

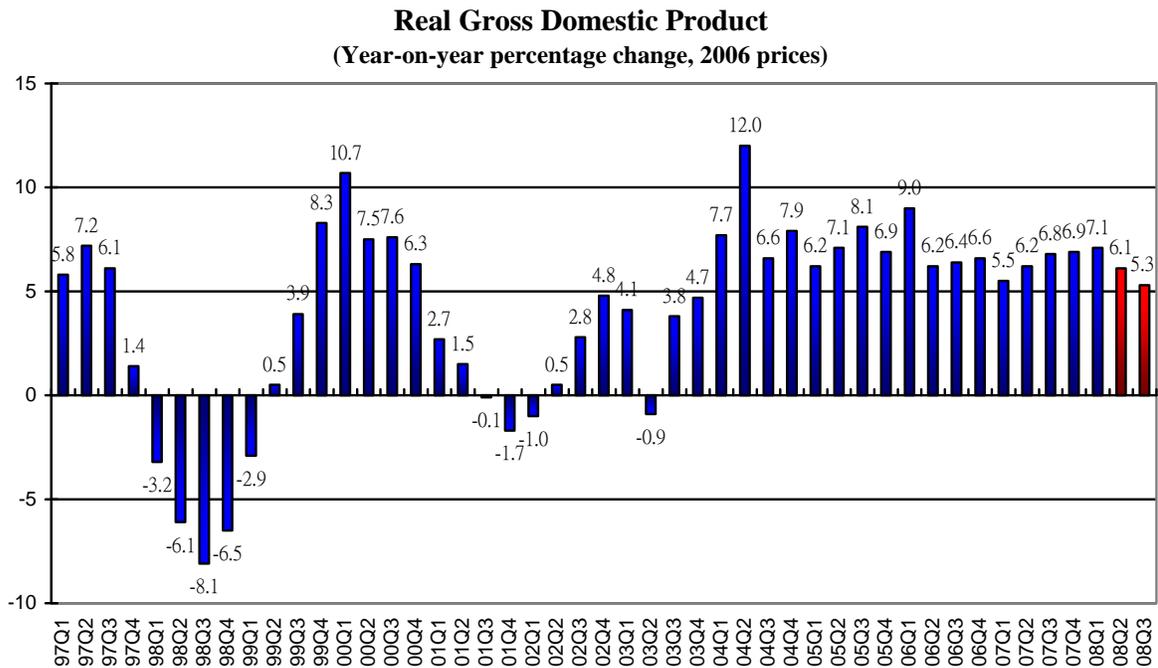


*For Immediate Release*

## HKU Announced 2008 Q3 HK Macroeconomic Forecast

### Growth Slowing and Price Rising

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 6.1% on a year-on-year basis, following the 7.1% robust growth in the first quarter. The growth momentum is forecast to slow with real GDP growing by 5.3% in the current quarter.



“Hong Kong's real GDP is forecast to grow by 5.3% in the third quarter. The growth is primarily driven by domestic demand, with private consumption spending and gross fixed investment contributing 3.2 and 1.7 percentage points, respectively, to the overall growth, while the net exports of goods and services only account for 0.5 percentage point of the output growth,” according to Dr. Alan Siu, Director of the APEC Study Center at HKU.

Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, “The Hong Kong economy performed quite well in the first half of this year, with real GDP estimated to grow by 6.6%, as compared with 5.9% in the same period last year. The economic environment in the second half will be tougher, with the global economy slowing down but prices still rising. Hong Kong's real GDP growth is forecast to slow down to 5% in the second half. The full-year growth estimate is around 5.7%, dropping from the 6.4% annual growth recorded last year. Headline inflation rate is projected to be 6% by year-end.”

