

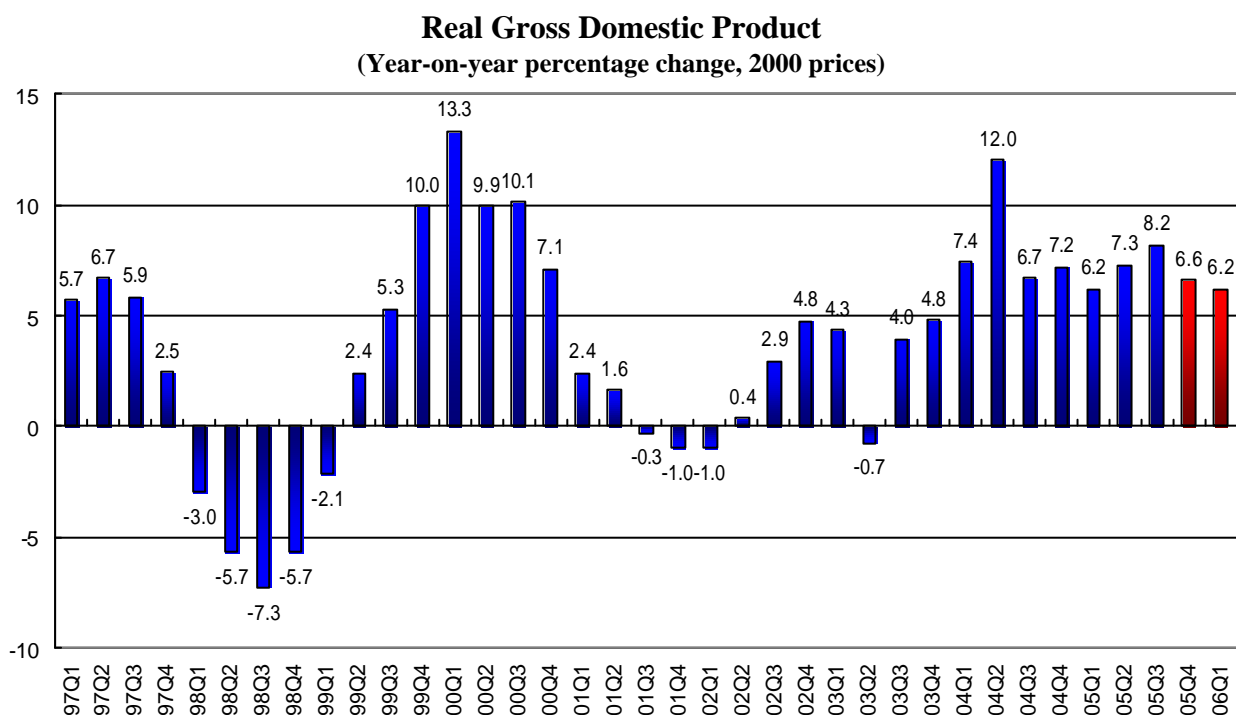


## High Frequency Macroeconomic Forecasts Current Quarter Model: 2006Q1

APEC Study Center  
The University of Hong Kong

January 4, 2006

### Hong Kong Economic Outlook



The APEC Study Center of the University of Hong Kong (HKU) released its quarterly Hong Kong Macroeconomic Forecast today. According to its High Frequency Macroeconomic Forecast, real GDP growth in Q4 of 2005 is estimated to be 6.6% on a year-on-year basis. This growth estimate is an upward revision of the 6.0% forecast released on October 5, 2005 due to stronger GDP growth of 8.2% in 05Q3. In the first quarter of 2006, real GDP growth is forecast to moderate to 6.2%.

Professor Richard Wong Yue-Chim, Director of the APEC Study Center at HKU said that, "Despite further tightening of monetary conditions with the Federal Fund Rate increased by 8 times, and the 40% increase in oil prices, the global economy has not been derailed from its robust growth path. Following the rapid real GDP growth of 8.2% in 2004, the Hng Kong economy is forecast to grow by 7.1% last year. The growth was mainly driven by external trade, with the net exports of goods and services contributed 5.2 percentage points to the overall growth."

"Global economic growth is expected to slowdown this year. Due to a weaker external environment, real GDP growth is forecast to moderate to 5.0%, with consumer inflation rate rising to 2.5% by year-end, and unemployment rate averaging around 4.8%," according to Dr Alan Siu, Executive 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.

