pressure on consumer prices. Inflation rate is estimated to be 2.1% in 06Q4 and to be 2.0% on average for the year of 2006. Inflationary pressure is expected to pick up fueled by the strong growth in consumption spending. The consumer inflation rate is estimated to be 2.5% in the current quarter.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate further improved to 4.4% in the three months average ending in November 2006 from 4.5% in the three month ending in October. The improvement in the labour market is also reflected by the declining number of involuntary unemployed workers. Involuntary unemployment due to dismissal or layoff now only accounts for around 60% of the unemployed, down from the 80% level in 03Q2. The unemployment rate is forecast to be 4.4% in Q4 of 2006, and remain at 4.4% in the current quarter.

Concluding Remarks

On the back of a strong global economy, Hong Kong has enjoyed three consecutive years of stellar economic growth, growing by 8.6% in 2004, 7.3% in 2005 and an estimated 6.5% in 2006. The growth momentum is expected to further moderate with the real GDP growing between 5% and 6% for the year as a whole. Inflationary pressure will continue with the general consumer price level forecast to be up by around 2.5% by year-end. Employment outlook remains positive with the unemployment rate averaged to be around 4.2% in the current year.

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 quarterly 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 Faculty of Business and Economics. 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/>

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

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

	2005			2006					2007
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (forecast)	Annual (forecast)	Q1 (forecast)
Gross Domestic Product	419,379	435,394	1,619,983	407,793	409,078	447,784	460,691	1,725,346	430,103
Private Consumption Expenditure	213,264	224,301	859,830	218,192	224,405	222,721	238,536	903,854	230,784
Government Consumption Expenditure	32,337	32,333	129,799	34,930	30,170	32,019	32,917	130,036	35,642
Total Export of Goods	658,383	653,101	2,418,344	585,618	632,683	717,181	727,740	2,663,222	634,127
Domestic Export of Goods	43,607	47,576	147,372	37,455	38,033	42,202	39,300	156,990	31,834
Re-export of Goods	614,776	605,525	2,270,972	548,163	594,650	674,979	688,439	2,506,231	602,293
Import of Goods	653,217	650,329	2,429,700	595,278	644,416	708,504	725,745	2,673,943	642,812
Export of Services	137,065	141,005	514,099	129,299	127,860	148,820	150,877	556,856	137,365
Import of Services	63,232	60,727	235,373	59,185	59,565	66,737	64,466	249,953	64,353
Gross Fixed Capital Formation	93,914	95,043	368,394	93,460	97,257	105,795	98,717	395,229	97,312
GFCF in Land & Construction	33,861	32,134	136,807	32,106	30,860	32,288	29,236	124,490	30,242
GFCF in Machinery & Equip.	60,053	62,909	231,587	61,354	66,397	73,507	69,481	270,739	67,069
Changes in Inventories	865	667	-5,410	757	684	-3,511	2,114	44	2,038

Date of Forecast: Jan 3, 2007

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

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

	2005			2006					2007
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (forecast)	Annual (forecast)	Q1 (forecast)
Gross Domestic Product	8.2	7.5	7.3	8.0	5.5	6.8	5.8	6.5	5.5
Private Consumption Expenditure	3.6	3.4	3.4	4.5	5.1	4.4	6.3	5.1	5.8
Government Consumption Expenditure	-1.6	-3.8	-3.1	1.2	-1.5	-1.0	1.8	0.2	2.0
Total Export of Goods	12.8	11.4	11.2	14.4	6.4	8.9	11.4	10.1	8.3
Domestic Export of Goods	14.2	28.0	7.6	44.4	25.7	-3.2	-17.4	6.5	-15.0
Re-export of Goods	12.7	10.3	11.4	12.8	5.3	9.8	13.7	10.4	9.9
Import of Goods	11.0	12.0	8.6	14.0	6.7	8.5	11.6	10.1	8.0
Export of Services	8.9	8.2	8.7	8.9	9.0	8.6	7.0	8.3	6.2
Import of Services	3.5	2.3	2.9	4.9	8.3	5.5	6.2	6.2	8.7
Gross Investment	2.8	8.4	4.1	7.6	5.0	12.7	3.9	7.3	4.1
GFCF in Land & Construction	-4.0	-13.1	-5.3	-13.5	-8.5	-4.6	-9.0	-9.0	-5.8
GFCF in Machinery, Equip. & Comp. Software	7.1	24.0	10.6	23.3	12.8	22.4	10.4	16.9	9.3
GDP Deflator Growth Rate	0.2	0.7	-0.2	-0.1	-0.1	-0.2	0.2	-0.1	0.4
CPI (Composite) Inflation Rate	1.2	1.3	0.9	1.6	2.0	2.3	2.1	2.0	2.5
Unemployment Rate	5.4	5.2	5.6	5.2	5.0	4.7	4.4	4.8	4.4
Date of Forecast: Jan 3, 2007									

