



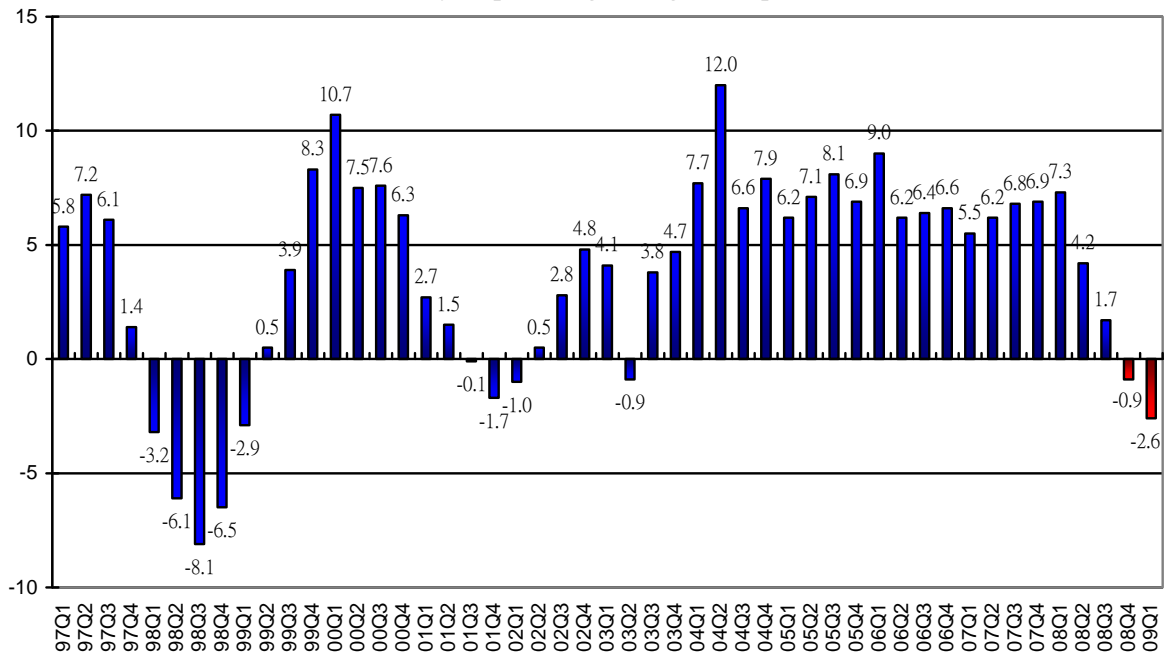
For Immediate Release

HKU Announced 2009 Q1 HK Macroeconomic Forecast

Recession in Hong Kong deepened in 2008 Q4

The APEC Study Center of the University of Hong Kong (HKU) released its quarterly Hong Kong Macroeconomic Forecast today (January 7). According to its High Frequency Macroeconomic Forecast, real GDP in Q4 of 2008 is estimated to shrink by 0.9% on a year-on-year basis. This update is a downward revision of the 2.6% growth forecast released on October 8, 2008. The sharp downturn of Hong Kong since October last year was due to the severe credit crunch as a consequence of the global financial crisis. Both external and domestic demand will continue to be weak, deepening the recession. In the first quarter of 2009, real GDP is forecast to drop further by 2.6% when compared with the same period last year.

Real Gross Domestic Product
(Year-on-year percentage change, 2006 prices)



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "Despite the turmoil in the financial markets, due to the robust performance in the first half of last year, Hong Kong's economy was still growing last year. The growth rate as a whole is estimated to be 2.9% in 2008, which is a sharp slowdown from the 6.4% growth in 2007. Private consumption spending and net exports were the primary growth drivers, accounting for 1.4 and 1.2 percentage points of the overall growth of 2008 respectively. 2009 will be a difficult year for the global economy, with all the developed economies projected to contract together. The credit crunch has brought havoc to the global economy. Given a such a weak global environment, Hong Kong's real GDP is forecast to contract by 2.6% in the current quarter."

