

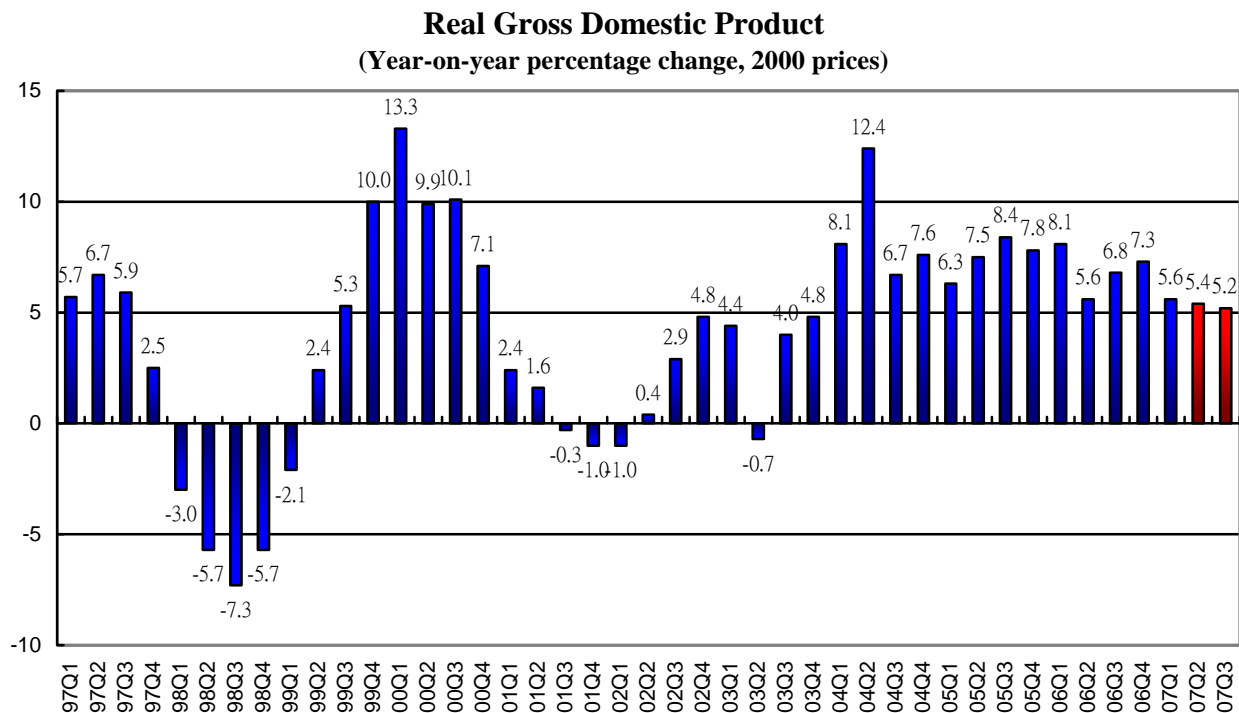
High Frequency Macroeconomic Forecasts

Current Quarter Model: 2007Q3

APEC Study Center
The University of Hong Kong

July 4, 2007

Current Quarter Economic Outlook



According to the High Frequency Macroeconomic Forecast conducted by the APEC Study Center of The University of Hong Kong, real GDP growth in the second quarter of this year is estimated to be 5.4 % on a year-on-year basis. This growth estimate is a minor upward revision of the 5.3% forecast released on April 3, 2007. In the current quarter, real GDP growth is forecast to moderate to 5.2% when compared with the same period last year.

Dr Alan Siu, Director of the APEC Study Center at The University of Hong Kong, said that "Reflecting the projected slowdown in the global economy, Hong Kong's real GDP is expected to grow by 5.5% in the first half of this year and slow down to 4.9% in the second half. The full-year growth estimate is around 5.2%, dropping from the 6.9% annual growth recorded last year.

