

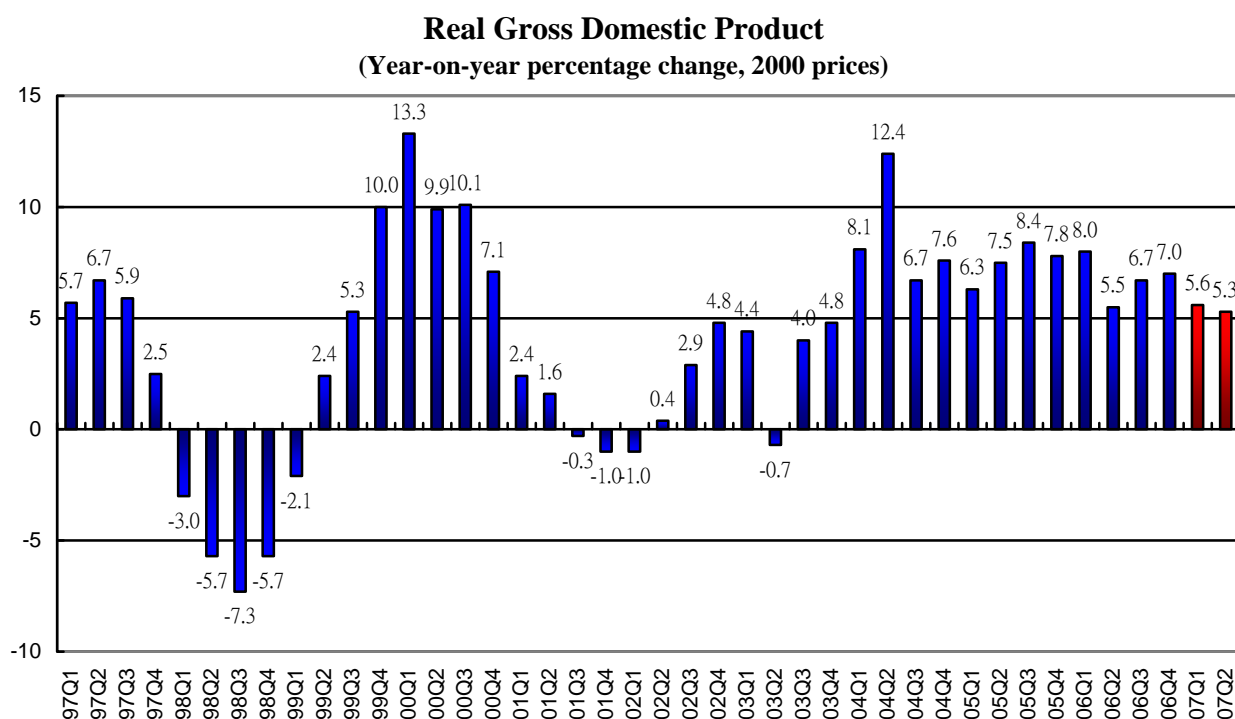
High Frequency Macroeconomic Forecasts

Current Quarter Model: 2007Q2

APEC Study Center
The University of Hong Kong

April 11, 2007

Continued Economic Growth



According to the High Frequency Macroeconomic Forecast released by the APEC Study Center of The University of Hong Kong, real GDP growth in the 07Q1 is estimated to be 5.6% when compared with the same period last year. This growth estimate is a slight upward revision from the 5.5% forecast released on January 10, 2007.

Professor Y.C. Richard Wong, Director of the APEC Study Center at HKU said that, "In the second quarter of 2007, real GDP is forecast to grow by 5.3% on a year-on-year basis. The moderation in real GDP growth is attributed by a weakening in the net external trade position, with total imports growing faster than total exports. The projected strong growth in imports is underpinned by domestic consumption and investment spending. The economic growth in the current quarter is mainly driven by domestic demand."

"The strong domestic demand in the current quarter reflects a positive economic outlook with stable interest rates and steady global economic growth. The unemployment rate is expected to fluctuate around 4.4%. Upward pressure on prices will be temporary eased by the waiver in rates and rents in public housing estates. The inflation is forecast to edge up to 2.2% in 2007 from 2.0% in 2006," said Dr Alan Siu, Executive Director of the APEC Study Center at the University of Hong Kong.

