



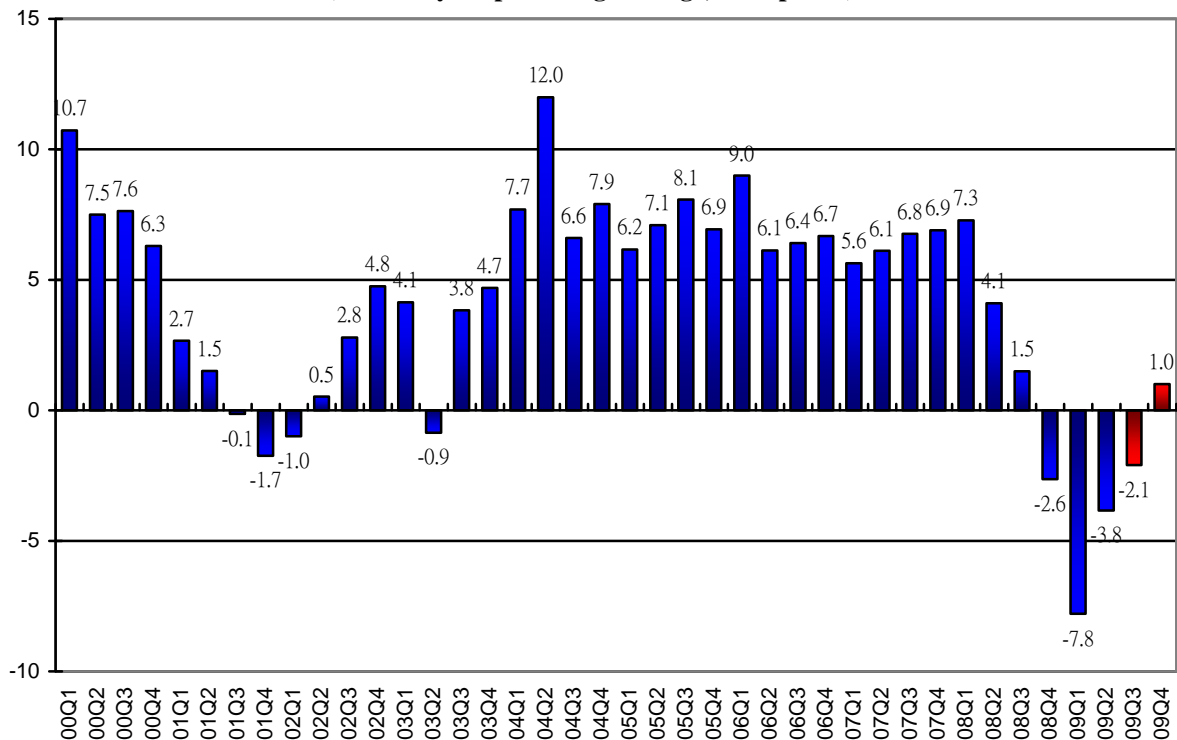
For Immediate Release

HKU Announced 2009 Q4 HK Macroeconomic Forecast

Reverting Back to Growth

The APEC Study Center of the University of Hong Kong (HKU) released its quarterly Hong Kong Macroeconomic Forecast today (Oct 7). According to its High Frequency Macroeconomic Forecast, real GDP in 09Q3 is estimated to fall by 2.1% when compared with the same period last year. This estimate is an upward revision from the previous forecast of a 3.3% drop released on July 8, 2009 due to the improvement in private consumption. In the fourth quarter of 2009, real GDP growth is forecast to rise by 1.0% when compared with the same period last year.

Real Gross Domestic Product
(Year-on-year percentage change, 2007 prices)



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "Given the recovery of the global economy, pickup in export orders, massive fiscal stimuli, low interest rates and ample liquid funds, the Hong Kong economy has started to recover in the second quarter, and the healing process is projected to continue. Hong Kong's real GDP is estimated to contract by 0.5% in the second half of 2009, which is a marked improvement from the 5.8% drop in the first half of this year. For the year as a whole, real GDP is forecast to decrease by 3.1% in 2009. The drop in real GDP is concentrated in domestic sector reflecting the repercussion of the global financial turmoil. The fall in domestic demand is estimated to account for 2.9 percentage points of the overall 3.1 % decrease in real GDP in the current year."

