

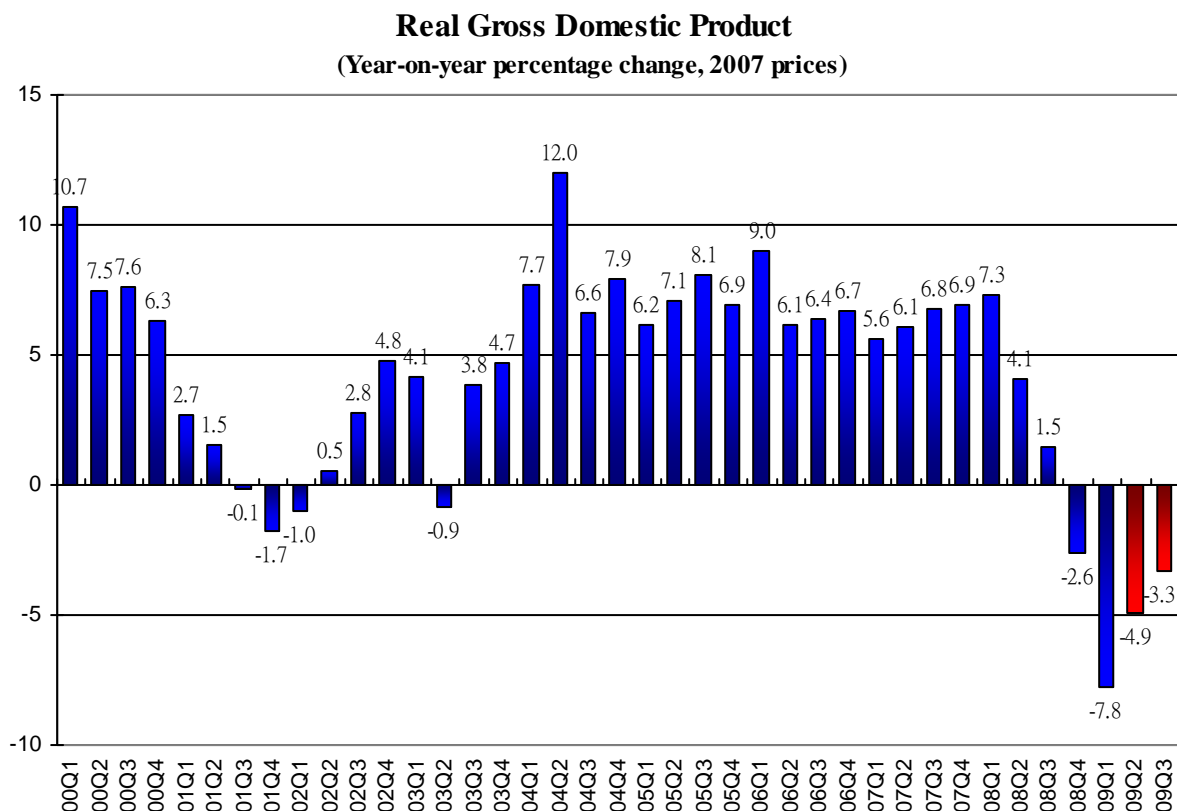


*For Immediate Release*

## HKU Announced 2009 Q3 HK Macroeconomic Forecast

### Recession Continues

The APEC Study Center of the University of Hong Kong (HKU) released its quarterly Hong Kong Macroeconomic Forecast today (July 8). According to its High Frequency Macroeconomic Forecast, real GDP in 09Q2 is estimated to fall by 4.9% when compared with the same period last year. This estimate is a slight upward revision from the previous forecast of 5.1% drop released on April 2, 2009.



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "Compared with the sharp drop of 7.8% in the first quarter, the rate of contraction in Hong Kong's real GDP decelerated in the second quarter is mainly due to rebounding stock and property prices, as well as a pickup in export orders. The fear of a free fall in the global economy has been abated. But Hong Kong's economy is still projected to continue to shrink, albeit at a decelerating rate, with real GDP projected to fall by 3.3% year-on-year in the third quarter. The contraction is broad-based but the drop is restricted from the previous quarter to reflect some stabilization from the global financial tsunami final quarter last year."