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.

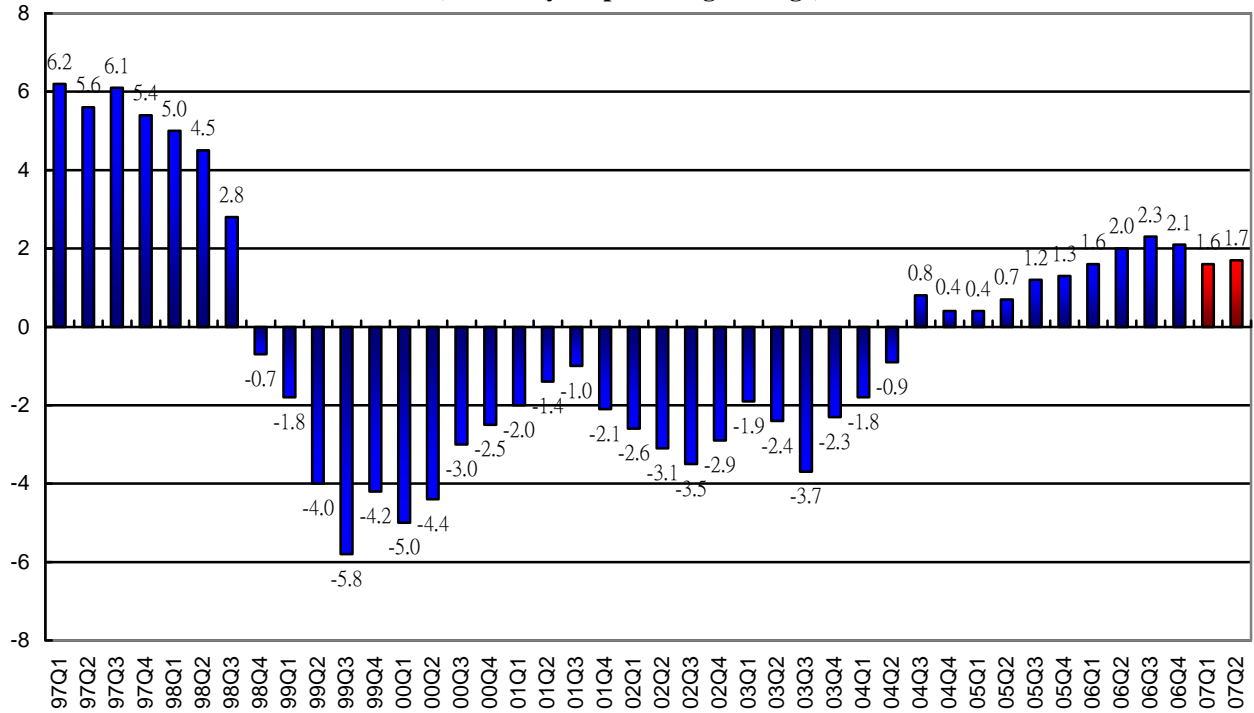
Forecast Highlights

The highlights of our current forecasts are:

