



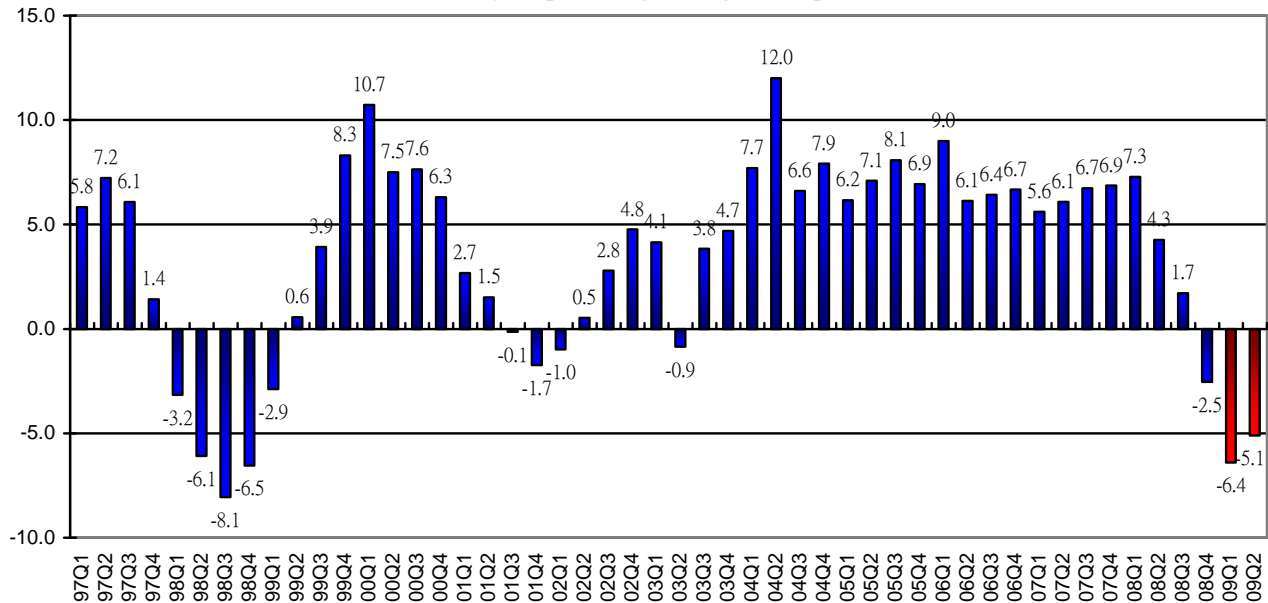
*For Immediate Release*

## HKU Announced 2009 Q2 HK Macroeconomic Forecast

### Bracing for Deep Recession

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, real GDP in the 09Q1 is estimated to fall by 6.4% when compared with the same period last year. Reflecting the sharp fall in global economic growth induced by the financial tsunami, this growth estimate is a downward revision from the -2.6% forecast released on January 7, 2009.

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



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "Hong Kong's real GDP started to fall in the final quarter of last year, and the downward adjustment is expected to continue. In the current quarter, Hong Kong's real GDP is forecast to shrink by 5.1% on a year-on-year basis. The contraction in output is due to the sharp fall in both external and domestic demand. In the current quarter, real GDP is estimated to be 10.2% below the potential output, and the cumulative output loss since 08Q4 is estimated to be 111 billion in 2006 prices which is 6.9% of the real GDP in 2008."

"Inflationary pressures are arrested by the sharp economic downturn. The headline inflation rate is projected to decelerate from 1.7% in 09Q1 to 0.3% in the current quarter. The continued weakness of both external and domestic demand will weigh down the labour market further, with the unemployment rate forecast to increase to 6.0% in the current quarter. Comparing with the end of 2008, the number of jobless workers is estimated to increase by 80,000 persons by June this year," according to Dr. Alan Siu, Director of the APEC Study Center at HKU.