"On a quarter-on-quarter basis, seasonally adjusted real GDP reverted to a growth rate of 3.3% in 09Q2, after contracting for a full year. The growth momentum is holding up with the corresponding growth rates estimated to be 0.9% and 1.3% in 09Q3 and 09Q4 respectively. Given the economic recovery, the local labour market will improve in the current quarter, with the unemployment rate projected to drop to 5.2% from the estimated 5.3% in the last quarter. Consumer prices remain soft, with the composite CPI forecast to drop by 0.1% in the current quarter. There is no evidence for a buildup in inflationary pressure. Prices are expected to be stable in the near term," 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.

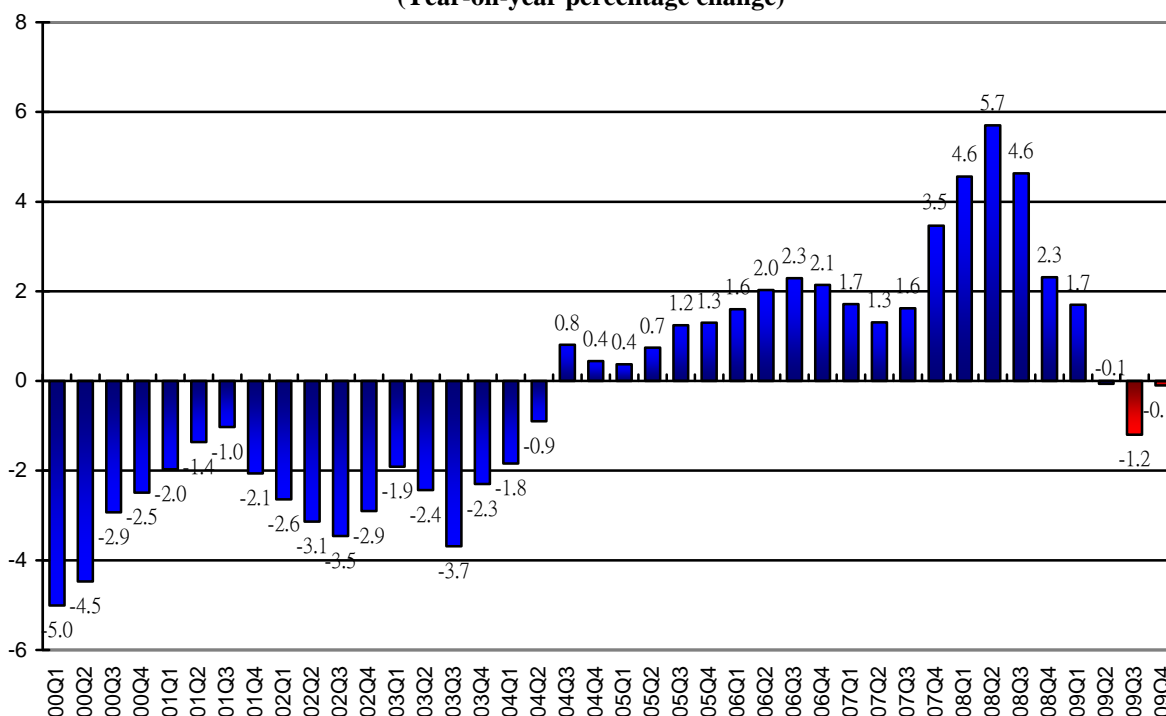
Forecast Highlights

- Private consumption spending shrank by 1.0% in 09Q2, improving from the 6.0% drop in 09Q1. The turnaround of the global economy and the buoyancy in the stock and property markets have helped to stabilize consumer confidence. Continuous improvement is expected in the current quarter. Private consumption expenditure is estimated to grow by 0.2% in 09Q3 and 1.1% in 09Q4. For the year as a whole, private consumption spending is forecast to decrease by 1.4%.

