

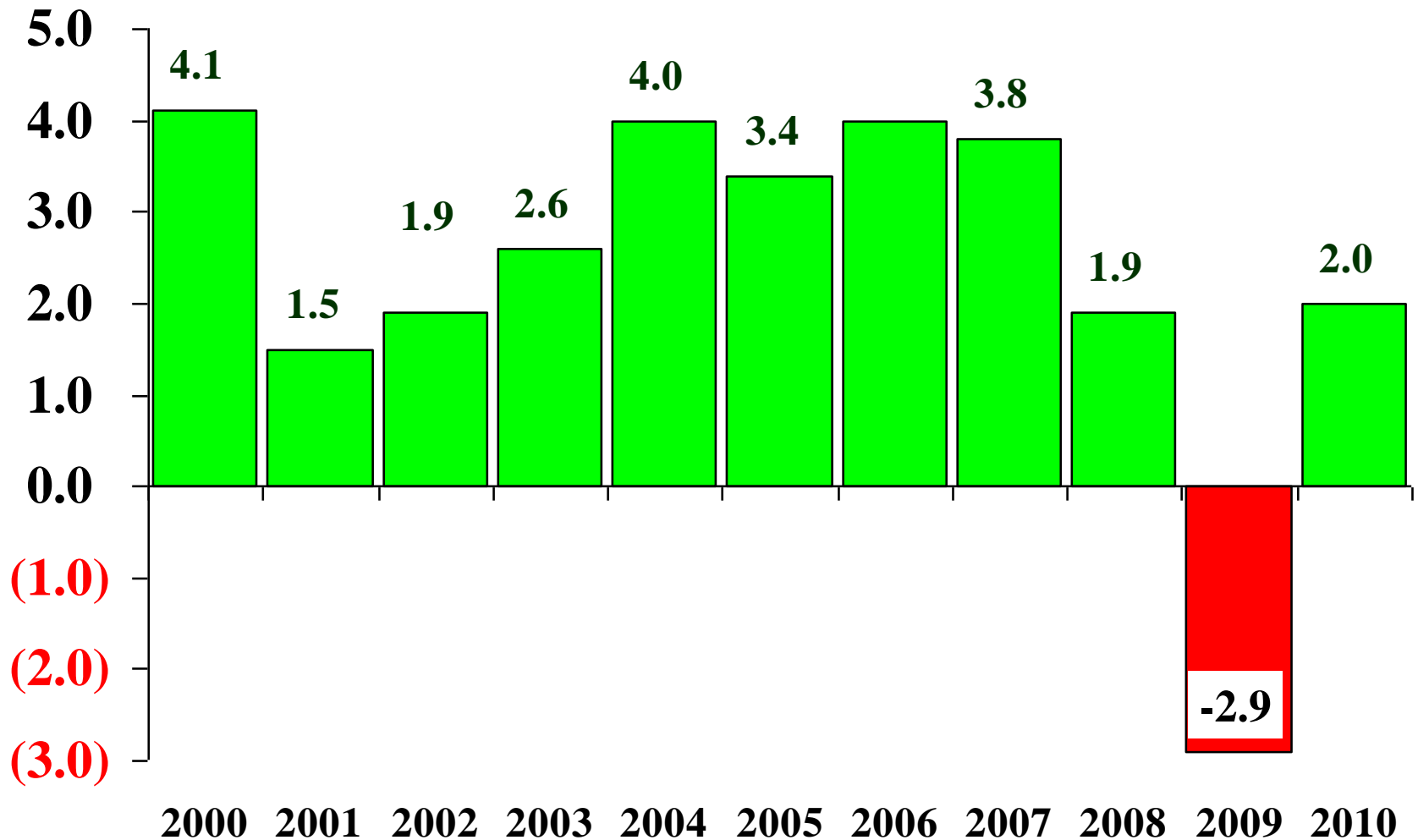
Hong Kong Next Year

Fast Food or . . . Fine Dining?

