



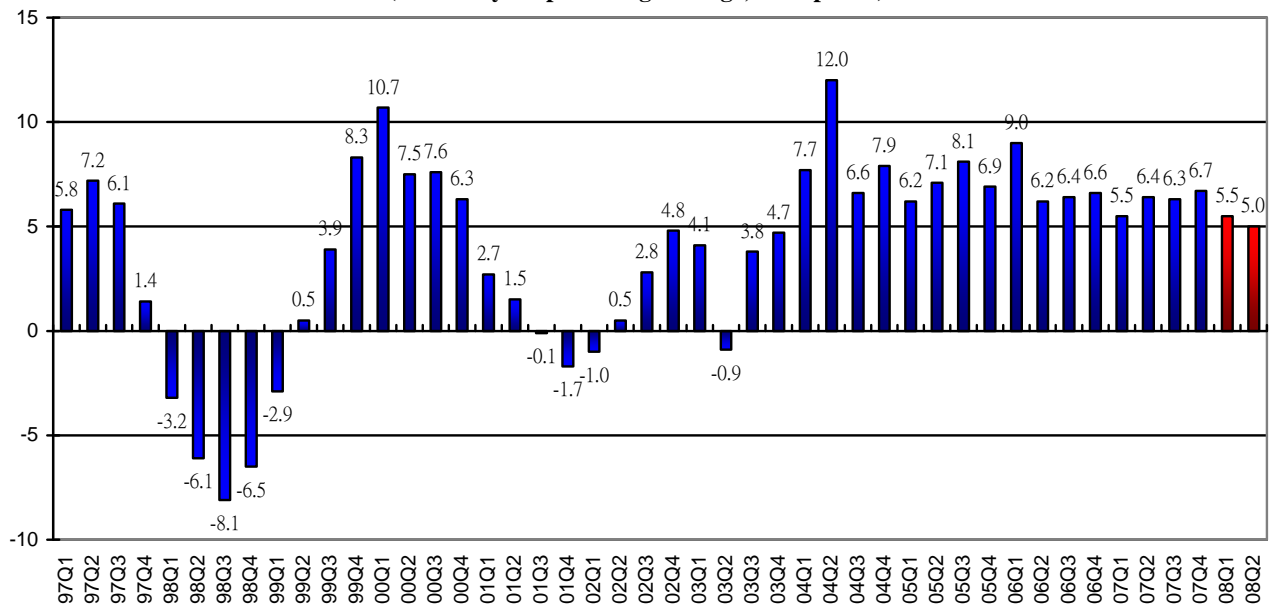
For Immediate Release

HKU Announced 2008 Q2 HK Macroeconomic Forecast

Continued Economic Growth

The APEC Study Center of the University of Hong Kong (HKU) released its quarterly Hong Kong Macroeconomic Forecast today (April 2). According to its High Frequency Macroeconomic Forecast released, real GDP growth in the 08Q1 is estimated to be 5.5% when compared with the same period last year. Reflecting the slowdown in the global economy brought on the credit market turmoil, this growth estimate is a downward revision from the 6.0% forecast released on January 3, 2008.

Real Gross Domestic Product
(Year-on-year percentage change, 2005 prices)



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "In the second quarter of 2008, real GDP is forecast to grow by 5.0% on a year-on-year basis. The moderation in real GDP growth is attributed by the weakening in the external environment with net trade in goods and services only contributed 0.9 percentage point to the total GDP growth. Given the still robust growth in the Mainland and low interest rate, domestic demand is projected to be holding up. The economic growth in the current quarter is mainly driven by sustained growth in private consumption and investment spending."

"Inflationary pressures are building up due to the continued weakening of the US dollar and the strengthening of the RMB. The headline inflation rate is projected to accelerate from 4.3% in 08Q1 to 4.8% in the current quarter. The weakening of external demand is forecast to arrest the continued improvement in the labour market, with unemployment rate forecast to increase from 3.3% in 08Q1 to 3.6% in the current quarter," according to Dr. Alan Siu, Director of the APEC Study Center at HKU.