The real GDP growth in the third quarter is forecast to be 5.2%. The growth is driven both by domestic and external demand, with private consumption spending and gross fixed investment contributing 2.2 and 1.0 percentage point, respectively, to the overall growth, while the net exports of goods and services are estimated to account for 0.9 percentage point of the output growth."

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.

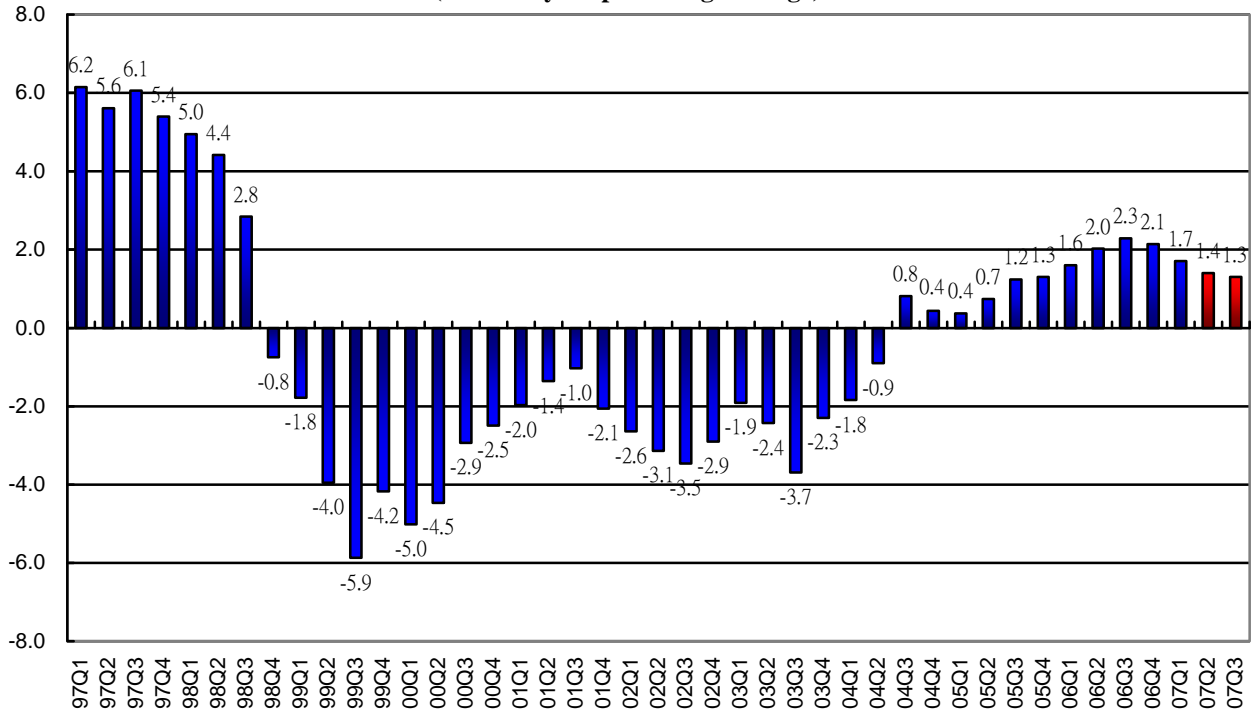
Forecast Highlights

The highlights of our current forecasts are:

- Underpinned by continued improvement in the labour market, and buoyed by a positive economic outlook, private consumption spending grew strongly by 5.6% in 07Q1. Consumption spending is expected to continue to grow but at a more moderate rate. It is forecast to grow by 4.5% in the second quarter and further moderate to 4.4% in the third quarter.
- The volume of retail sales in 07Q1 recorded a year-on-year increase of 6.6%, with an across-the-board improvement amongst all categories. The volume of retail sales is forecast to grow by 5.3% in 07Q2, and 6.3% in 07Q3.
- Total export of goods has enjoyed double-digit growth for 5 consecutive years. Following the 8.2% increase in 07Q1, the growth in total exports is expected to pick up, with growth in 07Q2 forecast to be 11.1% and 8.3% in 07Q3.
- Domestic Exports dropped by 33.1% in the 07Q1. Domestic exports is forecast to fall by 19.2% and 16.7% in 07Q2 and 07Q3, respectively.
- Re-exports grew by 11.0% in the 07Q1. Re-exports of goods is estimated to grow by 13.1% and 9.8% in 07Q2 and 07Q3 respectively.
- Service exports grew by 8.4% in the 07Q1. Service exports is forecast to grow by 9.0% and 9.9% in the 07Q2 and 07Q3, respectively.
- Import of goods grew by 8.6% in the 07Q1. The growth of imports of goods is expected to be 11.8% in the 07Q2 and 9.7% in the 07Q3.
- Import of services rose by 3.9% in the first quarter. Service imports is forecast to grow by 1.9% and 2.5% in the 07Q2 and 07Q3, respectively.
- The external trade balance, as measured by the net exports of goods and services, is estimated to be 15.4% of GDP in the 07Q1. It is forecast to be 13.5% of GDP in the 07Q2, and expand to 20.3% of GDP in the current quarter, due to the strong growth in service exports.
- Gross fixed capital formation rose by 3.9% in the 07Q1. It is expected to grow by 6.1% in the 07Q2 and 4.5% in the 07Q3.
- Investment in land and construction went down by 2.1% in the 07Q1. Construction related investment will remain weak. The investment in land and construction is forecast to drop by 4.9% in the second quarter and by 2.5% in the third quarter.

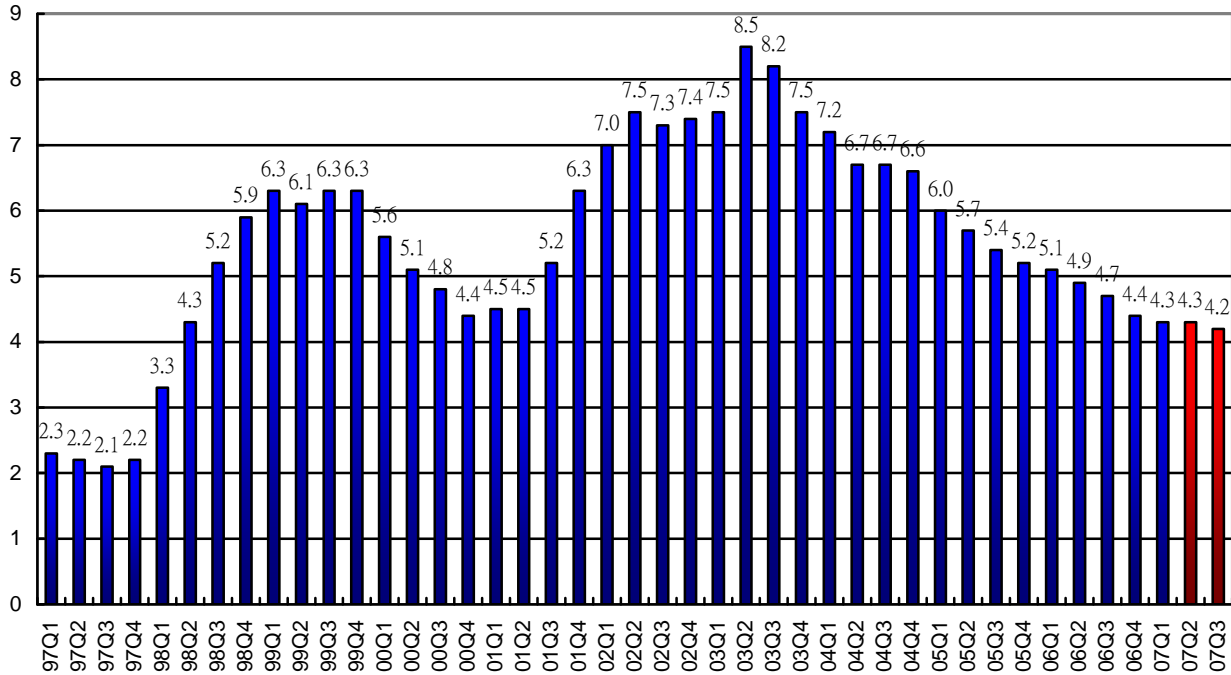
- Investment spending in machinery, equipment and computer software increased by 6.8% in the 07Q1. It is estimated to grow by 11.0% in the second quarter and 7.3% in the current quarter.