According to Dr. Alan Siu, Director of the APEC Study Center at HKU, "The unemployment rate is forecast to shoot up to 4.8% in the current quarter from the 4.0% estimate in the last quarter. The deterioration in the job markets and the sharp downturn in asset markets have hurt consumer confidence, ending 5 consecutive years of growth in private consumption spending. Weak demand, falling oil prices and the current strength of the US dollar will pull down prices, with the headline inflation rate forecast to decelerate to 1.7% in the current quarter. Excluding fiscal measures, the year-on-year percentage change in the consumer price level will be higher at 3.0%,"

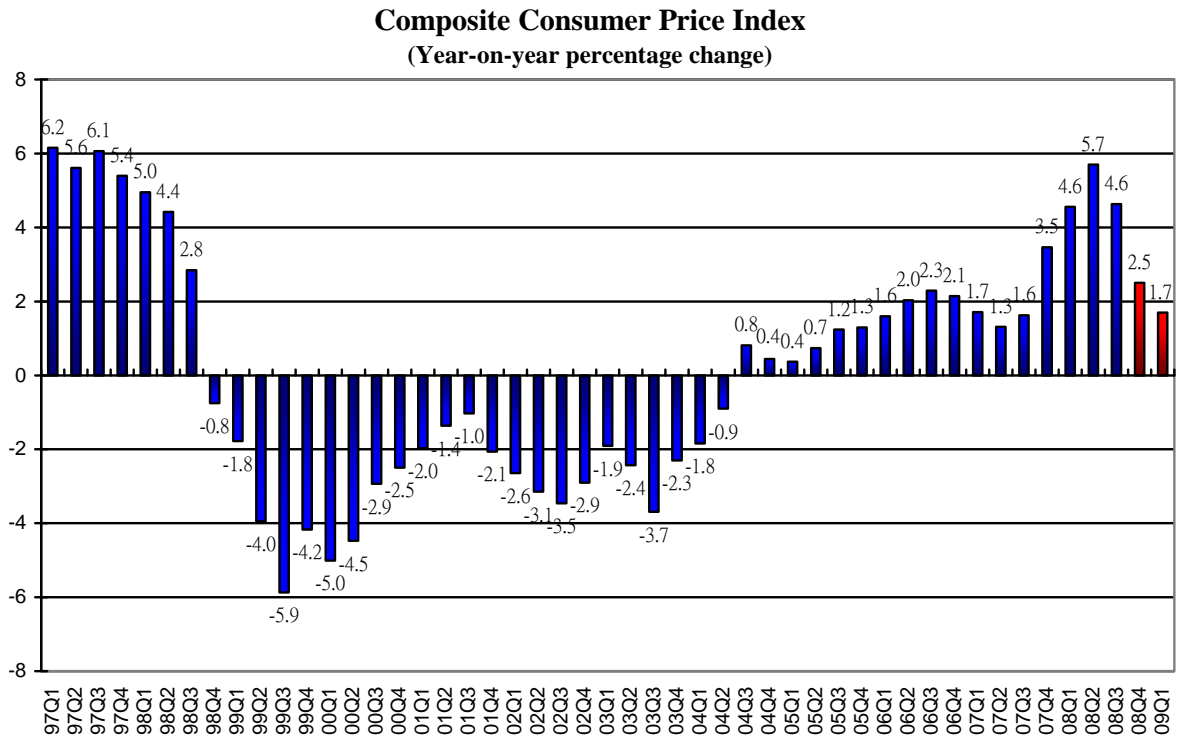
The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3. All growth rates reported are on a year-on-year basis.

Forecast Highlights

- Private consumption spending rose only by 0.2% in Q3 of 2008, sharply down from the 3.2% growth in Q2 of 2008. Rising unemployment, falling asset prices and a much weaker global economic environment have hurt consumer confidence further. Private consumption expenditure is estimated to shrink by 1.3% in Q4 of 2008 and to contract by 2.3% in the current quarter. Taking account of the robust growth in the first half of 2008, it is estimated to grow by 2.4% in 2008.
- The volume of retail sales in November 2008 registered a decrease of 2.8% when compared with the same period last year. The retail sales volume of consumer durables, jewellery and food dropped by 9.5%, 3.7% and 2.1%, respectively. The volume of retail sales is forecast to decrease by 3.5% in Q4 of 2008 and 3.2% in Q1 of 2009. For 2008 as a whole, it is estimated to grow by 4.7%.

