



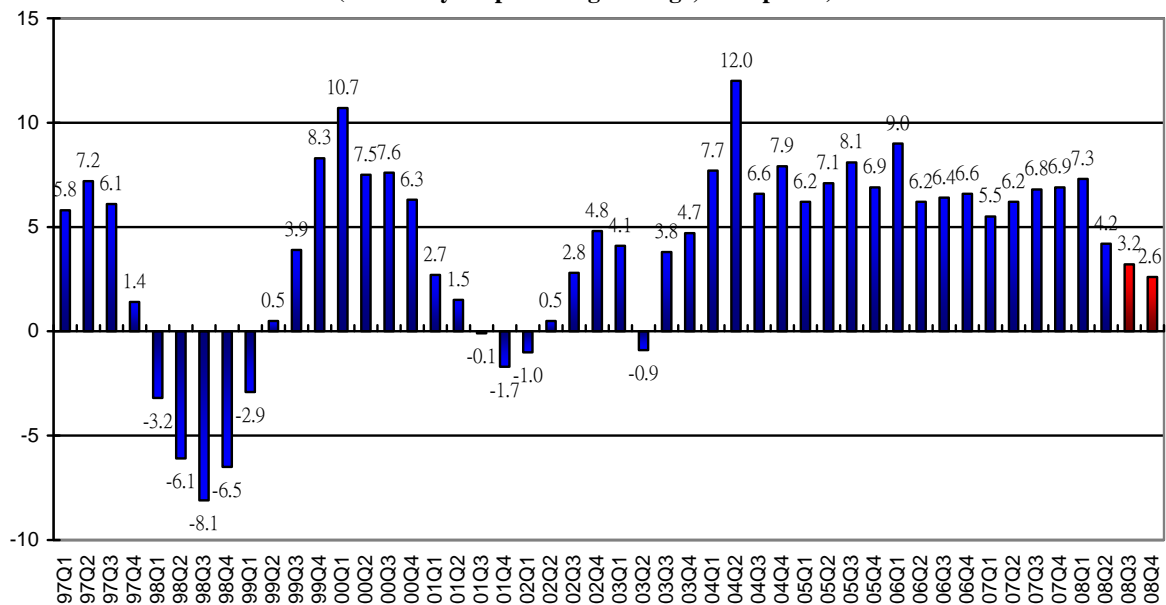
HKU Announced 2008 Q4 HK Macroeconomic Forecast

Economic Slowdown

The APEC Study Center of The University of Hong Kong (HKU) released its quarterly Hong Kong Macroeconomic Forecast today (October 8). According to its High Frequency Macroeconomic Forecast, real GDP growth in Q3 of 2008 is estimated to be 3.2% on a year-on-year basis. This growth estimate is a downward revision of the 5.3% forecast released on July 3, 2008 due to the steeper moderation in private consumption in Q2. In the fourth quarter of 2008, real GDP growth is forecast to moderate to 2.6% when compared with the same period last year.

Professor Richard Wong Yue-Chim, Professor of Economics at HKU, said that, "Clouded by the recent turmoil in the global credit market, and the weakening in global economic growth, Hong Kong's real GDP is expected to slow down to 2.9% in the second half of this year, dropping from the 5.8% growth in the first half. For the year as a whole, real GDP is forecast to grow by 4.2%. Private consumption and gross investment are the primary growth driver, accounting for 2.3 and 1.2 percentage points of the overall growth during 2008."

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



"The unemployment rate is expected to go up to 3.8% in the current quarter from the estimated 3.3% in the last quarter. Uncertainties in the global financial markets, weakening of external demand, volatile energy prices and significant drop in asset prices are dampening consumer confidence. Consumption growth is expected to slow down, thus moderating pressure on prices. Inflation rate is forecast to decelerate to 4.7% in the current quarter, down from the estimated 5.0% in the last quarter," according to Dr. Alan Siu, Director of the APEC Study Center at HKU.