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 1.7% in the first quarter, dropping from the 2.1% increase in the fourth quarter of last year. Due to the rate concession granted for the second and third quarters, the consumer inflation rate is expected to drop further to 1.4% in 07Q2 and 1.3% in the current quarter. The inflation is forecast to accelerate after the end of the rate waiver.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate stood at 4.3% in the three-month average ending in May 2007, unchanged from the previous three-month average ending in April 2007. The unemployment rate is forecast to remain at 4.3% in the 07Q2, and improve slightly to 4.2% in the current quarter.

Concluding Remarks

The slowdown of the global economy has turned out to be milder than was expected. In particular, despite a deepening housing slump, the US economy is projected to perform better in the second-half of this year, and the Mainland economy is forecast to maintain its high-growth trajectory. For the year as a whole, Hong Kong's real GDP growth is forecast to be 5.2%. Inflationary pressure will continue to build up, fueled by rising wages, rentals and prices of imports. By year-end, consumer price inflation rate is forecast to increase to 3.0%.

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/>

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

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

	2006					2007		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2 (forecast)	Q3 (forecast)
Gross Domestic Product	409,162	410,147	448,096	468,477	1,735,882	432,234	432,095	471,600
Private Consumption Expenditure	218,416	225,739	223,460	236,125	903,740	230,747	235,822	233,293
Government Consumption Expenditure	34,923	30,162	31,990	33,043	130,118	35,718	31,640	33,588
Total Export of Goods	585,618	632,683	717,181	729,322	2,664,804	633,484	703,114	776,454
Domestic Export of Goods	37,455	38,033	42,202	33,095	150,785	25,055	30,729	35,144
Re-export of Goods	548,163	594,650	674,979	696,227	2,514,019	608,429	672,385	741,310
Import of Goods	595,278	644,416	708,504	724,375	2,672,573	646,403	720,766	777,164
Export of Services	132,443	130,925	152,630	157,178	573,176	143,550	142,723	167,738
Import of Services	61,749	62,650	69,391	67,548	261,338	64,174	63,826	71,111
Gross Fixed Capital Formation	94,091	96,891	104,034	104,583	399,599	97,729	102,768	108,675
GFCF in Land & Construction	31,392	30,086	30,320	30,858	122,656	30,743	28,604	29,554
GFCF in Machinery & Equip.	62,699	66,805	73,714	73,725	276,943	66,986	74,164	79,120
Changes in Inventories	698	813	-3,304	149	-1,644	1,583	619	129