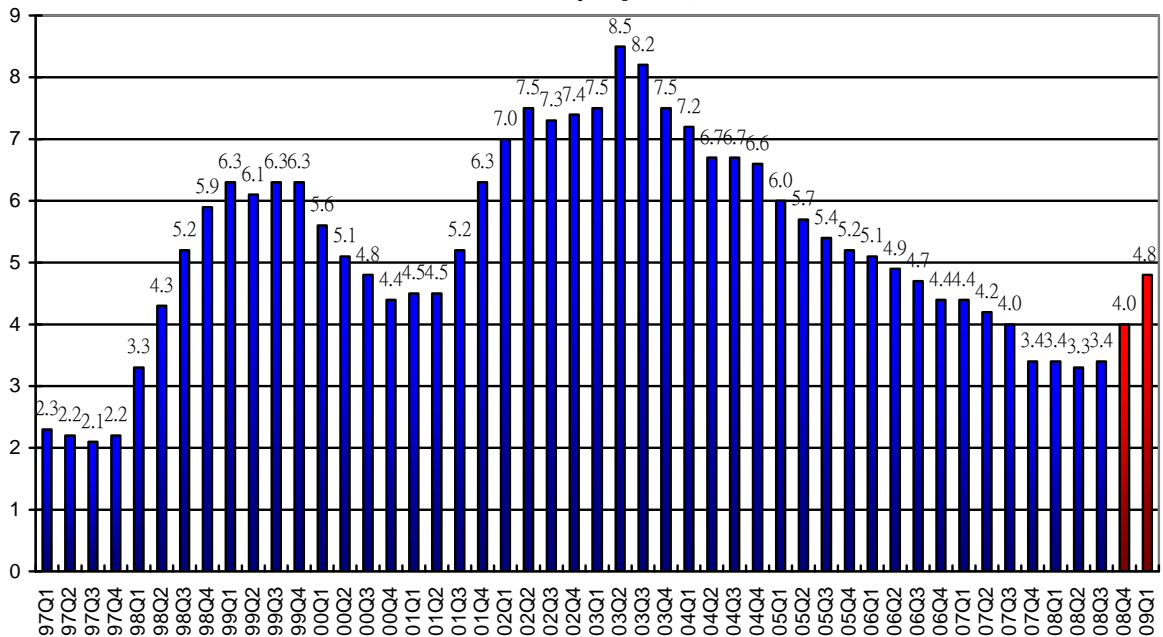
- Total export of goods grew by 1.4% in Q3, down from the 4.4% growth in Q2. The growth in total exports of goods is estimated to be 0.3% in Q4 of 2008 and 3.4% for 2008 as a whole. Given the credit crunch and projected global slowdown, total export of goods is forecast to drop by 1.8% in Q1 of 2009.
- Service exports grew by 5.3% in Q3 of 2008. The number of visitor arrivals dropped by 1.1% in November 2008, when compared with the same period in 2007. The export of trade-related services will decrease as a consequence of contraction in the export of goods. Service exports growth is estimated to have slowed to 4.2% in Q4 of 2008 and 6.8% for the year of 2008. The growth in Q1 of 2009 is forecast to be 3.0%.
- The import of goods grew by 2.2% in Q3 of 2008. Reflecting a weakening in external demand, the growth of import of goods is forecast to fall by 0.3% in Q4 of 2008. For the year of 2008, the growth is projected to be 3.6%. The import of goods is forecast to fall by 1.2% in the current quarter.
- Import of services increased by 1.8% in Q3 of 2008. Service imports is forecast to grow by 1.6% in Q4 of 2008 and 4.1% for the year of 2008 as a whole. It is estimated to grow by 0.6% in Q1 of 2009.
- The trade balance, as measured by the net export of goods and services in real terms, is estimated to be 13.8% of GDP in Q3 of 2008. It is forecast to be 13.5% of GDP in Q4 of 2008, 11.1% of GDP for the year of 2008 and is forecast to be 10.9% of GDP in Q1 of 2009.
- Gross fixed capital formation rose by 3.0% in Q3 of 2008. Uncertain economic outlook and tight credit market conditions will slow down the investment in fixed capital. Gross fixed capital formation is estimated to drop by 1.3% in Q4 of 2008 but grew by 3.6% for the year of 2008 as a whole. It is forecast to fall by 4.7% in Q1 of 2009.
- Investment in land and construction decreased by 8.3% in Q3 of 2008. It is estimated to decline by 6.8% in Q4 of 2008 and by 0.2% for the year as a whole of 2008. The decrease in the current quarter is forecast to be 9.6%.