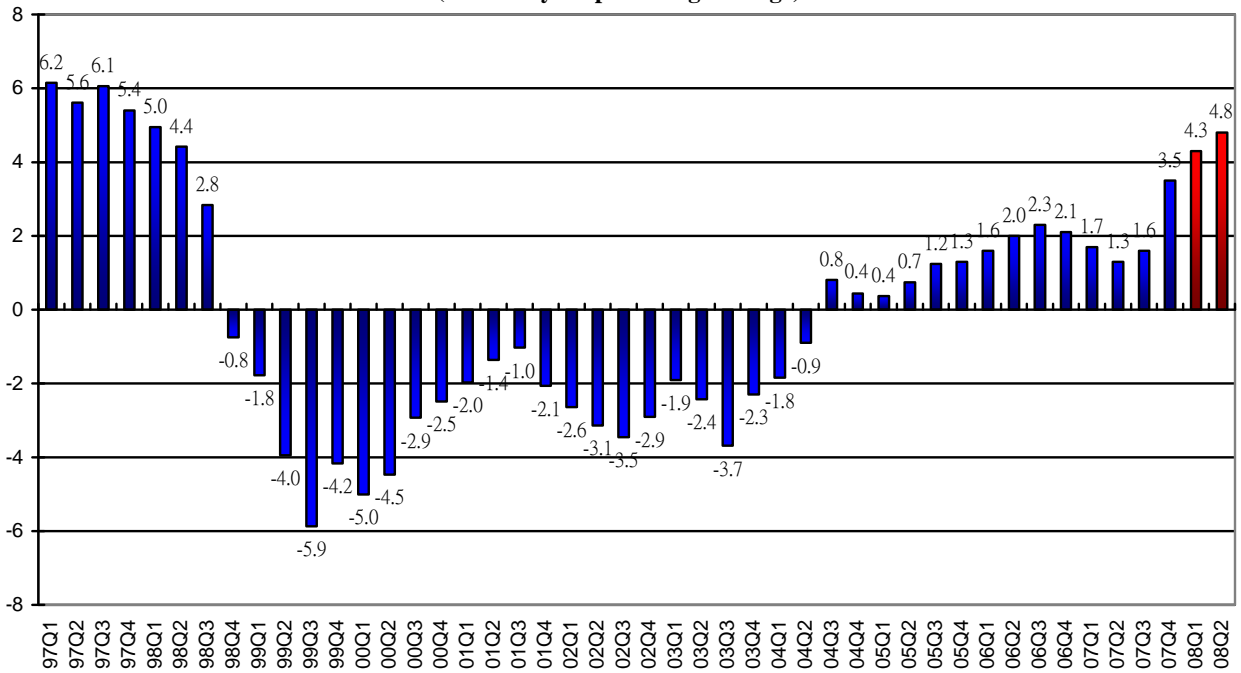
The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3. All growth rates reported are on a year-on-year basis.

Forecast Highlights

- Private consumption surged by 10.0% in 07Q4 reflecting a robust labour market and continued economic expansion. Buffeted by the market turmoil set off by the subprime crisis and the slowdown in global economic growth, growth in private consumption spending is forecast to moderate to 6.8% in 08Q1 and 5.9% in 08Q2.
- The volume of retail sales gained 17.4% in January 2008 which is the 8th consecutive month of double-digit growth since June 2007. The influx of visitors provided support for the continued growth of the retail sector. The volume of retail sales is forecast to grow by 11.2% in 08Q1. The growth in the volume of retail sales will moderate to 10.9% in the current quarter.
- In real terms, total exports of goods rose only by 5.9% in 07Q4. The projected growth is expected to pick up again to 9.4% in 08Q1 but to moderate to 6.9% in 08Q2 reflecting the slowdown in external demand.