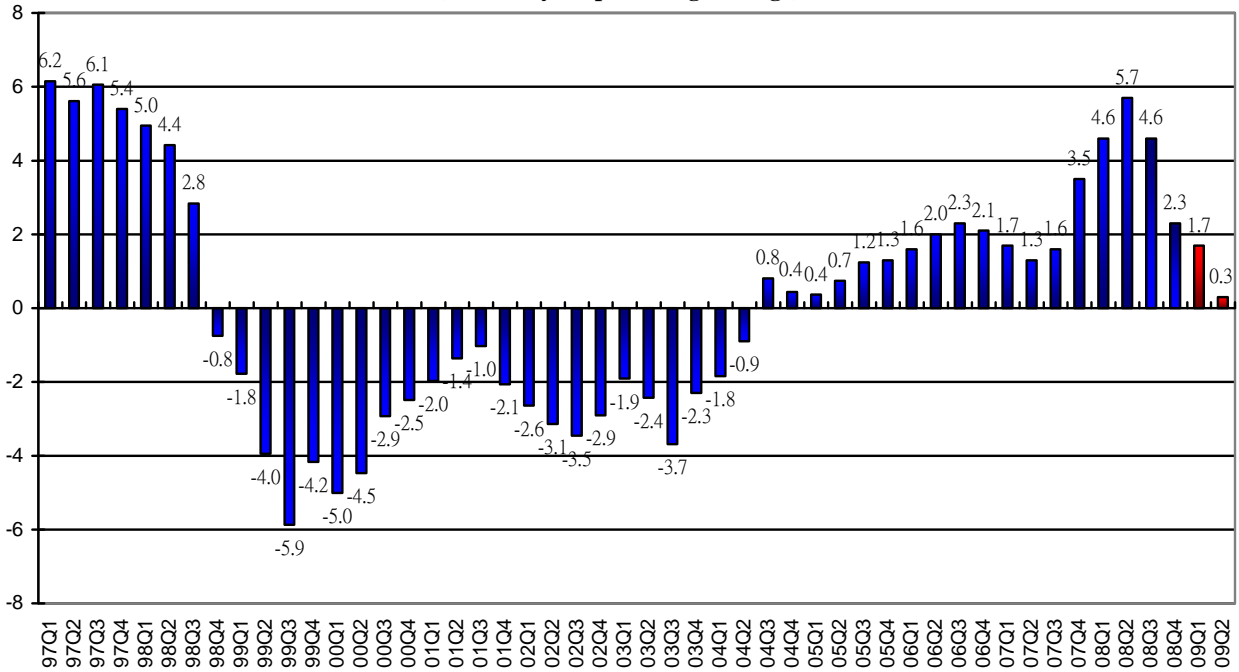
The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3. All growth rates reported are on a year-on-year basis.

## **Forecast Highlights**

- As the global financial tsunami swept into the region, private consumption spending contracted by 3.2% in the final quarter of last year. The sharp drop in retirement savings, coupled with the continued deterioration in the labour market, have raised the propensity to save among Hong Kong households. Private consumption spending is forecast to fall by 4.4% in 09Q1 and 3.6% in 09Q2.
- The volume of retail sales increased by 5.4% in January 2009. Despite the global economic turmoil, the influx of Mainland visitors provided support for the growth of the retail sector. However, domestic demand is weakening given the economic downturn. The volume of retail sales is forecast to fall by 0.1% in 09Q1 and to shrink further by 1.5% in the current quarter.