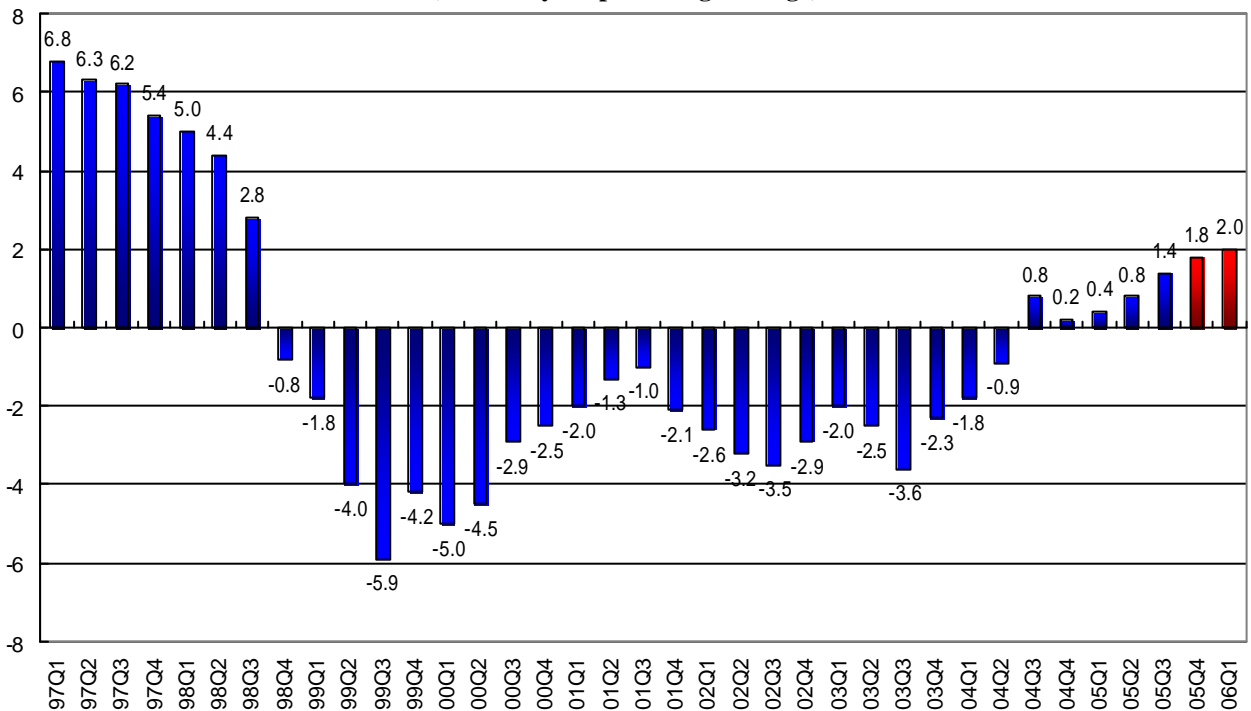
## Forecast Highlights

The highlights of our current forecasts are:

- Boosted by continued robust economic growth, private consumption spending rose by 4.6% in 05Q3. Positive outlook on employment growth and the holiday seasons provided further support for growth in private consumption in the last quarter, with private consumption spending projected to grow by 4.8%. For the year as a whole, private consumption grew by 4.1%. In the Q1 of 2006, private consumption spending is forecast to grow by 4.4%
- Total exports grew by 12.8% in 05Q3, faster than the 11.1% growth in 05Q2. The growth momentum is expected to moderate. It is estimated to be 10.2% in Q4 of 2005 and 10.8% for year 2005 as a whole. Total exports growth is forecast to be 10.4% in Q1 of 2006.
- After falling by 9.6% and 8.3% in 05Q1 and 05Q2 respectively, domestic exports strongly rebounded to a 14.2% growth in 05Q3, flipping the trend back onto the growth track. Domestic exports is projected to preserve its momentum to surge by 18.1% in Q4 of 2005 and 4.9% for the whole year. It is forecast to growth by 13.0% in Q1 of 2006.
- Re-exports grew by 12.7% in 05Q3 and expected to remain strong. It is estimated to grow by 9.6% in 05Q4 and 11.2% for 2005 as a whole. In the Q1 of 2006, it is projected to grow by 10.3%.
- Service exports grew by 8.2% in 05Q3. The number of visitor arrivals increased by 6.4% in October 2005, when compared with the same period in 2004. Service exports is forecast to expand by 6.5% in 05Q4 and by 8.0% for 2005 as a whole. The growth in the Q1 of 2006 is estimated to be 7.3%.
- Imports of goods grew by 11.0% in 05Q3. The growth of imports of goods is estimated to be 10.7% in 05Q4 and 8.3% for the year 2005 as a whole. The growth is forecast to be 10.4% for the current quarter.
- Import of services grew by 3.7% in 05Q3. As expected, the growth in travel related service imports was dampened by rising oil prices in Q3 and grew by only 0.3%. Service imports is forecast to grow by 6.1% in 05Q4 and 3.9% for the year of 2005. It is estimated to grow by 3.2% in the Q1 of 2006.
- The trade balance, as measured by the net exports of goods and services, is estimated to be 18.5% of GDP in 05Q3. It is forecast to be 18.0% of GDP in 05Q4 and 13.0% for the year 2005. It is projected to be 14.4% of GDP in the current quarter.