- The volume of retail sales fell by 1.0% in August 2009, doing better than the 5.2% drop in the previous month. With the improvement in private consumption and increase in Mainland visitors, the fall in volume of retail sales is expected to moderate from 5.4% in 09Q2 to 2.4% in 09Q3. It is forecast to revert to a growth of 1.6% in 09Q4. For 2009 as a whole, it is projected to fall by 2.9%.
- Total exports of goods shrank by 12.4% in real terms in 09Q2 which is a better performance than the 22.7% drop in 09Q1. There are signs of stabilization but the adjustment process is expected to be slow. The total exports of goods in real terms is estimated to fall by 13.5% in 09Q3, and is forecast to continue to fall at a lower rate in the current quarter by 8.7%. For the year as a whole, total exports is forecast to drop by 14.2% in 2009.
- Imports of goods dropped by 12.7% in 09Q2 which is smaller than the 21.4% fall in 09Q1. Concomitant with the decline in the exports of goods, the imports of goods is forecast to decrease by 12.3% and 7.7% in 09Q3 and 09Q4 respectively. For the year as a whole, it is projected to decrease by 13.4%.
- Service exports fell by 5.7% in 09Q2. The fall in visible trade also dragged down trade related services. The rise in visitor arrivals offset the decrease via travel related services. The drop in service exports is forecast to moderate to 3.3% in 09Q3 and reverted to grow by 0.7% 09Q4. The annual decline is estimated to be 3.6%.
- Service imports contracted by 5.6% in 09Q2. Service imports is forecast to shrink by 7.4% and 3.8% in 09Q3 and 09Q4 respectively. It is estimated to fall by 6.6% in the whole year of 2009.
- Gross fixed capital formation fell by 14.0% in 09Q2. Gross investment is projected to fall by 3.0% in 09Q3. Given the lower base of comparison, it is forecast to grow by 7.3% in the current quarter when compared to the same period last year. The annual decline is estimated to be 6.4%.
- Investment in land and construction dropped by 8.1% in 09Q2, and is projected to fall by 4.1% in 09Q3 and by 0.4% in 09Q4. The annual decline of 2009 is estimated to be 9.3%.

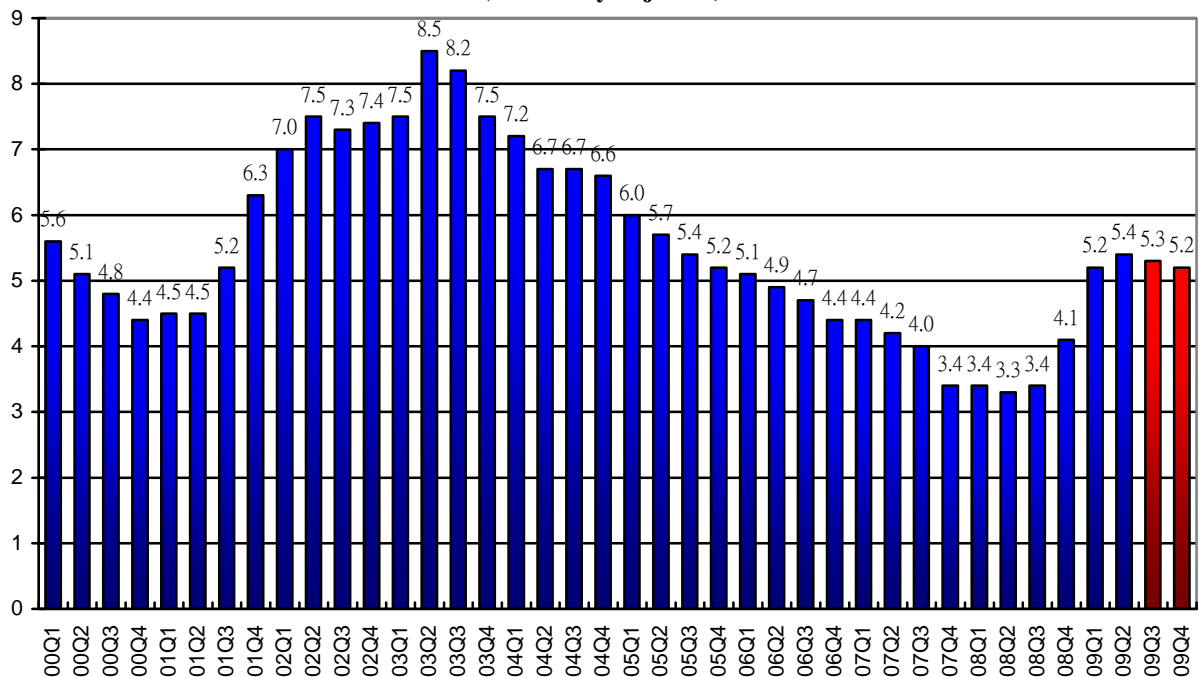
- Investment spending in machinery, equipment and computer software contracted by 18.0% in the 09Q2, and is forecast to fall by 2.4% in 09Q3. With an lower base of comparison, it is projected to increase by 13.1% in the current quarter when compared with the same period last year. It is projected to fall by 4.2% for the year of 2009 as a whole.