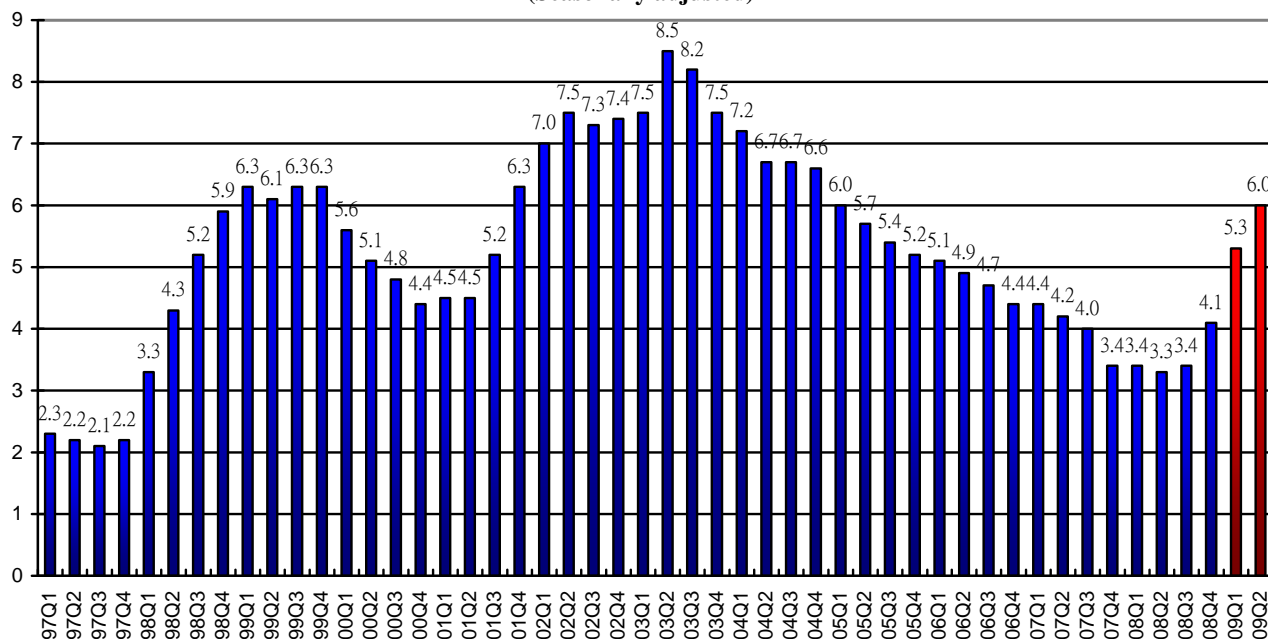
- In real terms, total exports of goods shrank by 4.9% in 08Q4. The sharp reduction in the external demand is reflected by the 23.0% decline in nominal exports in Feb 2009. The total exports of goods in real terms is estimated to decrease by 24.5% in 09Q1, and is forecast to continue to fall at a lower rate in the current quarter by 21.1%. The 24.5% fall in total exports in Q1 set a historical record, beating the previous drop of 18.0% in 74Q4.
- Imports of goods dropped by 6.4% in 08Q4. Concomitant with the sharp decline in the exports of goods, the imports of goods is forecast to decrease by 23.4% and 21.0% in 09Q1 and 09Q2 respectively.
- Service exports fell by 0.2% in 08Q4. The fall in visible trade also dragged down the trade related service. Service exports is forecast to drop by 9.0% and 5.8% in 09Q1 and 09Q2 respectively.
- Service imports contracted by 2.5% in 08Q4. Service imports is forecast to shrink by 5.0% and 5.2% in 09Q1 and 09Q2 respectively.
- The trade balance, as measured by the net exports of goods and services, is estimated to be 14.7% of GDP in the 08Q4, and forecast to be 9.2% of GDP in 09Q1, and 8.1% of GDP in the current quarter.
- Gross fixed capital formation fell by 17.3% in 08Q4. Clouded by an uncertain business outlook, gross investment is projected to fall by 13.6% in 09Q1 and 15.7% in 09Q2.
- Investment in land and construction dropped by 15.1% in 08Q4, and is projected to fall further by 16.2% in 09Q1 and by 17.2% in 09Q2.
- Investment spending in machinery, equipment and computer software contracted by 18.7% in the 08Q4. Given weak global economic growth and the credit crunch, investment spending in machinery, equipment and computer software is estimated to decrease by 11.6% in 09Q1 and by 14.8% 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 0.8% in February 2009, with decelerated increases in food prices and private rental. If there were no fiscal measures, the inflation rate would have been 2.1%. Inflationary pressure will diminish further as the recession deepens. Headline consumer inflation rate is forecast to decelerate from 2.3% in 08Q4 to 1.7% in 09Q1 and 0.3% in 09Q2.

### Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate picked up from 4.3% in the 3 months ending in Jan 2009 to 5.0% in the 3 months ending in Feb 2009. The labour market will deteriorate further, with the unemployment rate forecast to be 5.3% in 09Q1 and to rise further to 6.0% in the current quarter. The number of unemployed workers is estimated to rise from 195,000 in 09Q1 to 221,000 in 09Q2.

### Concluding Remarks

Being a small and open economy dependent on trade and financial services, Hong Kong cannot possibly escaped from being battered by the financial crisis which has severely dampened global activity. Hong Kong's economy is forecast to contract by 5.8% in the first half of this year, with real GDP estimated to be falling by 6.4% and 5.1% in the first and second quarter respectively. This is in sharp downturn from the 5.8% real GDP growth recorded in the first half of last year. Despite all the massive fiscal stimuli and accommodating monetary policies, the global economic environment will remain weak, with the IMF predicting the contraction in 2009 for the first time in 60 years. However, Hong Kong's external trade is expected to stabilize in the coming months due to inventory rebuilding in the developed economies. For the whole year of 2009, the Hong Kong economy is projected to shrink by 3%, following the 2.5% growth last year.

## **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 Trinni Choy, Assistant Director of External Relations (Tel: 2859 2606/Email: [pychoy@hku.hk](mailto:pychoy@hku.hk)) or Ms. Joanne Yung, Manager (Media), External Relations Office, HKU (Tel: 2859 2600 / Email: [hkumedia@hku.hk](mailto:hkumedia@hku.hk)).

April 2, 2009

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

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

	2008					2009	
	Q1	Q2	Q3	Q4	Annual	Q1 (forecast)	Q2 (forecast)
Gross Domestic Product	396,725	386,968	411,485	412,735	1,607,913	371,138	367,063
Private Consumption Expenditure	235,845	242,300	234,589	240,974	953,708	225,582	233,600
Government Consumption Expenditure	34,246	30,510	31,656	32,851	129,263	35,273	31,425
Total Export of Goods	628,050	674,213	715,205	675,174	2,692,642	474,295	532,037
Domestic Export of Goods	22,306	22,636	23,086	20,690	88,718	12,401	14,000
Re-export of Goods	605,744	651,577	692,119	654,484	2,603,924	461,894	518,038
Import of Goods	669,526	728,311	752,528	707,389	2,857,754	512,674	575,021
Export of Services	166,779	157,605	180,972	175,071	680,427	151,843	148,507
Import of Services	83,556	80,140	87,068	82,147	332,911	79,385	75,934
Gross Fixed Capital Formation	85,244	87,991	85,687	73,925	332,847	73,680	74,184
GFCF in Land & Construction	36,539	32,959	28,531	28,099	126,128	30,632	27,280
GFCF in Mach., Equip. & Comp. Soft.	48,705	55,032	57,156	45,826	206,719	43,049	46,904
Changes in Inventories	-357	2,800	2,972	4,276	9,691	2,523	-1,736

Date of Forecast: March 26, 2009

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

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

	2008					2009	
	Q1	Q2	Q3	Q4	Annual	Q1 (Forecast)	Q2 (Forecast)
Gross Domestic Product	7.3	4.3	1.7	-2.5	2.5	-6.4	-5.1
Private Consumption Expenditure	7.6	3.5	0.0	-3.2	1.8	-4.4	-3.6
Government Consumption Expenditure	0.6	3.2	2.0	2.6	2.0	3.0	3.0
Total Export of Goods	8.3	4.4	1.4	-4.9	2.0	-24.5	-21.1
Domestic Export of Goods	-1.9	-22.3	-22.8	-31.6	-20.8	-44.4	-38.2
Re-export of Goods	8.7	5.6	2.5	-3.7	3.0	-23.7	-20.5
Import of Goods	8.4	4.9	2.2	-6.4	1.9	-23.4	-21.0
Export of Services	10.2	8.2	5.1	-0.2	5.6	-9.0	-5.8
Import of Services	10.2	3.8	1.9	-2.5	3.2	-5.0	-5.2
Gross Fixed Capital Formation	10.1	4.9	3.2	-17.3	-0.3	-13.6	-15.7
GFCF in Land & Construction	16.2	1.7	-8.9	-15.1	-1.7	-16.2	-17.2
GFCF in Machinery, Equip. & Computer Software	5.9	6.9	10.6	-18.7	0.6	-11.6	-14.8
GDP Deflator Growth Rate	2.5	1.9	1.8	-0.1	1.4	-0.8	-1.2
CPI (Composite) Inflation Rate	4.6	5.7	4.6	2.3	4.3	1.7	0.3
Unemployment Rate	3.4	3.3	3.4	4.1	3.6	5.3	6.0
Date of Forecast: March 26, 2009							