High Frequency Macroeconomic Forecasts

APEC Study Center

The University of Hong Kong

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

	2006									2007		
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
Unit Value Trade Index (Domestic Exports)	-4.6	-3.6	-3.4	-2.1	-0.8	-1.0	-0.9	-1.2	-1.6	-0.9	-0.2	0.0
Unit Value Trade Index (Imports of Foodstuffs)	-0.4	0.7	1.5	1.1	1.1	2.2	2.2	2.4	2.2	2.4	2.9	2.9
Unit Value Trade Index (Imports of Consumer Goods)	-0.5	0.4	0.4	0.0	0.3	0.9	1.2	1.7	1.6	2.2	1.6	2.1
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	1.0	2.4	3.4	4.0	4.6	4.2	4.8	2.8	5.0	4.2	5.1	3.9
Unit Value Trade Index (Imports of Fuels)	20.9	26.7	23.0	19.9	16.2	4.7	-0.6	4.9	12.9	4.5	3.0	1.1
Unit Value Trade Index (Imports of Capital Goods)	0.7	1.3	2.2	1.7	1.6	2.8	3.1	2.6	2.4	2.8	2.8	3.5
Real Retained Imports of Foodstuffs	7.3	6.4	3.2	0.9	-16.5	3.4	-0.6	6.6	-4.6	1.9	1.0	2.1
Real Retained Imports of Consumer Goods	37.3	37.7	42.7	12.2	7.6	0.1	-1.3	-3.7	-3.3	33.1	-18.8	-5.6
Real Retained Imports of Raw Materials & Semi-Manufactures	5.3	-14.9	-0.1	-15.2	-10.8	-14.7	-14.1	-9.3	-24.3	-9.3	-21.5	-9.9
Real Retained Imports of Fuels	-12.3	7.2	-5.5	-3.6	11.8	-3.3	51.1	-3.1	-6.2	-12.4	-4.4	-16.8
Real Retained Imports of Capital Goods	22.4	11.6	16.9	37.1	29.7	36.4	12.0	19.5	12.3	19.5	-4.5	12.9
Total Motor Vehicles Newly Registered	-10.6	-12.5	-4.7	-1.1	12.1	-6.5	1.5	-4.9	13.2	10.7	6.3	-3.4
Private Cars Newly Registered	3.9	-11.9	-2.1	3.0	12.9	-5.3	3.8	-0.9	26.4	18.8	21.7	-1.2
Volume Index of Retail Sales	9.0	3.6	3.4	5.2	6.5	5.9	5.2	4.9	3.8	0.9	7.1	3.9
Money Supply (M2)	10.8	17.7	11.3	11.5	12.9	14.4	13.8	20.2	16.4	15.4	14.4	17.0
Loans and Advances	7.4	15.3	7.1	7.3	8.9	10.1	7.0	15.8	14.6	14.2	12.3	16.8
Visitors Arrivals	9.5	7.3	8.3	5.7	11.2	2.4	2.3	1.0	3.4	1.5	4.8	7.2
Hong Kong Resident Departures	15.3	1.3	2.6	2.0	4.7	4.4	7.4	4.2	7.9	1.9	8.2	9.1
Electricity Consumption	3.7	1.0	4.0	15.0	12.5	-7.5	-5.6	-11.9	-6.1	-0.4	-0.9	-9.5
Gas Consumption	-3.0	-0.3	-1.4	0.9	0.8	0.2	1.2	0.1	-0.6	-1.0	-1.1	1.0

Date of Forecast: Jan 3, 2007