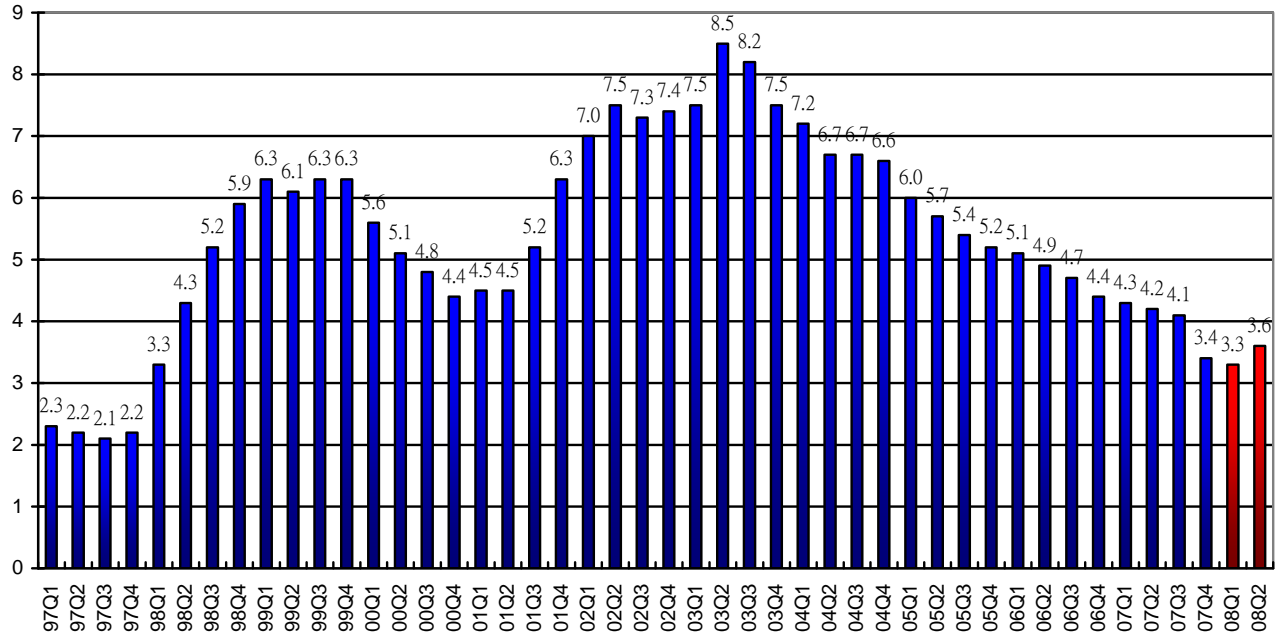
- Domestic Exports contracted by 1.5% in 07Q4, narrowed from the 22.9% decline in the 07Q3. Real domestic exports is forecast to drop by 2.0% and 9.7% in the 08Q1 and 08Q2 respectively.
- Re-exports grew by 6.3% in the 07Q4. In February 2008, re-exports to USA recorded a 12.7% decline which was fully offset by the 14.2% increase to Mainland China. The growth in re-exports is projected to be at 9.8% in 08Q1 and 7.7% in 08Q2.
- Imports of goods grew by 8.8% in 07Q4, picking up from the 8.3% rate in the 07Q3. The growth of the imports of goods is forecast to be 10.4% and 6.4% in 08Q1 and 08Q2 respectively.
- Service exports grew by 10.5% in 07Q4. Visitor arrivals grew by 16.3% annually in the first month of this year. Incoming of Mainland visitors continued to be the growth driver. Service exports is forecast to grow by 6.6% and 5.1% in 08Q1 and 08Q2 respectively.
- Service imports rose by 9.1% in 07Q4. Pay rises and a strong labour market provide impetus for outbound tourism. Service imports is forecast to rise by 7.6% and 6.3% in 08Q1 and 08Q2 respectively.
- The trade balance, as measured by the net exports of goods and services, is estimated to be 11.7% of GDP in the 07Q4, and forecast to be 9.9% of GDP in 08Q1, and 8.5% of GDP in the current quarter.
- Gross fixed capital spending grew by 10.4% in 07Q4. Investment spending is expected to hold up given the current environment of negative real interest rates. Investment growth is projected to be 6.8% in 08Q1 and 5.6% in 08Q2.
- Investment in land and construction rose by 7.7% in 07Q4. The investment in land and construction is forecast to grow by 5.4% in 08Q1 and by 4.3% in 08Q2.
- Investment spending in machinery, equipment and computer software expanded by 11.9% in the 07Q4. It is estimated to expand by 7.7% in 08Q1 and by 6.4% 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 6.3% in February 2008 mainly due to the rise of food prices which contributed 3 percentage points of the total. If there were no fiscal measures, the inflation rate would have been 5.1%. Inflation pressures are still building up due to the continued weakening of the US dollar and the concurrent strengthening of the RMB. The current environment of negative real interest rates makes matter worse by fueling nominal spending. Rising rentals will take time to be fully reflected in the consumer price indices. Given all these pressures, inflation rate is forecast to accelerate from 3.5% in 07Q4 to 4.3% in 08Q1 and 4.8% in 08Q2.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate slightly improved from 3.4% in the 3 months ending in Jan 2008 to 3.3% in the 3 months ending in Feb 2008. The continued improvement in the labour market is projected to be arrested by the global economic slowdown. The unemployment rate forecast to be 3.3% in 08Q1 but rise to 3.6% in the current quarter, with the number of unemployed workers rising from 118,500 persons in 08Q1 to 130,500 persons in 08Q2.