David O'Rear
Chief Economist
Hong Kong General Chamber of Commerce

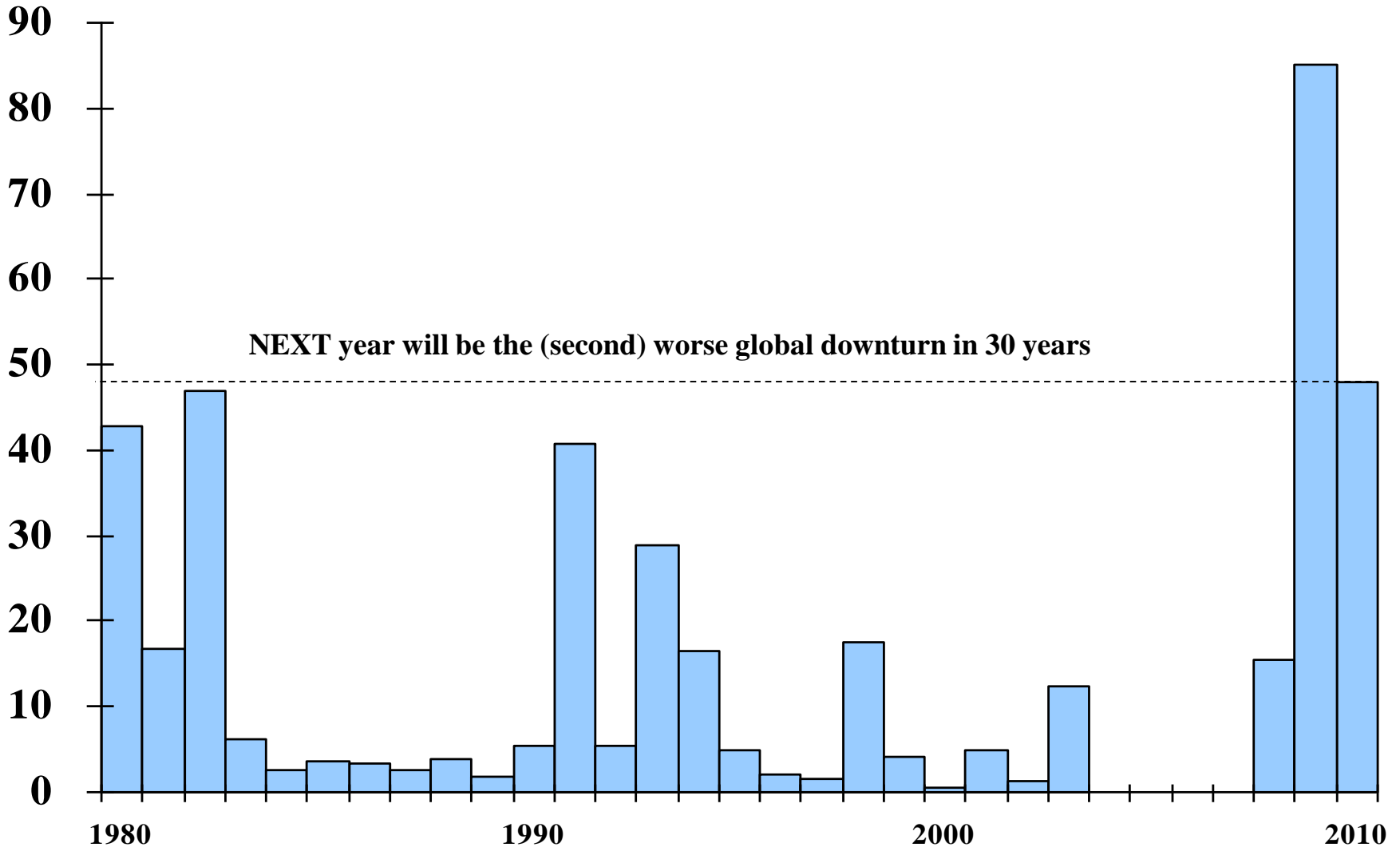
The World Economy

Average annual percent real change



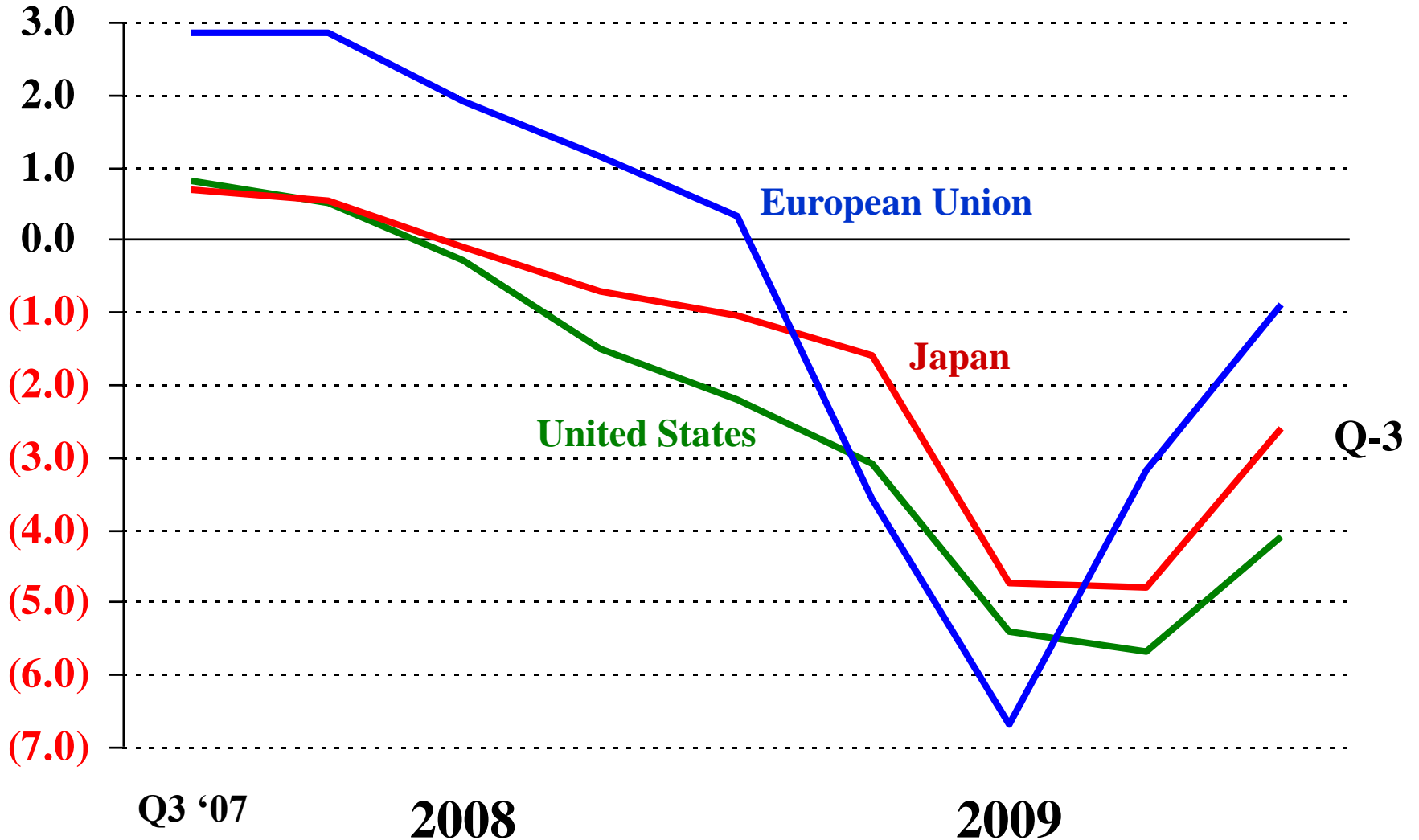