- Private consumption grew by 5.8% in the 06Q4 reflecting buoyant consumer confidence. Supported by continued improvement in the labour market, private consumption spending is forecast to grow by 5.8% in 07Q1 and 4.5% in 07Q2.
- The volume of retail sales gained 8.0% in the first 2 months of 2007. The strengthening of local demand and by the influx of Mainland visitors provided support for the continued growth of the retail sector. The volume of retail sales is forecast to grow by 7.8% in 07Q1. The growth in the volume of retail sales will moderate to 7.2% in the current quarter.
- In real terms, total exports of goods rose by 11.7% in 06Q4. The projected growth is expected to moderate to 9.7% in 07Q1. In the second quarter, export growth will accelerate to 13.5% partly resulting from the lower base of comparison.
- Domestic Exports contracted by 30.4% in 06Q4, as compared with the 3.2% decline in the 06Q3. Real domestic exports is forecast to drop by 34.5% and 28.6% in the 07Q1 and 07Q2, respectively.
- Re-exports grew by 15.0% in the 06Q4. The strong growth in re-exports is projected to be at 12.8% in 07Q1 and rise to 16.2% in 07Q2.
- Imports of goods grew by 11.4% in 06Q4, picking up from the 8.5% rate in the 06Q3. The growth of the imports of goods is forecast to be 9.3% and 13.5% in 07Q1 and 07Q2 respectively.
- Service exports grew by 7.5% in 06Q4. Visitor arrivals grew by 7.8% annually in the first two months of this year, with 60.4% of the total number of visitors coming from the mainland. Service exports is forecast to grow by 6.6% and 6.3% in 07Q1 and 07Q2, respectively.
- Service imports rose by 6.3% in 06Q4. Pay rises and positive employment outlook provide impetus for outbound tourism. Service imports is forecast to rise by 7.7% and 7.1% in 07Q1 and 07Q2, respectively.
- The trade balance, as measured by the net exports of goods and services, is estimated to be 19.8% of GDP in the 06Q4, and forecast to be 15.5% of GDP in 07Q1, and 13.8% of GDP in the current quarter.
- Gross fixed capital spending grew by 9.5% in 06Q4. Investment growth is projected to be 7.8% in 07Q1 and increase to 10.5% in 07Q2.
- Investment in land and construction dropped by 1.5% in the 06Q4. Without the commencement of large-scale construction projects, the investment in land and construction is forecast to fall by 4.5% in 07Q1 and by 3.6% in 07Q2.

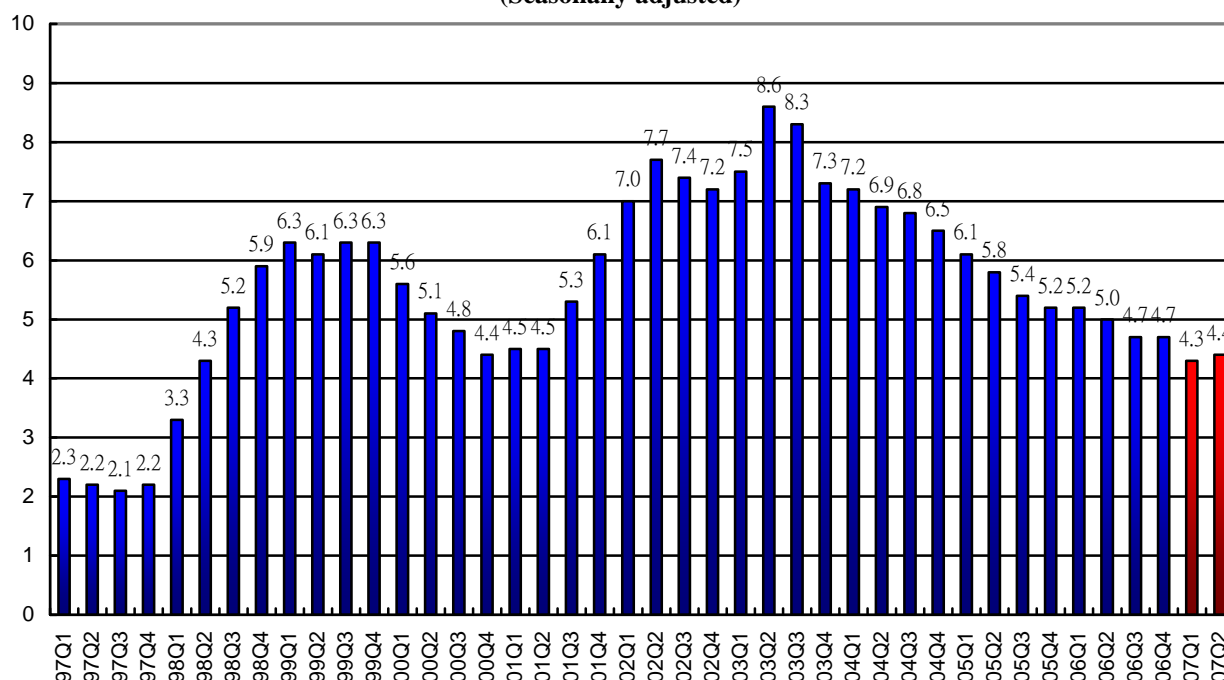
- Investment spending in machinery, equipment and computer software expanded by 14.9% in the 06Q4. To meet rising demand, investment spending in this category is estimated to expand by 13.9% in 07Q1 and by 16.8% in the current quarter.