# High Frequency Macroeconomic Forecasts

## APEC Study Center

### The University of Hong Kong

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

	2008						2009					
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Unit Value Trade Index (Domestic Exports)	6.2	6.2	6.7	6.1	6.3	6.1	3.4	2.8	2.7	1.9	1.5	0.9
Unit Value Trade Index (Imports of Foodstuffs)	8.4	9.2	8.8	8.9	7.3	6.1	5.0	3.5	2.8	2.1	1.8	0.7
Unit Value Trade Index (Imports of Consumer Goods)	5.9	6.7	5.6	5.9	6.0	4.9	4.3	3.2	4.1	4.2	3.2	2.7
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	4.9	4.0	4.1	4.2	3.3	4.4	3.5	3.4	2.4	2.0	2.0	0.6
Unit Value Trade Index (Imports of Fuels)	51.2	51.7	45.0	23.0	-14.1	-30.5	-37.6	-33.0	-34.2	-41.2	-43.8	-47.3
Unit Value Trade Index (Imports of Capital Goods)	2.0	1.8	1.7	2.0	1.9	2.2	1.6	1.1	1.3	1.1	1.1	1.7
Real Retained Imports of Foodstuffs	6.1	-1.0	12.4	18.0	10.5	7.5	-12.0	0.9	-2.8	-7.4	-5.3	-8.8
Real Retained Imports of Consumer Goods	30.0	-8.9	-0.8	30.7	-23.5	-14.4	-73.3	-26.4	-37.6	-32.5	-43.3	-26.6
Real Retained Imports of Raw Materials & Semi-Manufactures	-23.1	-15.2	-23.4	-6.2	-22.0	-61.9	-65.2	-56.6	-60.1	-57.1	-60.8	-59.1
Real Retained Imports of Fuels	21.7	-16.5	4.7	-13.9	22.5	-14.1	29.1	-8.4	-7.4	19.8	-10.9	13.2
Real Retained Imports of Capital Goods	56.8	-0.3	12.7	12.0	-32.4	-20.6	-35.3	2.8	-18.3	-11.9	-26.9	-24.9
Total Motor Vehicles Newly Registered	22.7	-2.3	30.6	-27.2	-55.0	-26.8	-49.1	-42.5	-40.8	-50.2	-41.4	-42.1
Private Cars Newly Registered	17.5	-13.5	19.0	-25.7	-55.2	-25.0	-46.4	-37.3	-38.3	-44.6	-34.7	-33.1
Volume Index of Retail Sales	6.4	3.9	2.0	-4.2	-2.6	-0.5	5.4	-6.0	-0.4	-1.3	-1.3	-2.1
Money Supply (M2)	8.1	5.6	1.8	-6.1	-3.6	2.7	3.2	3.2	4.9	6.1	8.1	9.9
Loans and Advances	25.1	23.6	12.6	6.4	4.9	10.9	6.8	6.2	3.9	2.5	1.5	-0.6
Visitors Arrivals	10.4	-2.9	3.5	-1.4	-1.1	-0.2	11.0	12.3	13.3	7.8	6.2	11.8
Hong Kong Resident Departures	1.1	-2.7	-3.5	-1.0	-0.8	-2.7	8.1	-8.4	-5.5	5.8	-1.9	4.1
Electricity Consumption	-15.1	1.3	11.2	3.2	6.9	-5.5	-18.3	0.2	-7.6	-2.7	1.8	5.2
Gas Consumption	3.7	4.5	2.9	2.9	1.9	-3.2	0.3	-2.8	-0.7	-1.5	-2.3	-1.8

Date of Forecast: March 26, 2009