- Investment spending in machinery, equipment and computer software rose by 9.9% in Q3 of 2008. Given the uncertain business outlook, machinery and equipment investment growth is estimated to moderate to a 2.0% growth in Q4 of 2008 and 6.0% for the year of 2008 as a whole. In the current quarter, it is forecast to fall by 1.0% when compared with the same period last year.



- Inflation, as measured by the year-on-year percentage change of the Composite CPI, was 3.1% in November 2008. Most of the increase was accounted for by the 2.6 percentage points increase in food prices. Lower consumer confidence and significant drop in energy prices eased the inflationary pressure. With the government relief measures, the headline consumer inflation rate is estimated to drop to 2.5% in the Q4 of 2008 and 4.3% for the year 2008 as a whole. In the current quarter, it is forecast to be 1.7%, reflecting the dis-inflationary process.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate worsened from 3.5% in the three months average ending in October 2008 to 3.8% for the three months ending in November 2008. The median of duration of unemployment rose to 72 days in Q3 of 2008 from 67 days in Q2 of 2008, reflecting a softening in the job market which is projected to worsen. The unemployment rate is forecast to be 4.0% in Q4 of 2008, and is projected to rise to 4.8% in the current quarter.

Concluding Remarks

Following the financial turmoil last year, 2009 will be a difficult year for the global economy, with all the developed economies projected to contract together for the first time since the Second World War. As a small open economy, Hong Kong cannot escape the adverse economic conditions. The recession in Hong Kong will get worse in the current quarter, with prices falling and unemployment rising. The global economy is expected to stabilize by year end, given all the huge fiscal stimulus packages in the world.

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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January 7, 2009

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

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

	2007			2008					2009
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (forecast)	Annual (forecast)	Q1 (forecast)
Gross Domestic Product	404,872	423,506	1,569,890	396,716	387,672	411,859	419,527	1,615,774	386,355
Private Consumption Expenditure	233,333	248,505	932,093	235,030	239,860	233,853	245,256	953,999	229,725
Government Consumption Expenditure	30,794	31,715	125,866	34,093	30,244	31,493	32,666	128,496	35,116
Total Export of Goods	705,205	709,653	2,640,709	628,050	674,213	715,205	712,007	2,729,475	616,444
Domestic Export of Goods	29,898	30,235	111,992	22,306	22,636	23,086	21,542	89,570	16,416
Re-export of Goods	675,307	679,418	2,528,717	605,744	651,577	692,119	690,464	2,639,904	600,027
Import of Goods	736,184	755,616	2,803,542	669,526	728,311	752,528	753,128	2,903,493	661,541
Export of Services	169,658	173,845	635,673	161,803	157,210	178,635	181,182	678,830	166,681
Import of Services	83,031	82,114	312,394	78,980	78,156	84,514	83,433	325,083	79,466
Gross Fixed Capital Formation	83,425	89,503	335,777	85,511	87,998	85,921	88,366	347,796	81,505
GFCF in Land & Construction	31,533	33,117	129,228	36,732	32,411	28,912	30,862	128,917	33,212
GFCF in Mach., Equip. & Comp. Soft.	51,892	56,386	206,549	48,779	55,587	57,009	57,503	218,878	48,293
Changes in Inventories	1,672	8,015	15,708	735	4,614	3,794	-3,389	5,754	-2,109

Date of Forecast: December 29, 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					2009
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (forecast)	Annual (forecast)	Q1 (forecast)
Gross Domestic Product	6.8	6.9	6.4	7.3	4.2	1.7	-0.9	2.9	-2.6
Private Consumption Expenditure	10.6	9.5	7.8	7.9	3.2	0.2	-1.3	2.4	-2.3
Government Consumption Expenditure	1.5	2.3	2.3	0.3	3.0	2.3	3.0	2.1	3.0
Total Export of Goods	6.2	5.7	7.0	8.3	4.4	1.4	0.3	3.4	-1.8
Domestic Export of Goods	-23.0	-0.1	-19.3	-1.9	-22.3	-22.8	-28.8	-20.0	-26.4
Re-export of Goods	8.0	6.0	8.6	8.7	5.6	2.5	1.6	4.4	-0.9
Import of Goods	8.1	8.5	8.8	8.4	4.9	2.2	-0.3	3.6	-1.2
Export of Services	13.7	13.1	12.5	10.2	8.1	5.3	4.2	6.8	3.0
Import of Services	8.7	9.7	8.5	10.1	3.5	1.8	1.6	4.1	0.6
Gross Fixed Capital Formation	-0.4	8.3	4.2	9.9	3.5	3.0	-1.3	3.6	-4.7
GFCF in Land & Construction	3.7	7.8	5.3	15.4	-1.0	-8.3	-6.8	-0.2	-9.6
GFCF in Machinery, Equip. & Computer Software	-2.7	8.5	3.5	6.1	6.3	9.9	2.0	6.0	-1.0
GDP Deflator Growth Rate	3.2	4.9	3.0	2.3	2.1	2.1	1.1	1.8	0.2
CPI (Composite) Inflation Rate	1.6	3.5	2.0	4.6	5.7	4.6	2.5	4.3	1.7
Unemployment Rate	4.0	3.4	4.0	3.4	3.3	3.4	4.0	3.5	4.8