"The sharp economic downturn drags down prices. The headline inflation rate is expected to be around zero in 09Q2 and in the current quarter. Deflationary forces are getting stronger with the implicit GDP deflator estimated to be falling by 0.4% and 1.3% in the last and current quarter respectively. The labour market is projected to remain weak, with the unemployment rate forecast to increase to 5.9% in the current quarter. Comparing with the 09Q2, 17,000 jobs are forecast to be lost in the current quarter bringing the number of unemployed workers to 220,000," according to Dr. Alan Siu, Director of the APEC Study Center at HKU.

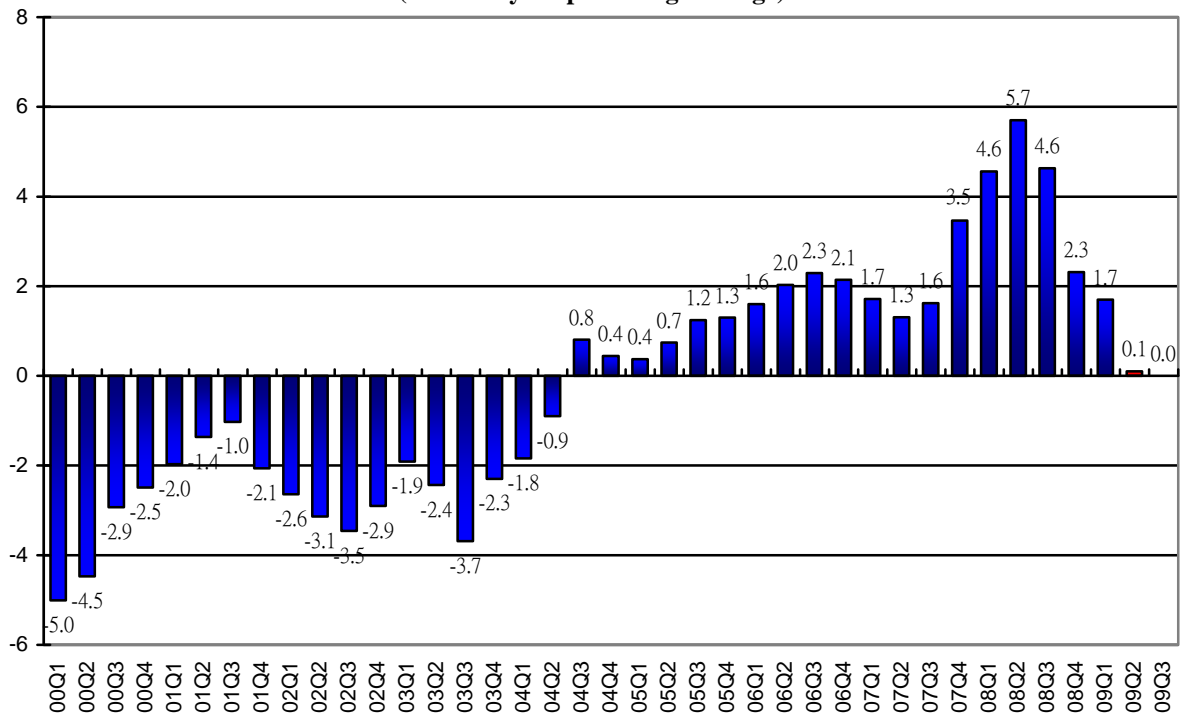
The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3. All growth rates reported are on a year-on-year basis.

## **Forecast Highlights**

- As the global financial crisis deepened, private consumption spending contracted by 5.5% in 09Q1 which is worse than the 4.1% decline in 08Q4. The fall is estimated to be 5.8% in 09Q2, and projected to drop by 4.8% in 09Q3. The deceleration in the fall of private consumption spending is due to the rebounding stock and property markets, as well as a more positive economic outlook.
- The volume of retail sales fell by 6.4% in May 2009. Given the weakness in the labour market, consumer sentiment will remain poor. The swine flu will continue to drag down visitor arrivals and hurt retail sales. The volume of retail sales is forecast to fall by 6.3% in 09Q2 and to shrink further by 7.3% in the current quarter.