2009: 85 Economies in Recession

Number



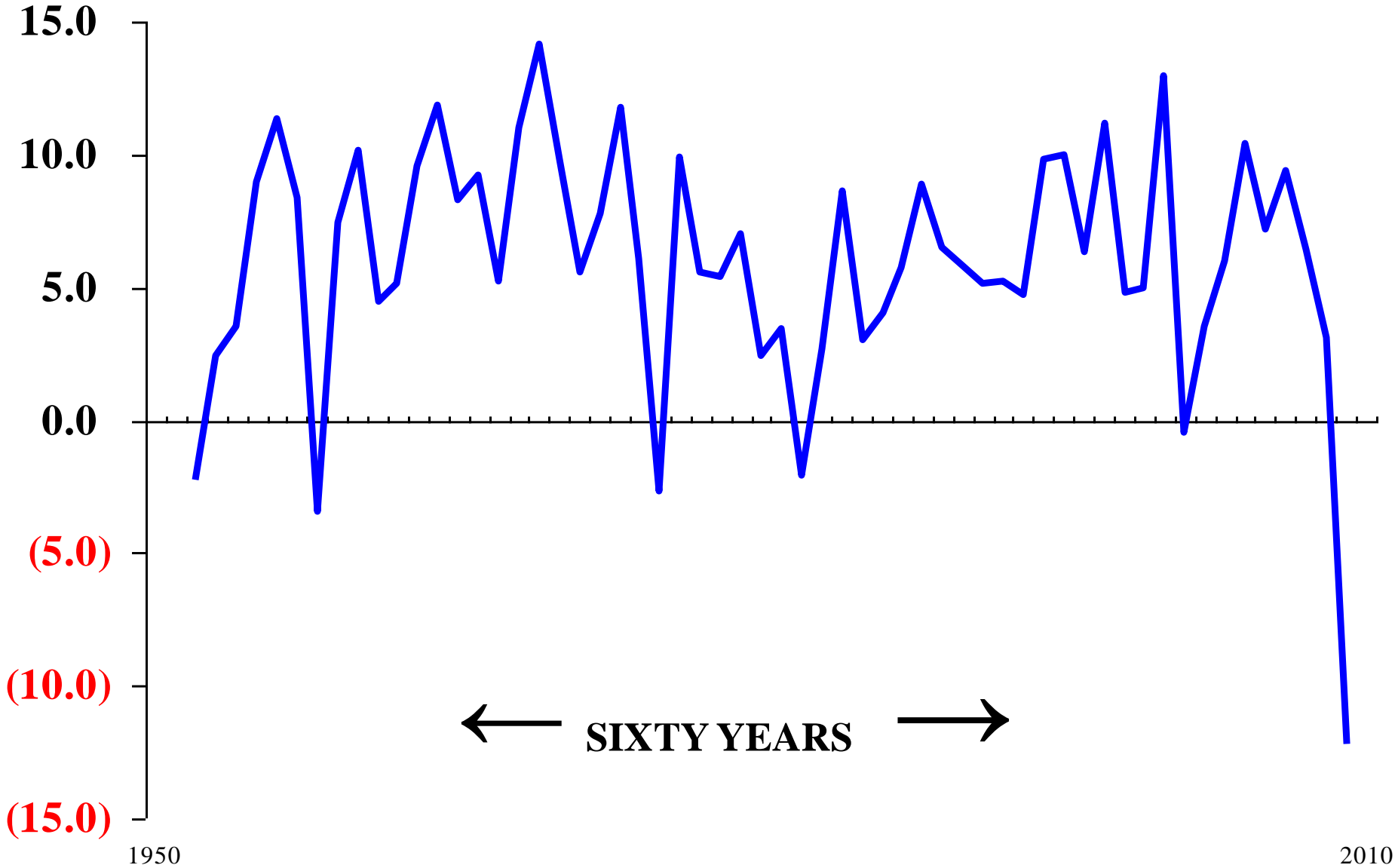
Real Domestic Demand

Percent Change Year-on-Year



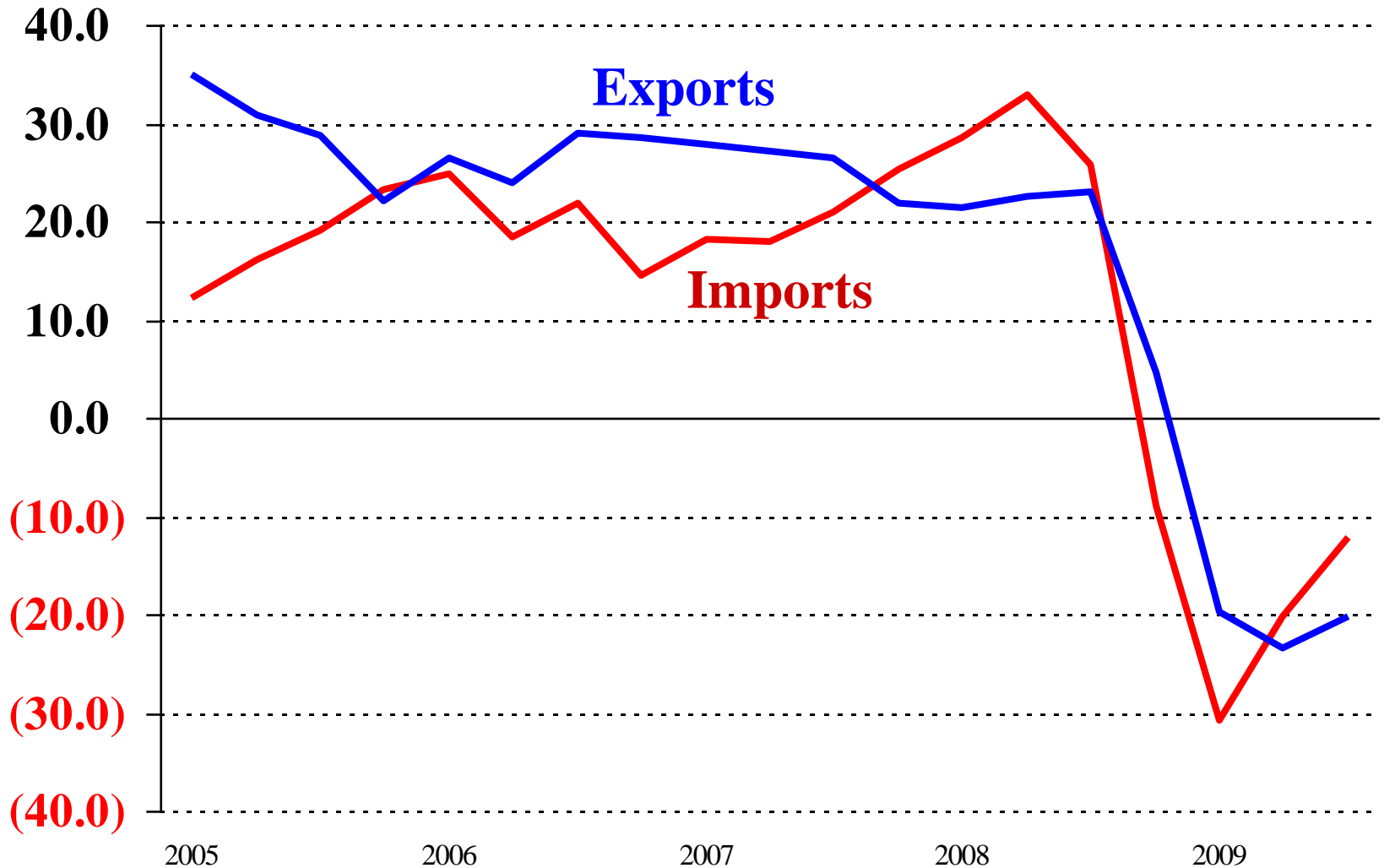
World Trade Stopped