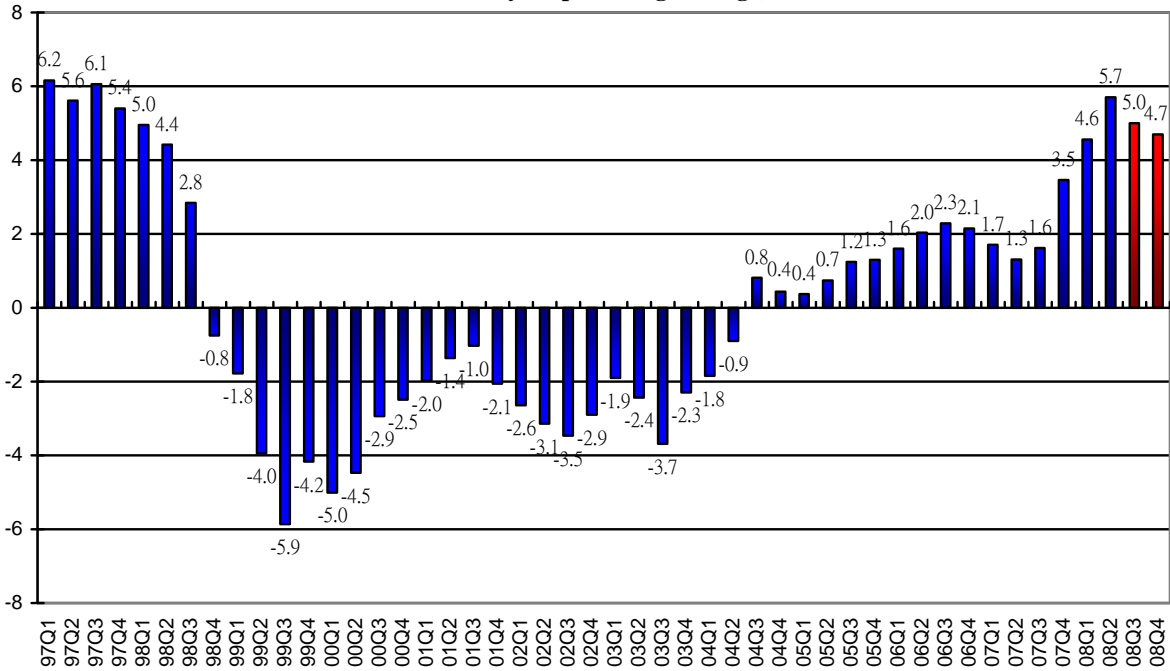
The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3. All growth rates reported are on a year-on-year basis.

Forecast Highlights

- Private consumption spending grew by 3.1% in Q2, sharply down from the 7.9% growth in Q1. This consumption growth slowdown is mainly due to the deceleration in real income growth. Confidence is hurt by falling asset prices. Private consumption expenditure is estimated to grow by 2.7% in Q3 and 2.4% in Q4. For the year as a whole, private consumption spending is forecast to grow by 3.9%, accounting for slightly more than half of the total GDP growth for the current year.
- The volume of retail sales growth in Q2 moderated to 7.0% when compared with 11.6% in Q1. With a cloudy economic outlook, the volume of retail sales growth is forecast to tune down further to 5.7% in Q3 and 4.0% in Q4 of 2008. For 2008 as a whole, it is projected to rise by 7.0%.
- Total exports of goods grew by 4.4% in Q2, down from the 8.3% growth in Q1. It is expected to continue to grow in the second half of 2008 but at a slower rate reflecting the slowdown in external demand. The growth in total exports of goods is estimated to be 3.3% in Q3 and 2.4% in Q4. For the year as a whole, total exports are projected to grow by 4.4% in 2008.
- Domestic exports declined by 22.3% in Q2. The contraction is projected to continue in the second half of 2008, dropping by 23.2% in Q3 and 24.9% in Q4. It is forecast to fall by 19.1% in 2008 for the year as a whole.