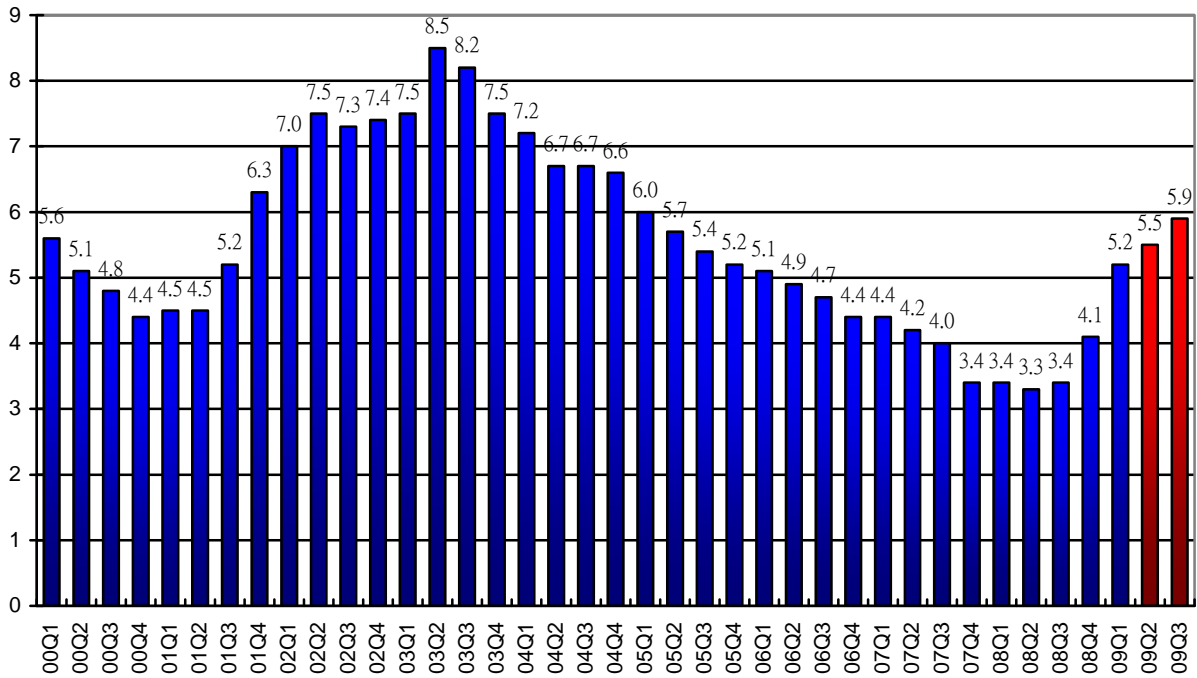
- Total exports of goods shrank by 22.7% in real terms in 09Q1. There are signs of stabilization with a pickup in export orders driven by inventory rebuilding. The total exports of goods in real terms is estimated to fall by 14.6% in 09Q2, and is forecast to continue to fall at a lower rate in the current quarter by 13.6%.
- Imports of goods dropped by 21.4% in 09Q1. Concomitant with the decline in the exports of goods, the imports of goods is forecast to decrease by 15.0% and 14.2% in 09Q2 and 09Q3 respectively.
- Service exports fell by 8.2% in 09Q1. The fall in visible trade also dragged down trade related service. Service exports is forecast to drop by 5.4% and 3.1% in 09Q2 and 09Q3 respectively.
- Service imports contracted by 10.9% in 09Q1. Service imports is forecast to shrink by 9.0% and 8.2% in 09Q2 and 09Q3 respectively.
- Gross fixed capital formation fell by 12.6% in 09Q1. Clouded by an uncertain business outlook, gross investment is projected to fall by 10.8% in 09Q2 and 10.1% in 09Q3.
- Investment in land and construction dropped by 19.5% in 09Q1, and is projected to fall by 12.0% in 09Q2 and by 11.5% in 09Q3.
- Investment spending in machinery, equipment and computer software contracted by 6.6% in the 09Q1. Given weak global economic growth, investment spending in machinery, equipment and computer software is estimated to decrease by 10.0% in 09Q2 and by 9.3% 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 0.1% in May 2009. The double-digit increase in food prices has been arrested by the fall in domestic demand. Compared with the 11.2% increase in May 2008, food prices went up only by 1.9% in May this year. If there were no fiscal measures, the inflation rate would have been 1.3%. Hong Kong is entering a deflationary cycle, with headline consumer inflation rate forecast to decelerate from 1.7% in 09Q1 to 0.1% in 09Q2 and 0.0% in 09Q3.

### Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate stood at 5.3% in the 3 months ending in May 2009. The median duration of unemployment rose from 67 days in 08Q4 to 72 days in 09Q1, reflecting the scarcity of jobs. The labour market is expected to deteriorate further, with the unemployment rate forecast to be 5.5% in 09Q2 and to rise further to 5.9% in the current quarter. The number of unemployed workers is estimated to rise from 203,000 in 09Q2 to 220,000 in 09Q3.

### Concluding Remarks

Given the massive quantitative easing and the huge fiscal stimuli around the world, the free fall of the global economy has been averted. Despite positive signs of stabilization, the Hong Kong economy is projected to continue to contract, falling by 5% for the year as a whole. Deflationary pressures are building up. Falling prices and wages are not favorable to economic recovery. The labour market will remain weak for the rest of the year with unemployment rate at 6.2% by year end.

## **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 (Media) (Tel: 2859 2606/Email: [pychoy@hku.hk](mailto:pychoy@hku.hk)), Communications & Public Affairs Office, HKU.

July 8, 2009

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

Table 1: Current Quarter Model Forecast  
(Million of 2007 Dollar)

|                                     | 2008    |         |         |         |           | 2009    |                  |                  |
|-------------------------------------|---------|---------|---------|---------|-----------|---------|------------------|------------------|
|                                     | Q1      | Q2      | Q3      | Q4      | Annual    | Q1      | Q2<br>(forecast) | Q3<br>(forecast) |
| Gross Domestic Product              | 408,454 | 397,847 | 422,809 | 424,526 | 1,653,636 | 376,633 | 378,420          | 408,686          |
| Private Consumption Expenditure     | 245,649 | 250,010 | 243,017 | 247,641 | 986,317   | 232,025 | 235,619          | 231,378          |
| Government Consumption Expenditure  | 35,249  | 31,395  | 32,460  | 33,565  | 132,669   | 35,775  | 32,337           | 33,434           |
| Total Export of Goods               | 642,147 | 688,919 | 730,366 | 689,708 | 2,751,140 | 496,477 | 588,009          | 630,725          |
| Domestic Export of Goods            | 23,773  | 24,002  | 24,477  | 22,446  | 94,698    | 16,673  | 16,225           | 18,227           |
| Re-export of Goods                  | 618,374 | 664,917 | 705,889 | 667,262 | 2,656,442 | 479,804 | 571,784          | 612,498          |
| Import of Goods                     | 680,811 | 740,692 | 764,196 | 719,265 | 2,904,964 | 535,271 | 629,384          | 655,761          |
| Export of Services                  | 170,774 | 161,879 | 184,952 | 180,536 | 698,141   | 156,749 | 153,059          | 179,296          |
| Import of Services                  | 86,761  | 82,560  | 89,958  | 83,781  | 343,060   | 77,309  | 75,104           | 82,607           |
| Gross Fixed Capital Formation       | 82,963  | 85,953  | 83,276  | 71,628  | 323,820   | 72,501  | 76,676           | 74,876           |
| GFCF in Land & Construction         | 38,862  | 35,087  | 30,616  | 30,708  | 135,273   | 31,303  | 30,889           | 27,102           |
| GFCF in Mach., Equip. & Comp. Soft. | 44,101  | 50,866  | 52,660  | 40,920  | 188,547   | 41,198  | 45,787           | 47,774           |
| Changes in Inventories              | -756    | 2,943   | 2,892   | 4,494   | 9,573     | -4,314  | -2,792           | -2,655           |