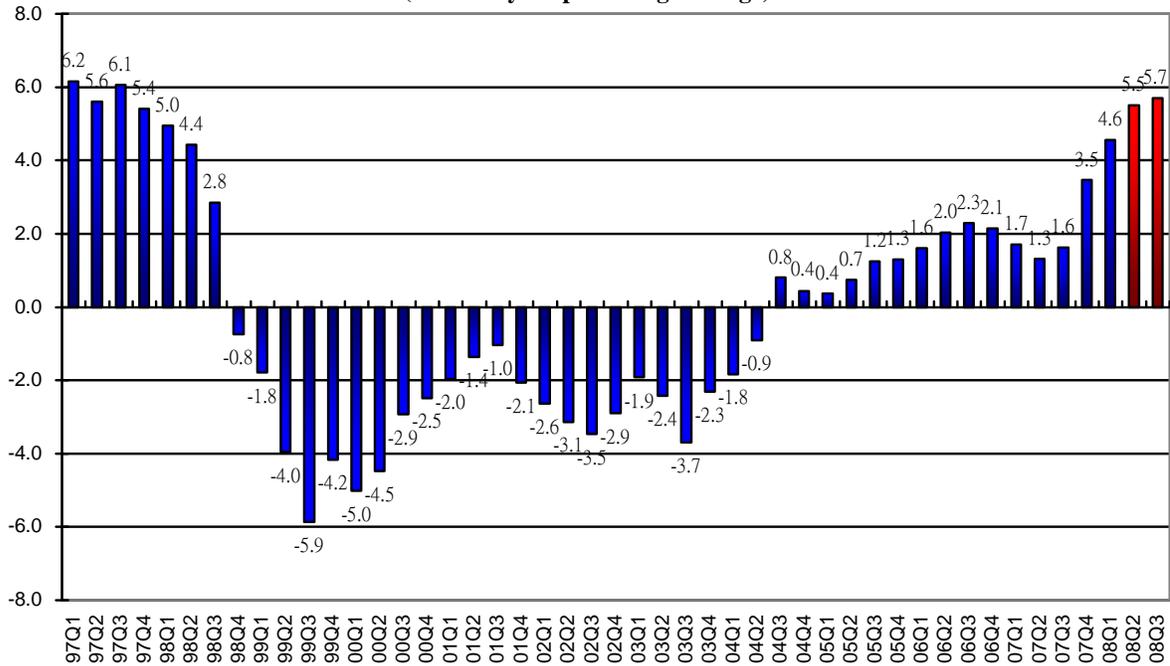
The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3. All growth rates reported are on a year-on-year basis.

## **Forecast Highlights**

- Underpinned by a buoyant labour market, private consumption spending grew strongly by 7.9% in 08Q1. Consumption spending is expected to continue to grow but at a more moderate rate. It is forecast to grow by 6.5% in the 08Q2 and further moderate to 5.6% in the 08Q3.
- The volume of retail sales recorded a year-on-year increase of 11.6% in April 2008, with an across-the-board improvement amongst all categories. The growth rates of consumer durables, clothing and jewellery products were more notable at 18.1%, 17.7% and 14.2% respectively. The volume of retail sales is forecast to grow by 10.5% in 08Q2, and 8.6% in 08Q3.
- The weakening of the US dollar depreciation has made Hong Kong's exports more competitive, with the total export of goods rose from the 5.7% growth in 07Q4 to the 8.3% growth in 08Q1. The growth in total exports is expected to increase to 10.3% in 08Q2, but moderate to 7.8% in 08Q3.