Concluding Remarks

The credit market turmoil started last summer is still unfolding. The massive injection of liquidity, deep rate cuts and unorthodox measures taken to avoid the collapse of Bear Sterns testify to the severity of the troubles facing the global financial markets. It will take time for financial institutions to repair their much impaired balance sheets. In the meantime, markets will remain volatile, and the global economic expansion will slowdown.

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/>

For media enquiries, please contact Ms Cherry Cheung, Senior Manager (Media) (Tel: 2859 2606 / 8208 1686) or Ms Denise Wong, Manager (Media) (Tel: 2859 2600 / 9842 6002) of External Relations Office, HKU.

April 2, 2008

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

Table 1: Current Quarter Model Forecast
(Million of 2005 Dollar)

	2007					2008	
	Q1	Q2	Q3	Q4	Annual	Q1 (forecast)	Q2 (forecast)
Gross Domestic Product	370,616	373,536	404,347	423,736	1,572,235	390,833	392,287
Private Consumption Expenditure	215,164	227,513	230,257	246,471	919,405	229,733	240,953
Government Consumption Expenditure	33,587	28,992	30,407	31,341	124,327	34,595	31,312
Total Export of Goods	579,114	644,777	704,646	709,030	2,637,567	633,262	689,219
Domestic Export of Goods	22,790	28,940	30,299	30,172	112,201	22,329	26,132
Re-export of Goods	556,324	615,837	674,347	678,858	2,525,366	610,933	663,087
Import of Goods	604,736	680,772	722,907	742,087	2,750,502	667,818	724,223
Export of Services	139,969	140,260	162,209	163,906	606,344	149,237	147,440
Import of Services	70,482	74,356	82,716	81,080	308,634	75,815	79,004
Gross Fixed Capital Formation	76,071	83,082	81,252	87,614	328,019	81,259	87,771
GFCF in Land & Construction	29,856	30,519	29,495	30,964	120,834	31,466	31,818
GFCF in Machinery & Equip.	46,215	52,563	51,757	56,650	207,185	49,792	55,953
Changes in Inventories	1,929	4,040	1,199	8,541	15,709	6,382	-1,180

Date of Forecast: Mar 31, 2008

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

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

	2007					2008	
	Q1	Q2	Q3	Q4	Annual	Q1 (forecast)	Q2 (forecast)
Gross Domestic Product	5.5	6.4	6.3	6.7	6.3	5.5	5.0
Private Consumption Expenditure	4.5	5.8	10.6	10.0	7.8	6.8	5.9
Government Consumption Expenditure	2.3	2.9	1.5	2.3	2.3	3.0	8.0
Total Export of Goods	6.6	10.1	6.4	5.9	7.2	9.4	6.9
Domestic Export of Goods	-34.6	-18.7	-22.9	-1.5	-20.1	-2.0	-9.7
Re-export of Goods	9.4	11.9	8.2	6.3	8.8	9.8	7.7
Import of Goods	7.1	11.6	8.3	8.8	9.0	10.4	6.4
Export of Services	10.0	11.6	12.6	10.5	11.2	6.6	5.1
Import of Services	5.7	8.0	9.1	9.1	8.1	7.6	6.3
Gross Fixed Capital Formation	2.8	10.0	1.0	10.4	6.0	6.8	5.6
GFCF in Land & Construction	1.5	8.0	3.5	7.7	5.2	5.4	4.3
GFCF in Machinery, Equip. & Computer Software	3.6	11.2	-0.4	11.9	6.6	7.7	6.4
GDP Deflator Growth Rate	1.2	1.8	3.2	4.7	2.8	4.5	4.3
CPI (Composite) Inflation Rate	1.7	1.3	1.6	3.5	2.0	4.3	4.8
Unemployment Rate	4.3	4.2	4.1	3.4	4.0	3.3	3.6