Date of Forecast: July 3, 2009

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

|   | 2008 |       |       |       |        | 2009  |                  |                  |
|---|------|-------|-------|-------|--------|-------|------------------|------------------|
|   | Q1   | Q2    | Q3    | Q4    | Annual | Q1    | Q2<br>(Forecast) | Q3<br>(Forecast) |
| Gross Domestic Product                        | 7.3  | 4.1   | 1.5   | -2.6  | 2.4    | -7.8  | -4.9             | -3.3             |
| Private Consumption Expenditure               | 8.0  | 3.0   | -0.2  | -4.1  | 1.5    | -5.5  | -5.8             | -4.8             |
| Government Consumption Expenditure            | 0.6  | 3.1   | 1.6   | 1.8   | 1.7    | 1.5   | 3.0              | 3.0              |
| Total Export of Goods                         | 8.3  | 4.4   | 1.3   | -4.9  | 1.9    | -22.7 | -14.6            | -13.6            |
| Domestic Export of Goods                      | -0.1 | -21.3 | -21.8 | -29.1 | -19.2  | -29.9 | -32.4            | -25.5            |
| Re-export of Goods                            | 8.7  | 5.6   | 2.4   | -3.8  | 2.9    | -22.4 | -14.0            | -13.2            |
| Import of Goods                               | 8.4  | 4.8   | 2.0   | -6.4  | 1.8    | -21.4 | -15.0            | -14.2            |
| Export of Services                            | 10.1 | 8.4   | 4.8   | 0.4   | 5.7    | -8.2  | -5.4             | -3.1             |
| Import of Services                            | 11.2 | 3.8   | 2.2   | -3.4  | 3.3    | -10.9 | -9.0             | -8.2             |
| Gross Fixed Capital Formation                 | 9.6  | 5.1   | 3.0   | -17.7 | -0.5   | -12.6 | -10.8            | -10.1            |
| GFCF in Land & Construction                   | 16.4 | 2.0   | -8.1  | -12.8 | -0.7   | -19.5 | -12.0            | -11.5            |
| GFCF in Machinery, Equip. & Computer Software | 4.3  | 7.4   | 10.7  | -21.1 | -0.3   | -6.6  | -10.0            | -9.3             |
|   |      |       |       |       |        |       |                  |                  |
| GDP Deflator Growth Rate                      | 2.2  | 1.9   | 2.0   | -0.3  | 1.4    | 0.5   | -0.4             | -1.3             |
| CPI (Composite) Inflation Rate                | 4.6  | 5.7   | 4.6   | 2.3   | 4.3    | 1.7   | 0.1              | 0.0              |
|   |      |       |       |       |        |       |                  |                  |
| Unemployment Rate                             | 3.4  | 3.3   | 3.4   | 4.1   | 3.6    | 5.2   | 5.5              | 5.9              |