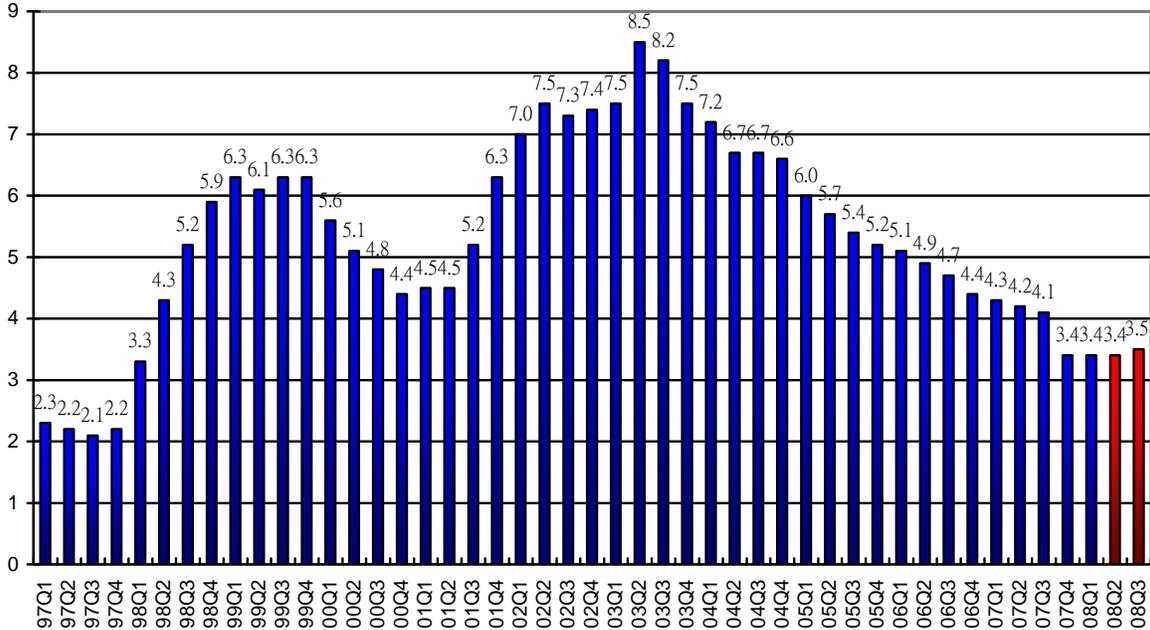
- Domestic Exports dropped by 1.9% in 08Q1. Domestic exports is forecast to fall by 13.6% and 8.8% in 08Q2 and 08Q3, respectively.
- Re-exports grew by 8.7% in 08Q1. Re-exports of goods is estimated to grow by 11.4% in 08Q2 but moderate to 8.5% in 08Q3 reflecting the slowdown in external demand.
- Service exports grew by 10.8% in the 08Q1. Visitor arrivals have been growing steadily. Tourism continued to have good performance with the number of visitor arrivals growing by 6.3% in May 2008. Service exports is forecast to grow by 9.7% and 8.5% in 08Q2 and 08Q3, respectively.
- Import of goods grew by 8.4% in 08Q1, with the imports retained for local use increased by 9.6%. The growth of imports of goods is expected to be 10.6% in the 08Q2 and 8.4% in the 08Q3.
- Import of services rose by 11.3% in 08Q1. Outbound tourism continued to be vibrant, with residence departures' growth at 7.6% in May 2008. Service imports is forecast to grow by 5.6% and 6.3% in the 08Q2 and 08Q3, respectively.
- The external trade balance, as measured by the net exports of goods and services, is estimated to be 10.4% of GDP in 08Q1. It is estimated to be lower at 6.1% of GDP in 08Q2, and projected to rise to 13.6% of GDP in the current quarter.
- Gross fixed capital formation rose by 8.9% in 08Q1, reflecting business confidence and a low interest rate environment. It is expected to grow by 5.4% in the 08Q2 and 8.3% in 08Q3.
- Investment in land and construction grew by 13.0% in 08Q1, and is projected to grow by 5.2% and 5.5% in 08Q2 and 08Q3, respectively.
- Investment spending in machinery, equipment and computer software increased by 6.0% in the 08Q1. It is estimated to grow by 5.6% in 08Q2 and 10.1% in 08Q3. The double-digit growth in 08Q3 is mainly due to the lower base of comparison in the 07Q3.