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



- Inflation, as measured by the percentage change in the Composite CPI, was recorded to be 2.0% and 0.8% in January and February of 2007 respectively. The waiver of rates in 07Q2 and 07Q3 will ease upward pressure on the price level. Inflation rate is forecast to moderate to 1.6% and 1.7% in 07Q1 and 07Q2 respectively.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate further improved from 4.4% in the 3 months ending in Jan 2007 to 4.3% in the 3 months ending in Feb 2007. The improvement in the labour market is expected to be modest in the upcoming quarters, with unemployment rate forecast to be 4.3% in 07Q1 and 4.4% in the current quarter.

Concluding Remarks

Buoyed by a strong global economy, Hong Kong has enjoyed three consecutive years of stellar economic growth, growing by 8.6% in 2004, 7.5% in 2005 and an estimated 6.8% in 2006. The growth momentum has moderated with real GDP growing at an estimated 5.4% in the first half of this year. Further deceleration in the second half is likely given the mixed economic outlook in the United States. For the year as a whole, Hong Kong's real GDP is projected to grow between 5% and 6%, with the general consumer price inflation to be around 2.2%.

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 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/>

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

	2006					2007	
	Q1	Q2	Q3	Q4	Annual	Q1 (forecast)	Q2 (forecast)
Gross Domestic Product	408,942	410,000	447,877	467,461	1,734,280	431,877	431,647
Private Consumption Expenditure	217,754	224,837	222,896	237,007	902,494	230,304	234,944
Government Consumption Expenditure	34,923	30,162	31,990	33,092	130,167	36,134	31,640
Total Export of Goods	585,618	632,683	717,181	729,322	2,664,804	642,605	718,279
Domestic Export of Goods	37,455	38,033	42,202	33,095	150,785	24,538	27,146
Re-export of Goods	548,163	594,650	674,979	696,227	2,514,019	618,067	691,134
Import of Goods	595,278	644,416	708,504	724,375	2,672,573	650,909	731,577
Export of Services	132,950	131,397	153,147	155,007	572,501	141,734	139,688
Import of Services	61,814	62,367	69,563	67,401	261,145	66,603	66,820
Gross Fixed Capital Formation	94,091	96,891	104,034	104,659	399,675	101,420	107,066
GFCF in Land & Construction	31,392	30,086	30,320	30,927	122,725	29,991	29,006
GFCF in Machinery & Equip.	62,699	66,805	73,714	73,732	276,950	71,429	78,060
Changes in Inventories	698	813	-3,304	150	-1,643	-2,808	-1,573
Date of Forecast: April 3, 2007							

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

	2006					2007	
	Q1	Q2	Q3	Q4	Annual	Q1 (forecast)	Q2 (forecast)
Gross Domestic Product	8.0	5.5	6.7	7.0	6.8	5.6	5.3
Private Consumption Expenditure	4.8	5.4	4.4	5.8	5.1	5.8	4.5
Government Consumption Expenditure	1.1	-1.5	-1.1	2.4	0.3	3.5	4.9
Total Export of Goods	14.4	6.4	8.9	11.7	10.2	9.7	13.5
Domestic Export of Goods	44.4	25.7	-3.2	-30.4	2.3	-34.5	-28.6
Re-export of Goods	12.8	5.3	9.8	15.0	10.7	12.8	16.2
Import of Goods	14.0	6.7	8.5	11.4	10.0	9.3	13.5
Export of Services	9.0	9.3	9.3	7.5	8.7	6.6	6.3
Import of Services	5.2	8.6	5.4	6.3	6.3	7.7	7.1
Gross Investment	7.3	4.5	10.3	9.5	7.9	7.8	10.5
GFCF in Land & Construction	-13.8	-8.9	-8.5	-1.5	-8.4	-4.5	-3.6
GFCF in Machinery, Equip. & Computer Software	22.4	11.9	20.4	14.9	17.2	13.9	16.8
GDP Deflator Growth Rate	-0.1	-0.1	-0.2	0.2	-0.1	0.1	-0.1
CPI (Composite) Inflation Rate	1.6	2.0	2.3	2.1	2.0	1.6	1.7
Unemployment Rate	5.2	5.0	4.7	4.7	4.9	4.3	4.4