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



- The general price level, as measured by the Composite CPI, dropped by 1.7% in August 2009, reflecting the downward pressure on prices. The increase in food prices has been arrested by the fall in domestic demand. If there were no fiscal measures, the price index would have dropped by only 0.3%. Despite continuous improvement in consumer sentiment, prices will remain soft due to the weak job market and falling wages. The nominal wage fell by 0.9% in 09Q1 and worsened to a 1.9% drop in 09Q2. This downward adjustment in wages is projected to be completed in the current quarter. Headline consumer inflation rate is forecast to be falling by 1.2% in 09Q3, and dropping by 0.1% in the current quarter with the end of the subsidy on the use of electricity. Take into accounting of the 1.7% increase in the price level in 09Q1, the consumer inflation is estimated to be 0.1% for the year of 2009 as a whole.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate stood at 5.4% in the 3 months ending in August 2009. The median duration of unemployment rose significantly from 72 days in 09Q1 to 90 days in 09Q2, reflecting the scarcity of jobs. The labour market is expected to improve slowly, with the unemployment rate forecast to be 5.3% in 09Q3 and further improve to 5.2% in the current quarter. The number of jobless workers is estimated to fall from 197,000 in 09Q3 to 194,000 in 09Q4. The number of jobs is forecast to increase by 12,000 in the current quarter, bringing the total employment to 3.54 million workers. For the year of 2009 as a whole, the unemployment rate is estimated to average out to be 5.3%.

Concluding Remarks

The worst global recession since the WWII was over by the middle of this year, and the worldwide economic recovery is now under way. The rebound in the Hong Kong's economy is stronger than expected in the summer because of a more rapid pickup in export orders and strong performance in the stock and property markets. But there are risks to growth. Sustained global economic growth requires rebalancing demand from countries running trade deficit to those with trade surplus, in particular from the US to China. This demand switching will only happen with a weaker US dollar against the RMB. Even though prices are expected to be stable in the near term, inflation will become a concern with a weaker dollar. The rebalancing also means that Hong Kong has to develop new export markets to remain on its growth path.

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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October 7, 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				
	Q3	Q4	Annual	Q1	Q2	Q3 (forecast)	Q4 (forecast)	Annual (forecast)
Gross Domestic Product	422,809	424,526	1,653,636	376,593	382,609	413,969	428,902	1,602,073
Private Consumption Expenditure	243,017	247,641	986,317	230,907	247,429	243,442	250,364	972,142
Government Consumption Expenditure	32,460	33,565	132,669	35,759	31,909	33,034	34,172	134,874
Total Export of Goods	730,366	689,708	2,751,140	496,477	603,241	632,032	629,601	2,361,351
Domestic Export of Goods	24,477	22,446	94,698	16,673	17,216	15,557	15,055	64,501
Re-export of Goods	705,889	667,262	2,656,442	479,804	586,025	616,475	614,546	2,296,850
Import of Goods	764,196	719,265	2,904,964	535,271	646,398	669,961	664,166	2,515,796
Export of Services	184,952	180,536	698,141	159,947	152,702	178,845	181,722	673,216
Import of Services	89,958	83,781	343,060	78,429	77,963	83,270	80,622	320,284
Gross Fixed Capital Formation	83,276	71,628	323,820	71,629	73,950	80,757	76,877	303,213
GFCF in Land & Construction	30,616	30,708	135,273	30,448	32,259	29,348	30,585	122,641
GFCF in Mach., Equip. & Comp. Soft.	52,660	40,920	188,547	41,181	41,691	51,408	46,292	180,572
Changes in Inventories	2,892	4,494	9,573	-4,426	-2,261	-910	954	-6,643
Date of Forecast: October 5, 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				
	Q3	Q4	Annual	Q1	Q2	Q3 (Forecast)	Q4 (Forecast)	Annual (Forecast)
Gross Domestic Product	1.5	-2.6	2.4	-7.8	-3.8	-2.1	1.0	-3.1
Private Consumption Expenditure	-0.2	-4.1	1.5	-6.0	-1.0	0.2	1.1	-1.4
Government Consumption Expenditure	1.6	1.8	1.7	1.4	1.6	1.8	1.8	1.7
Total Export of Goods	1.3	-4.9	1.9	-22.7	-12.4	-13.5	-8.7	-14.2
Domestic Export of Goods	-21.8	-29.1	-19.2	-29.9	-28.3	-36.4	-32.9	-31.9
Re-export of Goods	2.4	-3.8	2.9	-22.4	-11.9	-12.7	-7.9	-13.5
Import of Goods	2.0	-6.4	1.8	-21.4	-12.7	-12.3	-7.7	-13.4
Export of Services	4.8	0.4	5.7	-6.3	-5.7	-3.3	0.7	-3.6
Import of Services	2.2	-3.4	3.3	-9.6	-5.6	-7.4	-3.8	-6.6
Gross Fixed Capital Formation	3.0	-17.7	-0.5	-13.7	-14.0	-3.0	7.3	-6.4
GFCF in Land & Construction	-8.1	-12.8	-0.7	-21.7	-8.1	-4.1	-0.4	-9.3
GFCF in Machinery, Equip. & Computer Software	10.7	-21.1	-0.3	-6.6	-18.0	-2.4	13.1	-4.2
GDP Deflator Growth Rate	2.0	-0.3	1.4	0.4	1.7	0.8	0.2	0.8
CPI (Composite) Inflation Rate	4.6	2.3	4.3	1.7	-0.1	-1.2	-0.1	0.1
Unemployment Rate	3.4	4.1	3.5	5.2	5.4	5.3	5.2	5.3
Date of Forecast: October 5, 2009								