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



- Inflation, as measured by the percentage change in the Composite CPI, was 5.6% in May 2008, with the 11.2% increase in food prices contributing 3 percentage points to the overall increase, and the 5.9% rise in rentals accounted for 1.8 percentage points. Inflationary pressures are still building up due to the low interest rates, weak US dollar, and continued hiking of oil and food prices. Prices are forecast to keep on rising. The inflation rate is estimated to rise from 4.6% in 08Q1 to 5.5% in 08Q2. It is projected to increase further to 5.7% in the current quarter.

### Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate stood at 3.3% in the 3 months ending in April 2008 and May 2008. The continued improvement in the labour market will be arrested by the global economic slowdown. The unemployment rate is forecast to be 3.4% in 08Q2. It is projected to rise to 3.5% in the current quarter, with the number of unemployed workers increasing from 125,000 in 08Q2 to 129,500 in 08Q3.

### Concluding Remarks

The economic environment in the second half of this year will be tougher, as the global economy is projected to get weaker while prices are still rising. Interest rates are expected to rise by the end of this quarter. Hong Kong's economy will still grow albeit at a slower rate. The challenge is to cope with the rising inflationary pressure imported from the loose monetary policy of the U.S.

## **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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July 3, 2008

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

Table 1: Current Quarter Model Forecast  
(Million of 2006 Dollar)

	2007					2008		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2 (forecast)	Q3 (forecast)
Gross Domestic Product	369,581	371,931	404,872	423,506	1,569,890	395,820	394,486	426,269
Private Consumption Expenditure	217,880	232,375	233,333	248,505	932,093	235,051	247,406	246,464
Government Consumption Expenditure	33,994	29,363	30,794	31,715	125,866	34,104	31,724	33,198
Total Export of Goods	579,984	645,867	705,205	709,653	2,640,709	628,050	712,331	760,255
Domestic Export of Goods	22,728	29,131	29,898	30,235	111,992	22,306	25,181	27,263
Re-export of Goods	557,256	616,736	675,307	679,418	2,528,717	605,744	687,149	732,992
Import of Goods	617,372	694,370	736,184	755,616	2,803,542	669,526	767,849	798,309
Export of Services	146,789	145,381	169,658	173,845	635,673	162,588	159,441	184,063
Import of Services	71,708	75,541	83,031	82,114	312,394	79,820	79,755	88,229
Gross Fixed Capital Formation	77,790	85,059	83,425	89,503	335,777	84,685	89,680	90,388
GFCF in Land & Construction	31,833	32,745	31,533	33,117	129,228	35,964	34,432	33,280
GFCF in Machinery & Equip.	45,957	52,314	51,892	56,386	206,549	48,721	55,248	57,108
Changes in Inventories	2,224	3,797	1,672	8,015	15,708	688	1,509	-1,561
Date of Forecast: June 26, 2008								

**High Frequency Macroeconomic Forecasts**  
**APEC Study Center**  
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Table 2: Current Quarter Model Forecast  
Year-on-Year Growth Rate (%)

	2007					2008		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2 (forecast)	Q3 (forecast)
Gross Domestic Product	5.5	6.2	6.8	6.9	6.2	7.1	6.1	5.3
Private Consumption Expenditure	4.5	6.6	10.6	9.5	6.7	7.9	6.5	5.6
Government Consumption Expenditure	2.3	3.0	1.5	2.3	5.8	0.3	8.0	7.8
Total Export of Goods	6.5	10.0	6.2	5.7	7.7	8.3	10.3	7.8
Domestic Export of Goods	-34.0	-17.2	-23.0	-0.1	-9.3	-1.9	-13.6	-8.8
Re-export of Goods	9.2	11.7	8.0	6.0	8.4	8.7	11.4	8.5
Import of Goods	7.1	11.5	8.1	8.5	7.8	8.4	10.6	8.4
Export of Services	11.3	11.6	13.7	13.1	9.5	10.8	9.7	8.5
Import of Services	6.6	8.9	8.7	9.7	7.2	11.3	5.6	6.3
Gross Fixed Capital Formation	0.7	8.1	-0.4	8.3	8.3	8.9	5.4	8.3
GFCF in Land & Construction	1.2	8.5	3.7	7.8	7.7	13.0	5.2	5.5
GFCF in Machinery, Equip. & Computer Software	0.3	7.8	-2.7	8.5	8.7	6.0	5.6	10.1
GDP Deflator Growth Rate	1.4	2.0	3.2	4.9	3.0	2.3	4.0	3.8
CPI (Composite) Inflation Rate	1.7	1.3	1.6	3.5	2.0	4.6	5.5	5.7
Unemployment Rate	4.3	4.2	4.1	3.4	4.0	3.4	3.4	3.5