Date of Forecast: Mar 31, 2008

High Frequency Macroeconomic Forecasts

APEC Study Center

The University of Hong Kong

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

	2007						2008					
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Unit Value Trade Index (Domestic Exports)	0.7	0.8	0.8	1.3	0.8	0.8	2.9	3.3	4.2	4.5	4.4	4.5
Unit Value Trade Index (Imports of Foodstuffs)	6.7	7.0	6.7	7.1	7.0	6.8	6.0	6.0	6.0	5.7	6.0	5.3
Unit Value Trade Index (Imports of Consumer Goods)	3.7	2.6	4.0	3.8	4.1	4.2	3.9	3.4	3.4	3.9	3.0	3.2
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	1.1	1.8	1.4	1.2	1.1	-0.3	1.3	1.7	2.2	2.0	1.8	1.7
Unit Value Trade Index (Imports of Fuels)	4.2	8.1	12.1	19.1	43.0	55.1	49.7	44.0	34.1	36.2	31.4	34.3
Unit Value Trade Index (Imports of Capital Goods)	-0.2	0.0	0.1	0.0	0.8	1.1	1.5	1.5	1.4	1.7	1.4	1.9
Real Retained Imports of Foodstuffs	9.0	17.7	2.5	7.5	3.8	15.9	-1.1	9.6	6.4	5.1	6.8	-1.4
Real Retained Imports of Consumer Goods	2.3	16.8	8.8	26.2	31.9	18.3	4.2	76.5	3.2	17.8	11.6	11.5
Real Retained Imports of Raw Materials & Semi-Manufactures	40.9	20.3	33.4	33.2	13.4	24.9	13.7	26.9	10.5	10.6	8.7	-2.8
Real Retained Imports of Fuels	8.4	-8.1	-2.1	17.3	-26.3	43.9	-7.2	-7.2	-5.6	-10.9	18.2	-2.8
Real Retained Imports of Capital Goods	-23.8	-10.2	-9.4	-4.0	20.6	-8.9	10.9	46.4	9.2	3.7	37.0	24.3
Total Motor Vehicles Newly Registered	31.0	6.3	-0.7	34.5	57.3	37.4	34.4	55.6	45.7	26.1	27.4	21.5
Private Cars Newly Registered	46.8	15.9	2.7	38.2	57.7	49.2	35.5	68.5	49.5	24.4	25.4	18.2
Volume Index of Retail Sales	12.1	12.7	12.9	13.1	15.3	12.5	17.4	4.0	12.3	12.5	10.8	9.5
Money Supply (M2)	17.3	17.0	22.4	31.7	22.0	20.8	17.0	13.7	21.6	23.7	23.5	19.2
Loans and Advances	12.4	12.8	21.8	30.1	19.4	20.0	19.9	15.3	16.7	21.3	20.9	11.7
Visitors Arrivals	12.3	16.9	15.9	17.0	17.6	16.1	16.2	2.7	15.1	8.6	2.9	10.3
Hong Kong Resident Departures	6.8	5.6	12.4	4.4	9.7	8.8	8.5	5.9	8.2	2.3	5.4	5.2
Electricity Consumption	5.0	-10.9	-4.3	-1.0	-2.5	3.8	13.4	11.5	-1.8	9.1	3.7	0.9
Gas Consumption	-1.4	-1.0	-2.0	-0.2	0.8	2.7	0.4	2.4	1.7	-0.3	-2.1	0.3

Date of Forecast: Mar 31, 2008