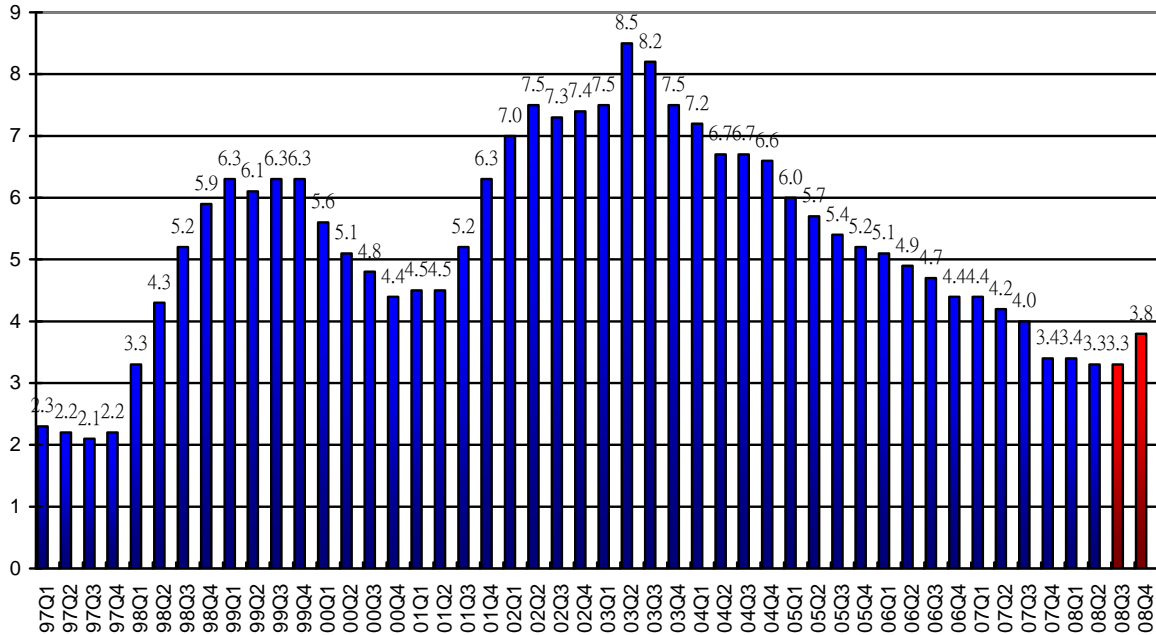
- The weakening of the global demand restrained the growth of re-exports to 5.6% in Q2, down from the 8.7% growth in Q1. Further moderation is expected given the global economic slowdown. The re-exports is estimated to grow by 4.5% in Q3 and 3.7% in Q4. For the year as a whole, it is projected to grow by 5.5%.
- Service exports grew by 7.1% in Q2. The number of visitor arrivals increased by 10.4% in July but decreased by 2.9% in August due to the Olympic Games effect. The service exports is expected to hold up well in the coming quarters. Service exports is forecast to expand by 6.1% and 6.6% in Q3 and Q4, respectively. The annual growth is estimated to be 7.4% in 2008.
- Concomitant to the slowdown in re-exports, the imports of goods grew by 4.9% in Q2, down from 8.4% in Q1. Reflecting a weakening in external and local demand, the growth of imports of goods is forecast to moderate to 4.8% in Q3 and 2.7% in the current quarter. The growth is projected to be 5.0% for 2008.
- Import of services increased by 2.6% in Q2. Service imports is forecast to grow by 1.1% and 2.7% in Q3 and Q4, respectively. It is estimated to grow by 3.9% in the whole year of 2008.
- Gross fixed capital formation rose by 4.3% in Q2 of 2008, slower than the 9.9% growth in Q1. Spending on capital goods is expected to hold up. Gross fixed capital formation is estimated to grow by 4.8% in Q3 and 3.4% in Q4 of 2008. The annual growth is estimated to be 5.5%.
- Investment in land and construction slowed down to 0.7% growth in Q2 of 2008, in which building and construction decreased by 1.7% but costs of ownership transfer rose by 14.1%. The investment in land and construction is forecast to rise by 2.5% in Q3 and by 1.6% in Q4 of 2008. The annual increase of 2008 is estimated to be 5.0%.
- Investment spending in machinery, equipment and computer software increased by 6.5% in Q2 of 2008. Clouded by dimmer economic outlook, it is expected to grow at a decelerated rate in the second half of this year. It is estimated to grow by 6.2% in Q3, 4.4% in Q4 and 5.8% for the year as a whole.