Real (Volume) World Trade, Percent Change, 1952-2009



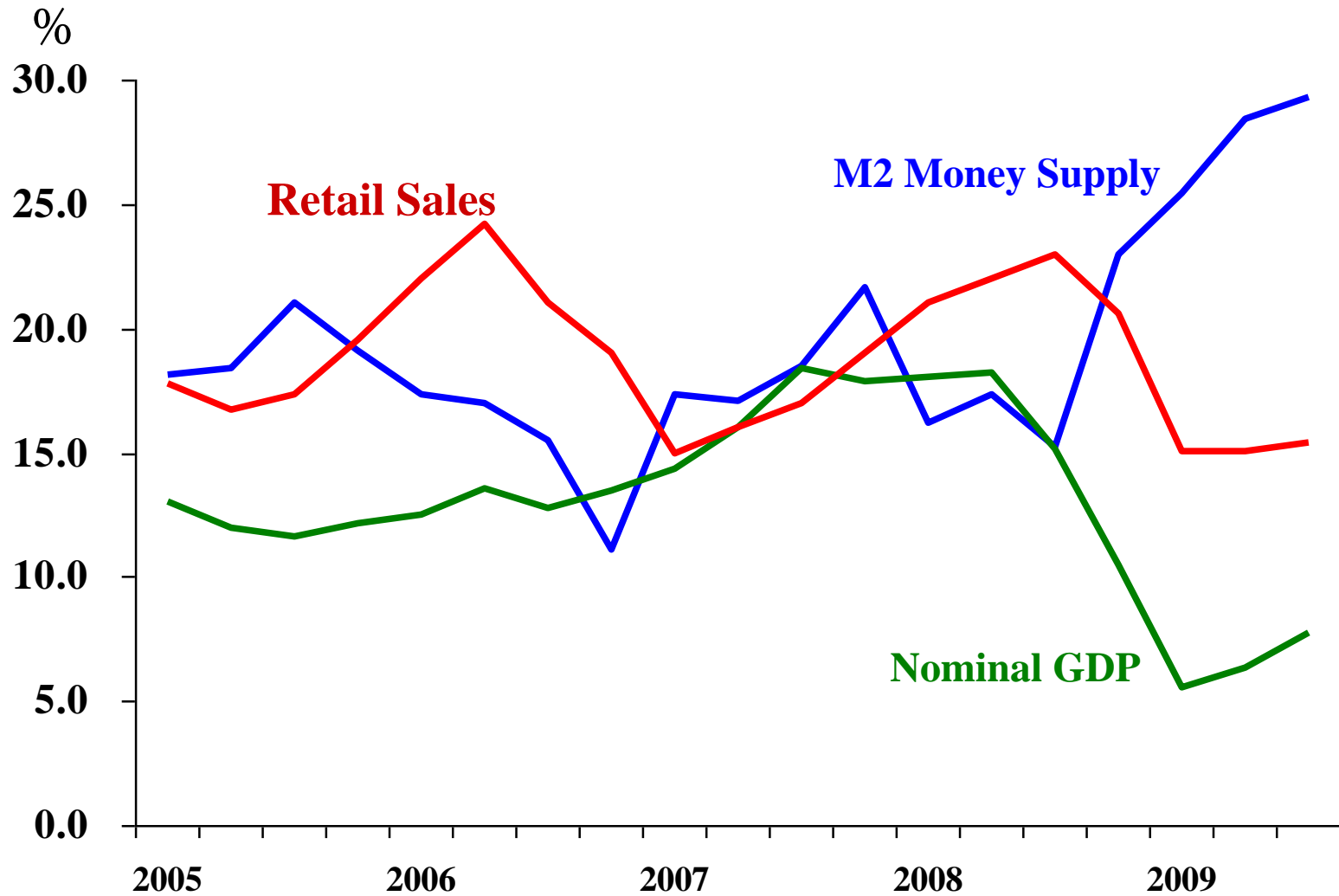
- ▷ **Triple-A rated financial instruments are suddenly worthless.**
- ▷ Credit rating agencies have lost all credibility.
- ▷ Consumers are scared, confidence is down and savings are rising.
- ▷ **Banks are scared, recalling credit lines and refusing to roll over loans.**
- ▷ Investors are scared, demanding high risk premiums and happy to hold cash.