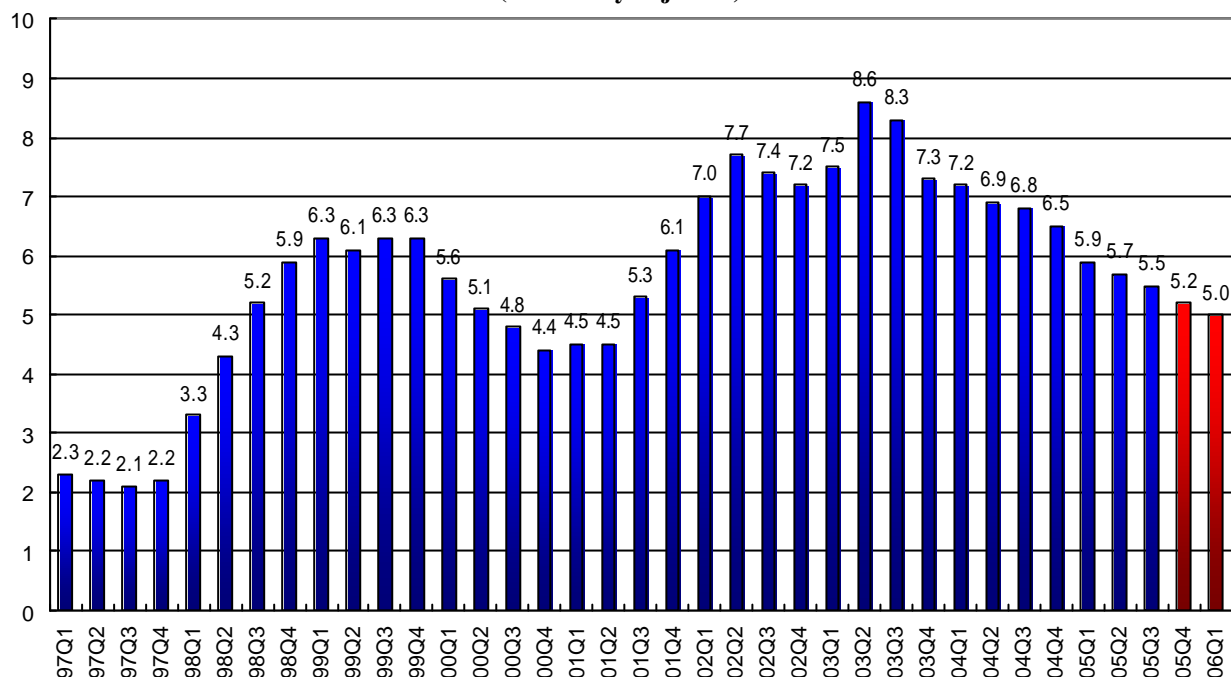
- Gross domestic fixed capital formation rose by 2.4% in Q3 of 2005. The growth is expected to be 3.2% in 05Q4 and 2.6% for the year of 2005. In the Q1 of 2006, it is expected to grow by 2.1%.
- Investment in land and construction dropped by 6.7% in Q3 of 2005. Due to the lack of the commencement of major projects, the investment in land and construction is forecast to drop by 8.1% in 05Q4 and by 4.7% for the year of 2005. It is estimated to fall by 7.5% in Q1 of 2006.
- Investment spending in machinery, equipment and computer software increased by 8.1% in Q3 of 2005, and is projected to grow by 11.3% in Q4 of 2005. It is forecast to go up by 7.7% for the whole year of 2005, and up by 9.3% in the current quarter.