**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 5.7% in Q2, up from the 4.6% increase in Q1. The Composite CPI rose by 4.6% in August amid the government waivers. If there were no waivers, the measured inflation rate would be 6.3% in August. Given weaker demand and uncertain economic outlook, inflationary pressure is moderating with underlying inflation rate estimated to be 6.1% in Q3 and drop to 5.8% in Q4. Taking the government's relief measures, the headline inflation rate is estimated to be 5.0% in Q3 and 4.7% in Q4. For the year as a whole, inflation is expected to be 5.0%.

**Unemployment Rate
(Seasonally adjusted)**



- The provisional seasonally adjusted unemployment rate stood at 3.2% in the three months average ending in August 2008. Nominal wage recorded a broad-based increase in the Q2 of 3.9%. Economic slowdown in the current quarter brings up the unemployment level. The unemployment rate is forecast to be 3.3% in Q3 of 2008, and is projected to go up to 3.8% in the current quarter. For the year of 2008 as a whole, unemployment rate is expected to be 3.4% on average.

Concluding Remarks

The continued economic expansion of the Hong Kong economy in the past four years will be arrested by the current turmoil in the global financial markets. Real GDP is estimated to grow below its trend growth rate in Q4 at 2.6%, with the unemployment rate rising to 3.8%. Inflationary pressure is easing but still at elevated level when compared with last year. Further monetary easing can be expected by year-end. Lower interest rates will provide some support to demand, but the global economic environment is expected to remain weak in the medium term.

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 marco 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 Denise Wong, Manager (Media), External Relations Office, HKU (Tel: 2859 2600 / 9842 6002).

October 8, 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				
	Q3	Q4	Annual	Q1	Q2	Q3 (forecast)	Q4 (forecast)	Annual (forecast)
Gross Domestic Product	404,872	423,506	1,569,890	396,716	387,676	417,671	434,342	1,636,405
Private Consumption Expenditure	233,333	248,505	932,093	235,030	239,688	239,657	254,409	968,785
Government Consumption Expenditure	30,794	31,715	125,866	34,093	30,383	32,218	33,166	129,860
Total Export of Goods	705,205	709,653	2,640,709	628,050	674,213	728,731	726,985	2,757,979
Domestic Export of Goods	29,898	30,235	111,992	22,306	22,636	22,969	22,695	90,606
Re-export of Goods	675,307	679,418	2,528,717	605,744	651,577	705,762	704,290	2,667,373
Import of Goods	736,184	755,616	2,803,542	669,526	728,311	771,337	775,699	2,944,873
Export of Services	169,658	173,845	635,673	161,803	155,751	180,042	185,401	682,997
Import of Services	83,031	82,114	312,394	78,980	77,497	83,948	84,296	324,721
Gross Fixed Capital Formation	83,425	89,503	335,777	85,511	88,689	87,436	92,547	354,182
GFCF in Land & Construction	31,533	33,117	129,228	36,732	32,981	32,325	33,658	135,696
GFCF in Mach., Equip. & Comp. Soft.	51,892	56,386	206,549	48,779	55,708	55,111	58,888	218,486
Changes in Inventories	1,672	8,015	15,708	735	4,760	4,872	1,828	12,195
Date of Forecast: October 3, 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				
	Q3	Q4	Annual	Q1	Q2	Q3 (forecast)	Q4 (forecast)	Annual (forecast)
Gross Domestic Product	6.8	6.9	6.4	7.3	4.2	3.2	2.6	4.2
Private Consumption Expenditure	10.6	9.5	7.8	7.9	3.1	2.7	2.4	3.9
Government Consumption Expenditure	1.5	2.3	2.3	0.3	3.5	4.6	4.6	3.2
Total Export of Goods	6.2	5.7	7.0	8.3	4.4	3.3	2.4	4.4
Domestic Export of Goods	-23.0	-0.1	-19.3	-1.9	-22.3	-23.2	-24.9	-19.1
Re-export of Goods	8.0	6.0	8.6	8.7	5.6	4.5	3.7	5.5
Import of Goods	8.1	8.5	8.8	8.4	4.9	4.8	2.7	5.0
Export of Services	13.7	13.1	12.5	10.2	7.1	6.1	6.6	7.4
Import of Services	8.7	9.7	8.5	10.1	2.6	1.1	2.7	3.9
Gross Fixed Capital Formation	-0.4	8.3	4.2	9.9	4.3	4.8	3.4	5.5
GFCF in Land & Construction	3.7	7.8	5.3	15.4	0.7	2.5	1.6	5.0
GFCF in Machinery, Equip. & Computer Software	-2.7	8.5	3.5	6.1	6.5	6.2	4.4	5.8
GDP Deflator Growth Rate	3.2	4.9	3.0	2.3	2.0	1.6	1.0	1.7
CPI (Composite) Inflation Rate	1.6	3.5	2.0	4.6	5.7	5.0	4.7	5.0
Unemployment Rate	4.0	3.4	4.0	3.4	3.3	3.3	3.8	3.4
Date of Forecast: October 3, 2008								