China Trade (% change YoY)



China's Domestic Bubble

Nominal Percent Change YoY



First-ever drop in foreign demand (when it matters) is both highly synchronized and very deep. No experience with either.

Global financial crisis hit as economic cooling policies were just beginning to take hold. Rapid reversal, but the damage was done.

Est. 30-65 million unemployed, plus 7.5 mn college graduates unable to find work (up from >12 mn, and 1.5 mn grads in '07).

Real estate, stock market bubbles very difficult to burst without both knock-on effects and popular discontent.

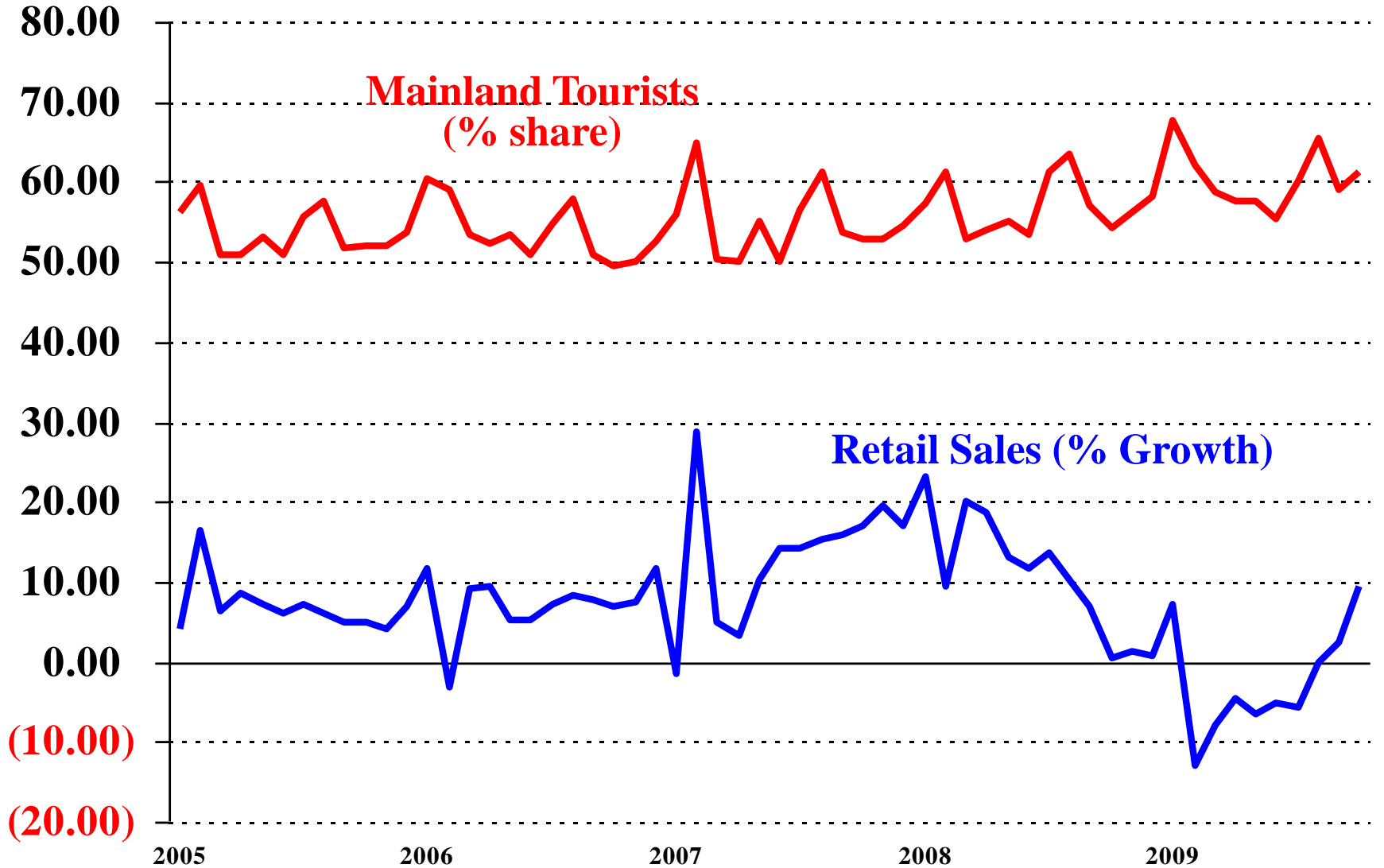
What About Hong Kong ?