### 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 1.4% in 05Q3, rising further from the 0.8% increase in 05Q2. The strength of the US dollar and the easing of increases in oil prices softened the upward pressure on consumer prices. Inflation rate is estimated to be 1.8% in 05Q4 and to be 1.1% for the year of 2005. Inflation is expected to increase slightly to 2.0% in the current quarter.

## Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate stood at 5.3% in the three months average ending in November 2005, unchanged from the previous estimate for the three months ending in October 2005. Employment situation kept improving. The median duration of unemployment dropped significantly to 76 days in 05Q3 as compared to the high level of 99 days recorded in 04Q3. The unemployment rate is forecast to be 5.2% in Q4 of 2005, and to drop to 5.0% in the current quarter.

## Concluding Remarks

As a small open economy, the economic outlook of Hong Kong depends critically on the external trade environment. Riding on the strong global economy in the past two years, with world output increasing by over 5% and 4% in 2004 and 2005 respectively, Hong Kong's economy has rebounded quickly from its trough brought on by SARS in the first half of 2003. Despite an expected further tightening in the monetary conditions in the first half by around 50 to 75 basis points, 2006 is forecast to be another year of robust growth, albeit at a slower pace. Hong Kong's real GDP growth will slow from 7% in 2005 to around 5% this year. Pushed up by increasing rentals, imported prices and nominal wages, consumer inflation rate will increase to 2.5% in 2006, up from an estimated 1.1% in 2005. The labour market will continue to improve, with the unemployment rate dropping from 5.6% in 2005 to an average of 4.8% this 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 HKU Foundation for Educational Development and Research. The Steering Committee is chaired by Dr Chow Yei-Ching, Chairman & Managing Director of Chevalier International Holdings Ltd, with Mr Michael Leung, Executive Chairman of Onwel Group, as Deputy Chairman. Both Dr Chow and Mr Leung are members of the Board of Directors of the HKU Foundation.

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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Table 1: Current Quarter Model Forecast  
(Million of 2000 Dollar)

	2004			2005					2006
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (forecast)	Annual (forecast)	Q4 (forecast)
Gross Domestic Product	387,038	403,653	1,504,147	375,463	386,033	418,895	430,291	1,610,682	398,673
Private Consumption Expenditure	204,595	216,406	827,093	207,424	213,001	214,080	226,801	861,306	216,635
Government Consumption Expenditure	32,848	33,611	133,961	34,447	30,604	32,271	33,779	131,101	34,619
Total Export of Goods	583,867	586,246	2,175,685	512,026	594,834	658,383	645,789	2,411,032	565,318
Domestic Export of Goods	38,173	37,162	137,011	25,938	30,251	43,607	43,903	143,699	29,298
Re-export of Goods	545,694	549,084	2,038,674	486,088	564,583	614,776	601,886	2,267,333	536,020
Import of Goods	588,404	580,680	2,236,642	522,364	603,790	653,217	642,836	2,422,207	576,715
Export of Services	123,442	127,153	462,428	116,196	114,116	133,509	135,451	499,272	124,672
Import of Services	59,084	57,375	220,962	54,164	53,167	61,292	60,880	229,503	55,914
Gross Fixed Capital Formation	92,588	88,622	357,457	87,327	93,293	94,829	91,421	366,870	89,169
GFCF in Land & Construction	35,497	37,308	145,458	37,304	33,899	33,128	34,299	138,630	34,513
GFCF in Machinery & Equip.	57,091	51,314	211,999	50,023	59,394	61,701	57,122	228,240	54,656
Changes in Inventories	-2,814	-10,330	5,127	-5,429	-2,858	332	766	-7,189	888