High Frequency Macroeconomic Forecasts

APEC Study Center

The University of Hong Kong

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

	2008											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Unit Value Trade Index (Domestic Exports)	2.9	3.4	3.7	4.7	4.9	5.5	6.2	6.5	6.8	6.6	6.9	6.8
Unit Value Trade Index (Imports of Foodstuffs)	6.0	6.8	7.0	7.1	7.5	7.7	8.4	8.7	8.4	8.2	7.5	7.1
Unit Value Trade Index (Imports of Consumer Goods)	3.9	4.2	3.1	3.4	4.0	5.0	5.9	6.6	6.0	6.5	7.3	7.5
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	1.3	1.8	3.6	3.5	3.4	4.7	4.9	4.1	4.7	5.0	4.6	6.0
Unit Value Trade Index (Imports of Fuels)	49.7	39.2	36.3	51.8	51.2	74.0	51.2	47.2	52.7	49.2	33.5	28.7
Unit Value Trade Index (Imports of Capital Goods)	1.5	1.5	1.2	1.7	1.1	1.0	2.0	2.3	1.9	2.1	2.2	1.9
Real Retained Imports of Foodstuffs	4.3	16.1	16.9	22.7	21.4	17.3	6.5	8.2	20.2	15.1	14.5	14.8
Real Retained Imports of Consumer Goods	46.4	109.6	1.1	16.8	41.5	-6.8	29.4	10.0	14.6	12.0	2.9	14.9
Real Retained Imports of Raw Materials & Semi-Manufactures	-13.3	0.5	-5.9	-14.7	-5.7	-19.3	-23.8	-11.8	-16.4	-15.3	-13.7	-21.0
Real Retained Imports of Fuels	-26.4	-0.9	-4.0	-25.8	28.4	-12.9	21.7	11.7	29.6	-12.7	15.6	-10.3
Real Retained Imports of Capital Goods	26.7	6.4	-4.3	-17.2	37.0	21.2	58.2	12.8	23.4	22.0	1.8	15.5
Total Motor Vehicles Newly Registered	34.4	57.2	38.5	40.5	8.1	3.1	22.7	14.8	29.1	7.8	3.0	9.7
Private Cars Newly Registered	35.5	73.2	52.1	38.7	7.0	-5.0	17.5	10.1	30.7	6.8	0.7	6.2
Volume Index of Retail Sales	17.6	4.4	13.0	11.5	5.6	4.1	6.6	3.8	5.2	4.6	3.5	2.4
Money Supply (M2)	17.0	13.7	13.5	14.5	11.4	5.6	8.1	5.6	0.0	-6.5	-4.6	0.2
Loans and Advances	19.8	15.3	18.7	24.6	24.1	17.1	25.1	23.6	13.2	8.9	10.1	19.5
Visitors Arrivals	16.2	2.9	11.2	11.2	6.3	5.6	10.4	-2.9	2.7	4.2	7.2	5.2
Hong Kong Resident Departures	8.5	5.9	16.0	-5.8	7.6	-0.9	1.1	-2.7	-2.6	1.7	0.3	0.2
Electricity Consumption	13.4	11.5	-1.5	1.6	-8.4	-14.8	-15.1	1.3	3.0	1.5	4.3	-3.4
Gas Consumption	0.4	2.4	1.7	2.4	1.9	3.4	3.7	4.5	4.9	3.7	2.8	2.3

Date of Forecast: October 3, 2008