Very easy to bounce back after such a steep decline, don't forget that the drop was in foreign trade, not the domestic market.

Unless something (Dubai?) goes badly wrong, 2010 should be a year of modest, 2-3% real growth with mild inflation and improving unemployment.

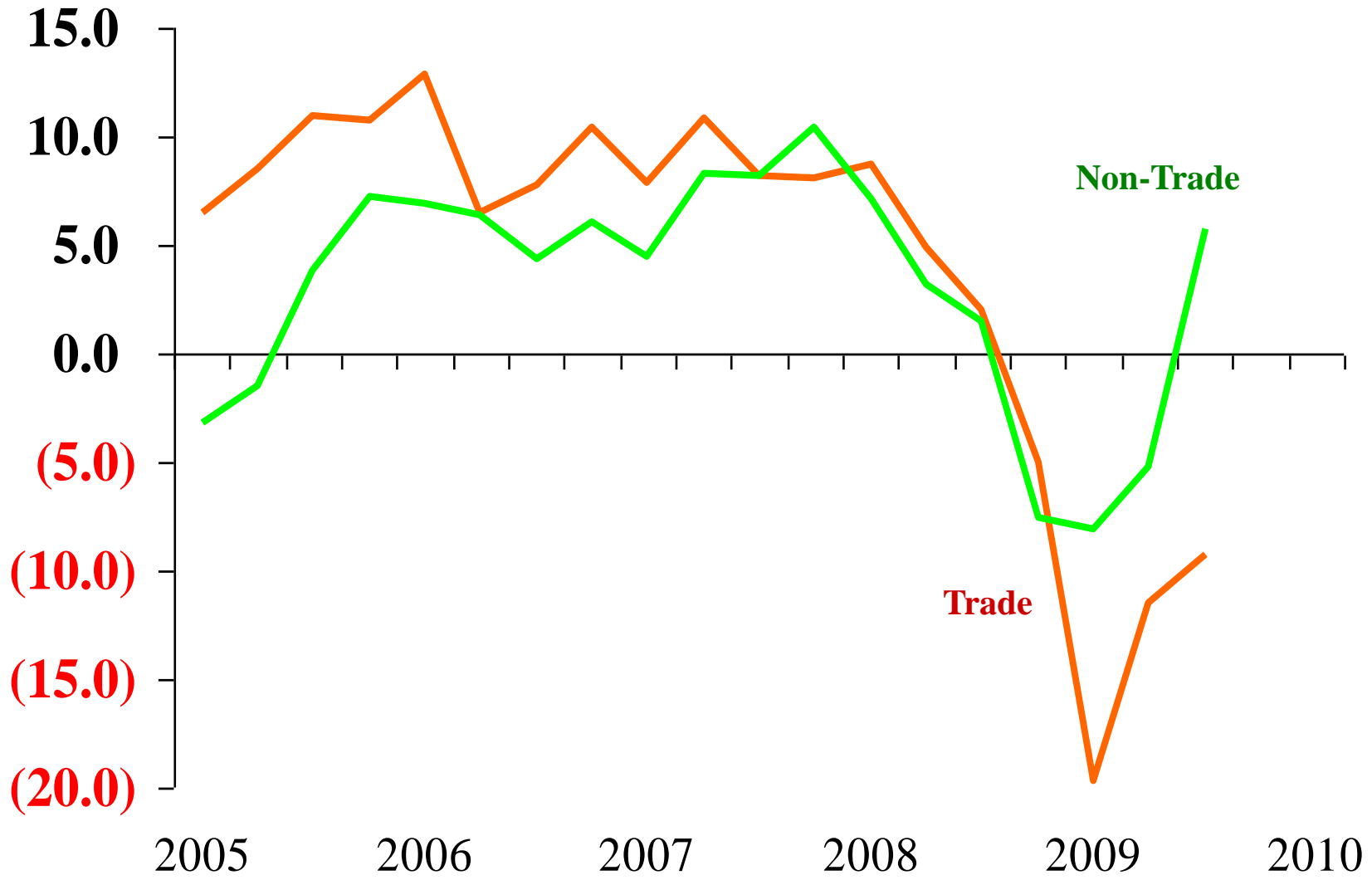
But, keep a close eye on the regulatory environment.