Date of Forecast: December 23, 2005

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

	2004			2005					2006
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (forecast)	Annual (forecast)	Q1 (forecast)
Gross Domestic Product	6.7	7.2	8.2	6.2	7.3	8.2	6.6	7.1	6.2
Private Consumption Expenditure	5.2	5.8	6.8	4.4	2.7	4.6	4.8	4.1	4.4
Government Consumption Expenditure	-1.3	-1.7	0.7	-4.8	-2.3	-1.8	0.5	-2.1	0.5
Total Export of Goods	15.3	12.6	15.3	9.0	11.1	12.8	10.2	10.8	10.4
Domestic Export of Goods	-0.6	4.7	2.4	-9.6	-8.3	14.2	18.1	4.9	13.0
Re-export of Goods	16.6	13.2	16.3	10.2	12.3	12.7	9.6	11.2	10.3
Import of Goods	14.2	7.0	14.1	3.8	7.0	11.0	10.7	8.3	10.4
Export of Services	12.2	7.7	15.3	8.8	8.6	8.2	6.5	8.0	7.3
Import of Services	7.2	6.1	10.7	5.4	0.1	3.7	6.1	3.9	3.2
Gross Investment	2.1	-1.4	4.1	0.4	4.5	2.4	3.2	2.6	2.1
GFCF in Land & Construction	-10.4	-0.5	-6.0	0.0	-4.1	-6.7	-8.1	-4.7	-7.5
GFCF in Machinery, Equip. & Computer Software	11.9	-2.1	12.4	0.7	10.1	8.1	11.3	7.7	9.3
GDP Deflator Growth Rate	-2.9	-2.6	-3.3	-2.2	-0.7	-0.2	0.7	-0.4	0.4
CPI (Composite) Inflation Rate	0.8	0.2	-0.4	0.4	0.8	1.4	1.8	1.1	2.0
Unemployment Rate	6.8	6.5	6.9	6.1	5.7	5.5	5.2	5.6	5.0
Date of Forecast: December 23, 2005									

# High Frequency Macroeconomic Forecasts

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

	2005									2006		
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
Unit Value Trade Index (Domestic Exports)	4.9	4.1	5.1	2.6	0.5	0.1	-0.8	-0.9	-1.6	-2.6	-2.3	-3.1
Unit Value Trade Index (Imports of Foodstuffs)	2.2	1.6	0.5	-0.3	0.2	-0.8	-0.9	-0.9	-0.7	-0.9	-0.9	-0.5
Unit Value Trade Index (Imports of Consumer Goods)	3.9	3.7	3.2	3.5	2.9	2.1	2.7	2.1	2.3	1.8	1.1	1.6
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	4.1	3.7	3.2	2.8	1.8	1.7	1.2	0.7	0.9	0.4	0.5	0.6
Unit Value Trade Index (Imports of Fuels)	42.3	37.3	40.5	40.1	36.1	39.2	34.8	35.5	45.0	46.4	44.1	31.3
Unit Value Trade Index (Imports of Capital Goods)	-0.3	-0.3	-0.7	-1.2	-0.9	-1.1	-1.6	-1.5	-1.3	-2.4	-2.3	-1.9
Real Retained Imports of Foodstuffs	0.4	3.5	0.2	11.1	23.7	-0.3	3.6	5.8	9.5	-0.5	12.3	9.7
Real Retained Imports of Consumer Goods	-21.7	-11.4	-23.5	-21.8	11.6	16.9	4.0	9.9	4.6	4.0	17.5	1.8
Real Retained Imports of Raw Materials & Semi-Manufactures	-25.7	-3.2	6.9	0.0	2.5	1.5	7.2	25.4	-4.6	11.6	9.0	18.1
Real Retained Imports of Fuels	-16.2	3.9	-24.6	-0.5	-8.2	-0.5	-6.6	1.0	-3.3	-10.6	2.2	-16.4
Real Retained Imports of Capital Goods	13.6	28.5	3.7	-1.6	17.9	4.7	26.5	5.7	24.1	-8.2	17.0	20.8
Total Motor Vehicles Newly Registered	18.5	7.0	-5.9	-6.6	0.9	9.4	-0.5	-8.3	-2.3	6.4	16.3	-8.7
Private Cars Newly Registered	6.1	6.5	-2.6	-11.1	0.6	8.6	0.9	-8.5	2.5	14.5	27.0	-6.4
Volume Index of Retail Sales	7.8	6.4	5.2	5.7	5.3	4.1	3.7	3.1	2.3	4.7	-7.0	-0.3
Money Supply (M2)	9.9	8.5	8.9	9.7	9.7	8.6	7.1	4.3	4.5	5.8	5.7	8.4
Loans and Advances	7.8	8.3	8.7	9.8	9.4	9.2	9.7	6.8	7.0	5.2	4.7	6.9
Visitors Arrivals	11.9	7.5	5.8	3.8	2.6	5.9	6.4	8.0	8.2	10.4	7.9	10.8
Hong Kong Resident Departures	-4.0	6.0	2.5	6.3	5.0	5.1	3.8	6.6	4.1	12.1	-0.8	-6.1
Electricity Consumption	6.6	17.5	-1.8	-2.6	-1.8	7.2	11.0	-1.6	-4.2	-2.5	1.8	0.4
Gas Consumption	1.1	0.0	-1.0	-1.1	0.4	0.2	1.4	0.9	2.9	-0.3	-2.0	-2.5

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