High Frequency Macroeconomic Forecasts

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

	2009											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Unit Value Trade Index (Domestic Exports)	3.4	2.6	1.4	0.6	0.8	-1.4	-2.7	-3.1	-3.6	-3.6	-3.9	-4.0
Unit Value Trade Index (Imports of Foodstuffs)	5.0	3.4	2.5	2.6	2.1	1.3	-0.5	-1.5	-2.0	-2.8	-2.1	-1.6
Unit Value Trade Index (Imports of Consumer Goods)	4.3	2.0	2.2	1.6	0.6	-0.4	-1.9	-2.2	-2.4	-2.0	-1.8	-1.2
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	3.5	3.4	1.4	0.6	0.2	-1.1	-0.6	-0.3	-0.1	0.2	0.7	1.0
Unit Value Trade Index (Imports of Fuels)	-37.6	-35.9	-42.4	-45.0	-43.3	-41.4	-39.3	-42.9	-39.1	-29.5	-9.8	9.0
Unit Value Trade Index (Imports of Capital Goods)	1.6	1.6	1.0	1.8	2.1	3.8	1.9	1.6	1.3	0.9	0.8	0.1
Real Retained Imports of Foodstuffs	-12.0	3.9	6.1	6.3	1.5	5.3	11.1	12.8	12.1	3.8	8.4	11.8
Real Retained Imports of Consumer Goods	-73.3	17.8	-41.1	-14.1	-39.5	-14.7	-10.0	-14.9	-12.7	-27.9	-5.5	-5.6
Real Retained Imports of Raw Materials & Semi-Manufactures	-65.2	-42.0	-48.0	-30.5	-45.5	-24.7	6.8	-14.6	-8.7	-21.3	-8.2	50.3
Real Retained Imports of Fuels	29.1	15.5	27.9	29.0	-1.5	10.8	6.3	51.1	31.5	15.9	0.9	18.3
Real Retained Imports of Capital Goods	-35.3	24.7	-10.5	-14.6	-26.9	-15.1	-18.3	-8.9	-13.0	-13.0	12.1	9.3
Total Motor Vehicles Newly Registered	-49.1	-46.4	-41.4	-46.9	-49.0	-10.3	-32.6	-25.4	-27.0	-11.7	13.0	-10.7
Private Cars Newly Registered	-46.0	-43.2	-41.1	-42.6	-44.6	-12.7	-40.0	-24.3	-28.3	-20.1	3.3	-20.3
Volume Index of Retail Sales	5.4	-13.9	-9.2	-5.4	-6.4	-4.2	-5.2	-1.0	-0.7	2.8	4.3	-1.4
Money Supply (M2)	3.2	1.5	4.2	4.4	7.4	9.8	9.6	11.8	10.2	12.1	11.8	10.3
Loans and Advances	6.8	3.8	-0.1	-2.2	-3.7	-4.3	-6.8	-7.1	-7.1	-6.3	-4.9	-2.9
Visitors Arrivals	11.0	-8.1	1.7	0.8	-13.4	-15.0	-12.2	5.8	5.1	8.2	9.6	6.8
Hong Kong Resident Departures	8.1	-8.4	-10.5	13.7	-3.2	-0.2	-3.9	5.0	0.9	2.3	1.0	2.5
Electricity Consumption	-18.3	0.2	-1.2	-2.1	3.9	11.3	6.2	9.9	2.1	2.4	3.0	4.7
Gas Consumption	0.3	-2.8	-5.6	-2.2	-0.6	-3.4	-2.0	-1.5	-1.4	-1.9	-1.8	0.9

Date of Forecast: October 5, 2009