Date of Forecast: December 29, 2008

High Frequency Macroeconomic Forecasts

APEC Study Center

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

	2008									2009		
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
Unit Value Trade Index (Domestic Exports)	4.7	4.9	5.5	6.2	6.2	6.7	6.1	6.2	6.0	4.3	3.9	4.0
Unit Value Trade Index (Imports of Foodstuffs)	7.1	7.5	7.7	8.4	9.2	8.8	8.9	8.4	8.1	8.2	7.2	7.1
Unit Value Trade Index (Imports of Consumer Goods)	3.4	4.0	5.0	5.9	6.7	5.6	5.9	6.5	6.5	6.9	6.0	7.1
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	3.5	3.4	4.7	4.9	4.0	4.1	4.2	3.7	5.0	3.8	4.3	3.3
Unit Value Trade Index (Imports of Fuels)	51.8	51.2	74.0	51.2	51.7	45.0	23.0	5.9	0.5	-1.3	3.6	-0.8
Unit Value Trade Index (Imports of Capital Goods)	1.7	1.1	1.0	2.0	1.8	1.7	2.0	2.1	1.7	2.2	2.2	2.3
Real Retained Imports of Foodstuffs	22.7	21.4	17.3	6.5	-0.9	12.4	18.1	9.9	12.0	7.2	6.8	3.7
Real Retained Imports of Consumer Goods	16.8	41.5	-6.8	29.4	-8.8	-0.7	29.8	-22.6	3.6	-18.8	-6.9	2.6
Real Retained Imports of Raw Materials & Semi-Manufactures	-14.7	-5.7	-19.3	-23.8	-15.4	-23.8	-6.5	-22.9	-22.8	0.6	-4.3	-8.7
Real Retained Imports of Fuels	-25.8	28.4	-12.9	21.7	-16.5	4.7	-13.9	-0.6	-14.4	14.2	-11.1	-11.6
Real Retained Imports of Capital Goods	-17.2	37.0	21.2	58.2	-0.4	12.9	11.8	-35.2	-3.6	-20.4	15.9	-6.6
Total Motor Vehicles Newly Registered	40.5	8.1	3.1	22.7	-2.3	30.6	-27.2	-16.4	-10.3	-18.7	-13.1	-11.6
Private Cars Newly Registered	38.7	7.0	-5.0	17.5	-13.5	19.0	-25.7	-20.9	-16.5	-17.5	-13.6	-15.1
Volume Index of Retail Sales	11.5	5.6	4.1	6.6	3.7	1.9	-4.3	-2.0	-4.1	-1.5	-6.4	-1.8
Money Supply (M2)	14.5	11.4	5.6	8.1	5.6	1.8	-6.1	-3.9	0.7	3.2	4.0	6.3
Loans and Advances	24.6	24.1	17.1	25.1	23.6	12.6	7.0	8.2	17.3	14.2	14.0	12.0
Visitors Arrivals	11.2	6.3	5.6	10.4	-2.9	3.5	-1.4	-1.1	-1.1	3.6	5.1	8.3
Hong Kong Resident Departures	-5.8	7.6	-0.9	1.1	-2.7	-3.5	-1.0	-0.8	-0.6	3.7	-1.4	-4.3
Electricity Consumption	1.6	-8.4	-14.8	-15.1	1.3	11.2	3.2	6.9	-1.2	-10.1	-3.2	-2.9
Gas Consumption	2.4	1.9	3.4	3.7	4.5	2.9	2.9	1.9	1.4	2.7	0.7	2.5

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