Date of Forecast: June 26, 2007

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

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

	2006					2007		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2 (forecast)	Q3 (forecast)
Gross Domestic Product	8.1	5.6	6.8	7.3	6.9	5.6	5.4	5.2
Private Consumption Expenditure	5.1	5.8	4.6	5.4	5.2	5.6	4.5	4.4
Government Consumption Expenditure	1.1	-1.5	-1.1	2.3	0.2	2.3	4.9	5.0
Total Export of Goods	14.4	6.4	8.9	11.7	10.2	8.2	11.1	8.3
Domestic Export of Goods	44.4	25.7	-3.2	-30.4	2.3	-33.1	-19.2	-16.7
Re-export of Goods	12.8	5.3	9.8	15.0	10.7	11.0	13.1	9.8
Import of Goods	14.0	6.7	8.5	11.4	10.0	8.6	11.8	9.7
Export of Services	8.5	8.9	8.9	9.0	8.9	8.4	9.0	9.9
Import of Services	5.0	9.1	5.2	6.5	6.4	3.9	1.9	2.5
Gross Fixed Capital Formation	7.3	4.5	10.3	9.4	7.9	3.9	6.1	4.5
GFCF in Land & Construction	-13.8	-8.9	-8.5	-1.7	-8.4	-2.1	-4.9	-2.5
GFCF in Machinery, Equip. & Computer Software	22.4	11.9	20.4	14.9	17.2	6.8	11.0	7.3
GDP Deflator Growth Rate	-0.1	-0.2	-0.4	-0.4	-0.3	0.9	-0.6	-0.1
CPI (Composite) Inflation Rate	1.6	2.0	2.3	2.1	2.0	1.7	1.4	1.3
Unemployment Rate	5.1	4.9	4.7	4.4	4.8	4.3	4.3	4.2
Date of Forecast: June 26, 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								
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Unit Value Trade Index (Domestic Exports)	-0.9	-0.7	-0.8	0.0	0.8	0.4	0.8	0.3	-0.2	-0.3	-0.4	-0.4
Unit Value Trade Index (Imports of Foodstuffs)	2.2	3.2	3.5	4.3	5.2	5.2	6.5	5.8	5.9	6.2	6.4	5.5
Unit Value Trade Index (Imports of Consumer Goods)	1.2	1.0	1.1	1.7	2.3	2.9	3.3	2.7	2.6	3.1	2.8	3.3
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	4.8	3.3	5.6	4.3	4.1	2.2	3.7	2.2	1.4	0.5	0.4	0.2
Unit Value Trade Index (Imports of Fuels)	-0.6	0.3	3.3	1.0	0.8	4.1	-0.5	-5.2	-4.4	-5.2	-6.0	-1.3
Unit Value Trade Index (Imports of Capital Goods)	3.1	1.8	1.6	1.4	1.3	2.1	-0.1	-0.2	-0.4	0.2	0.4	0.1
Real Retained Imports of Foodstuffs	-0.4	11.5	-13.4	12.6	-2.0	2.8	2.1	0.9	1.0	5.2	5.8	6.0
Real Retained Imports of Consumer Goods	-3.9	-4.1	-12.1	74.2	-59.6	21.2	-3.8	-8.1	-9.5	6.2	-1.1	-3.2
Real Retained Imports of Raw Materials & Semi-Manufactures	-13.3	6.6	-3.1	9.5	-12.4	16.2	15.2	13.4	3.8	24.1	13.9	22.6
Real Retained Imports of Fuels	51.3	33.7	-19.5	4.5	15.9	-1.2	44.2	11.2	44.3	29.4	11.4	29.6
Real Retained Imports of Capital Goods	8.3	13.5	24.6	12.7	-37.2	12.8	20.8	3.5	7.1	4.5	-3.1	2.4
Total Motor Vehicles Newly Registered	1.5	-14.9	11.0	23.8	-13.8	-14.2	6.1	0.4	-3.1	4.3	-7.9	0.5
Private Cars Newly Registered	3.8	-5.2	23.8	29.5	-6.7	-14.2	2.1	2.5	-1.9	7.6	-8.0	1.9
Volume Index of Retail Sales	5.2	5.0	8.3	-4.9	25.3	3.5	2.0	7.3	6.7	5.6	5.8	7.7
Money Supply (M2)	13.8	20.2	15.6	15.8	15.9	16.6	13.1	8.9	15.1	15.4	14.5	13.6
Loans and Advances	7.0	15.8	6.7	10.1	10.0	14.8	9.3	5.0	8.9	8.5	10.8	7.0
Visitors Arrivals	2.3	1.0	9.3	-1.0	18.2	2.9	2.3	12.6	11.3	15.0	14.4	23.0
Hong Kong Resident Departures	7.4	4.2	6.9	-6.5	15.4	6.3	2.6	5.3	8.5	7.1	5.5	5.7
Electricity Consumption	-5.6	-11.9	-4.1	4.9	-4.1	2.2	-4.4	2.1	5.5	-2.3	-0.8	9.5
Gas Consumption	1.2	0.1	-2.5	-2.3	0.0	-1.9	1.7	4.0	2.6	0.9	0.6	1.1

Date of Forecast: June 26, 2007