Date of Forecast: July 3, 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  |       |       |       |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|   | OCT   | NOV   | DEC   | JAN   | FEB   | MAR   | APR   | MAY   | JUN   | JUL   | AUG   | SEP   |
| Unit Value Trade Index (Domestic Exports)                             | 6.1   | 6.3   | 6.1   | 3.4   | 2.6   | 1.4   | 0.6   | 0.0   | -0.7  | -1.5  | -1.7  | -2.1  |
| Unit Value Trade Index (Imports of Foodstuffs)                        | 8.9   | 7.3   | 6.1   | 5.0   | 3.4   | 2.5   | 2.6   | 2.3   | 1.3   | 0.4   | -0.4  | -0.7  |
| Unit Value Trade Index (Imports of Consumer Goods)                    | 5.9   | 6.0   | 4.9   | 4.3   | 2.0   | 2.2   | 1.6   | 0.3   | -0.2  | -1.3  | -1.5  | -1.6  |
| Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures) | 4.2   | 3.3   | 4.4   | 3.5   | 3.4   | 1.4   | 0.6   | 0.3   | -1.3  | -1.8  | -1.9  | -1.9  |
| Unit Value Trade Index (Imports of Fuels)                             | 23.0  | -14.1 | -30.5 | -37.6 | -35.9 | -42.4 | -45.0 | -46.3 | -49.1 | -41.1 | -44.2 | -39.8 |
| Unit Value Trade Index (Imports of Capital Goods)                     | 2.0   | 1.9   | 2.2   | 1.6   | 1.6   | 1.0   | 1.8   | 2.0   | 2.7   | 2.0   | 2.1   | 1.8   |
| Real Retained Imports of Foodstuffs                                   | 18.0  | 10.5  | 7.5   | -12.0 | 3.9   | 6.1   | 6.3   | 0.2   | -3.0  | 9.3   | 10.4  | 9.2   |
| Real Retained Imports of Consumer Goods                               | 30.7  | -23.5 | -14.4 | -73.3 | 17.8  | -41.1 | -14.1 | -37.0 | -14.8 | -26.7 | -15.6 | -18.7 |
| Real Retained Imports of Raw Materials & Semi-Manufactures            | -6.2  | -22.0 | -61.9 | -65.2 | -42.0 | -48.0 | -30.5 | -43.6 | -40.8 | -36.3 | -38.3 | -34.5 |
| Real Retained Imports of Fuels  | -13.9 | 22.5  | -14.1 | 29.1  | 15.5  | 27.9  | 29.0  | 0.0   | 20.7  | 2.6   | 54.2  | 31.4  |
| Real Retained Imports of Capital Goods                                | 12.0  | -32.4 | -20.6 | -35.3 | 24.7  | -10.5 | -14.6 | -22.5 | -20.6 | -27.5 | -12.6 | -17.6 |
| Total Motor Vehicles Newly Registered                                 | -27.2 | -55.0 | -26.8 | -49.1 | -46.4 | -41.4 | -46.9 | -40.8 | -41.3 | -47.3 | -37.9 | -42.0 |
| Private Cars Newly Registered   | -25.7 | -55.2 | -25.0 | -46.4 | -45.3 | -43.9 | -45.9 | -38.0 | -36.5 | -46.3 | -33.2 | -36.7 |
| Volume Index of Retail Sales  | -4.2  | -2.6  | -0.5  | 5.4   | -13.9 | -9.2  | -5.4  | -6.4  | -7.1  | -8.9  | -7.3  | -5.6  |
| Money Supply (M2)   | -6.1  | -3.6  | 2.7   | 3.2   | 1.5   | 4.2   | 4.4   | 7.4   | 8.7   | 9.4   | 11.7  | 9.9   |
| Loans and Advances  | 6.4   | 4.9   | 10.9  | 6.8   | 3.8   | -0.1  | -2.2  | -3.7  | -6.0  | -7.4  | -7.6  | -8.0  |
| Visitors Arrivals   | -1.4  | -1.1  | -0.2  | 11.0  | -8.1  | 1.7   | 0.8   | -13.4 | -7.6  | -5.8  | 3.6   | 5.1   |
| Hong Kong Resident Departures   | -1.0  | -0.8  | -2.7  | 8.1   | -8.4  | -10.5 | 13.7  | -3.2  | 4.4   | 3.5   | 7.8   | 3.5   |
| Electricity Consumption   | 3.2   | 6.9   | -5.5  | -18.3 | 0.2   | -1.2  | -2.1  | 3.9   | 7.2   | 6.0   | 4.2   | -2.1  |
| Gas Consumption   | 2.9   | 1.9   | -3.2  | 0.3   | -2.8  | -5.6  | -2.2  | -0.6  | -1.4  | -1.8  | -2.5  | -1.1  |

Date of Forecast: July 3, 2009