Date of Forecast: June 26, 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								
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Unit Value Trade Index (Domestic Exports)	1.3	0.8	0.8	2.9	3.4	3.7	4.0	3.8	3.8	3.6	3.5	3.5
Unit Value Trade Index (Imports of Foodstuffs)	7.1	7.0	6.8	6.0	6.8	7.0	6.9	7.4	6.8	6.7	6.6	6.0
Unit Value Trade Index (Imports of Consumer Goods)	3.8	4.1	4.2	3.9	4.2	3.1	3.9	2.7	2.9	2.3	2.8	2.2
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	1.2	1.1	-0.3	1.3	1.8	3.6	3.1	3.2	3.3	3.2	2.5	2.7
Unit Value Trade Index (Imports of Fuels)	19.1	43.0	55.1	49.7	39.2	36.3	42.1	37.5	41.1	27.9	25.0	28.1
Unit Value Trade Index (Imports of Capital Goods)	0.0	0.8	1.1	1.5	1.5	1.2	1.5	1.1	1.8	2.2	2.1	1.7
Real Retained Imports of Foodstuffs	7.5	3.8	15.9	4.3	16.1	16.9	9.7	12.0	3.4	8.6	2.6	14.7
Real Retained Imports of Consumer Goods	26.2	31.9	18.3	46.4	109.6	1.1	34.3	21.7	23.1	35.3	20.2	23.7
Real Retained Imports of Raw Materials & Semi-Manufactures	33.2	13.4	24.9	-13.3	0.5	-5.9	-9.5	-10.5	-20.0	-16.5	-10.0	-13.1
Real Retained Imports of Fuels	17.3	-26.3	43.9	-26.4	-0.9	-4.0	-12.7	16.3	-4.4	12.3	13.8	22.7
Real Retained Imports of Capital Goods	-4.0	20.6	-8.9	26.7	6.4	-4.3	-8.1	22.7	7.0	24.2	1.9	6.4
Total Motor Vehicles Newly Registered	34.5	57.3	37.4	34.4	57.2	38.5	23.5	24.9	18.6	18.0	19.3	35.5
Private Cars Newly Registered	38.2	57.7	49.2	35.5	73.2	52.1	26.4	27.4	20.1	16.5	18.0	40.1
Volume Index of Retail Sales	13.1	15.3	12.5	17.6	4.4	13.0	11.6	10.8	9.2	8.5	8.4	8.8
Money Supply (M2)	31.7	22.0	20.8	17.0	13.7	13.5	14.5	13.3	9.0	12.4	11.8	6.1
Loans and Advances	30.1	19.4	20.0	19.8	15.3	18.7	24.6	24.0	15.0	21.7	21.5	10.9
Visitors Arrivals	17.0	17.6	16.1	16.2	2.9	11.2	11.2	6.3	12.8	12.4	8.8	15.5
Hong Kong Resident Departures	4.4	9.7	8.8	8.5	5.9	16.0	-5.8	5.2	5.0	6.0	7.7	1.1
Electricity Consumption	-1.0	-2.5	3.8	13.4	11.5	-1.5	1.6	1.3	-1.4	-3.4	9.3	10.8
Gas Consumption	-0.2	0.8	2.7	0.4	2.4	1.7	2.4	0.4	2.0	2.4	2.0	2.9

Date of Forecast: June 26, 2008