Date of Forecast: April 3, 2007

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

	2006						2007					
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Unit Value Trade Index (Domestic Exports)	-2.1	-0.8	-1.0	-0.9	-0.7	-0.8	0.0	0.8	1.1	1.6	1.2	0.8
Unit Value Trade Index (Imports of Foodstuffs)	1.1	1.1	2.2	2.2	3.2	3.5	4.3	5.2	5.5	6.7	6.1	6.1
Unit Value Trade Index (Imports of Consumer Goods)	0.0	0.3	0.9	1.2	1.0	1.1	1.7	1.2	1.8	2.5	1.8	1.8
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	4.0	4.6	4.2	4.8	3.3	5.6	4.3	5.1	3.8	4.9	3.6	2.9
Unit Value Trade Index (Imports of Fuels)	19.9	16.2	4.7	-0.6	0.3	3.3	1.0	2.0	1.0	-3.9	-7.6	-6.9
Unit Value Trade Index (Imports of Capital Goods)	1.7	1.6	2.8	3.1	1.8	1.6	1.4	1.1	1.8	-0.1	-0.1	-0.5
Real Retained Imports of Foodstuffs	0.9	4.8	3.4	-0.6	11.3	-13.5	12.6	1.6	3.4	1.2	1.5	1.4
Real Retained Imports of Consumer Goods	12.2	7.6	0.1	-1.3	-2.5	-11.0	73.7	-18.7	1.9	0.0	0.8	-2.2
Real Retained Imports of Raw Materials & Semi-Manufactures	-15.2	-10.8	-14.7	-14.1	5.5	-3.7	10.6	-5.4	9.3	8.5	10.7	0.0
Real Retained Imports of Fuels	-3.6	11.8	-3.3	51.1	33.5	-19.6	2.9	-0.6	-12.3	19.6	3.8	33.4
Real Retained Imports of Capital Goods	37.1	29.7	36.4	12.0	17.4	28.0	44.1	0.2	16.6	19.4	16.1	22.4
Total Motor Vehicles Newly Registered	-1.1	12.1	-6.5	1.5	-14.9	11.0	23.8	8.6	-1.1	-3.7	4.9	1.6
Private Cars Newly Registered	3.0	12.9	-5.3	3.8	-5.2	23.8	29.5	26.0	2.2	-6.4	6.2	1.6
Volume Index of Retail Sales	5.2	6.5	5.9	5.2	5.0	8.3	-4.9	24.9	7.3	5.0	8.0	8.8
Money Supply (M2)	11.5	12.9	14.4	13.8	20.2	15.6	15.8	16.4	19.5	18.2	14.4	21.7
Loans and Advances	7.3	8.9	10.1	7.0	15.8	6.7	10.1	8.3	10.9	9.8	5.1	8.6
Visitors Arrivals	5.7	11.2	2.4	2.3	1.0	9.3	-1.0	17.8	7.7	7.6	8.3	8.6
Hong Kong Resident Departures	2.0	4.7	4.4	7.4	4.2	6.9	-6.5	15.4	5.5	0.5	5.7	6.6
Electricity Consumption	15.0	12.5	-7.5	-5.6	-11.9	-4.1	4.9	-4.1	-9.3	-2.9	-2.6	2.4
Gas Consumption	0.9	0.8	0.2	1.2	0.1	-2.5	-2.3	0.0	1.6	1.3	0.4	0.8

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