Hong Kong's Domestic Driver

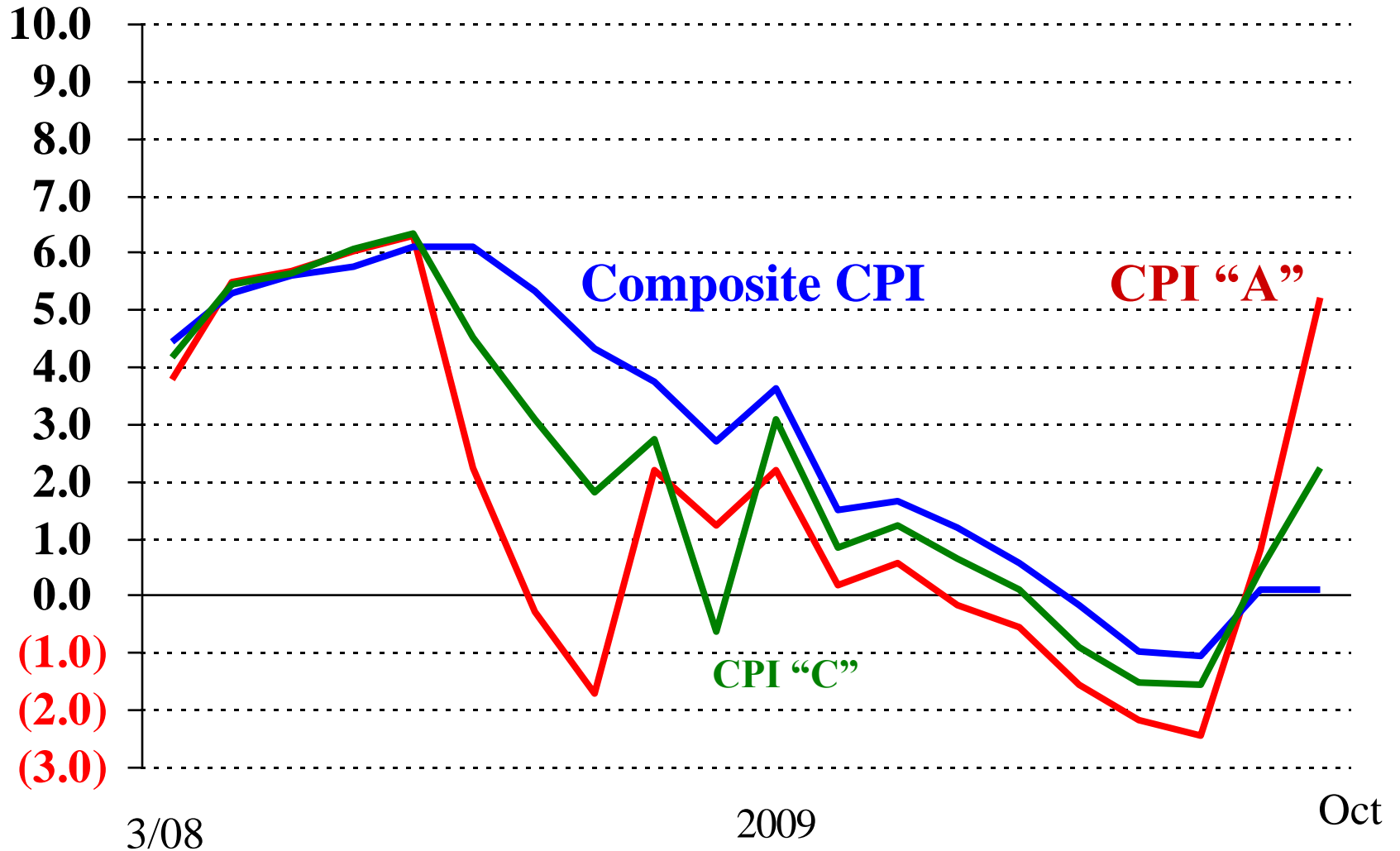


Up on the Inside, Only

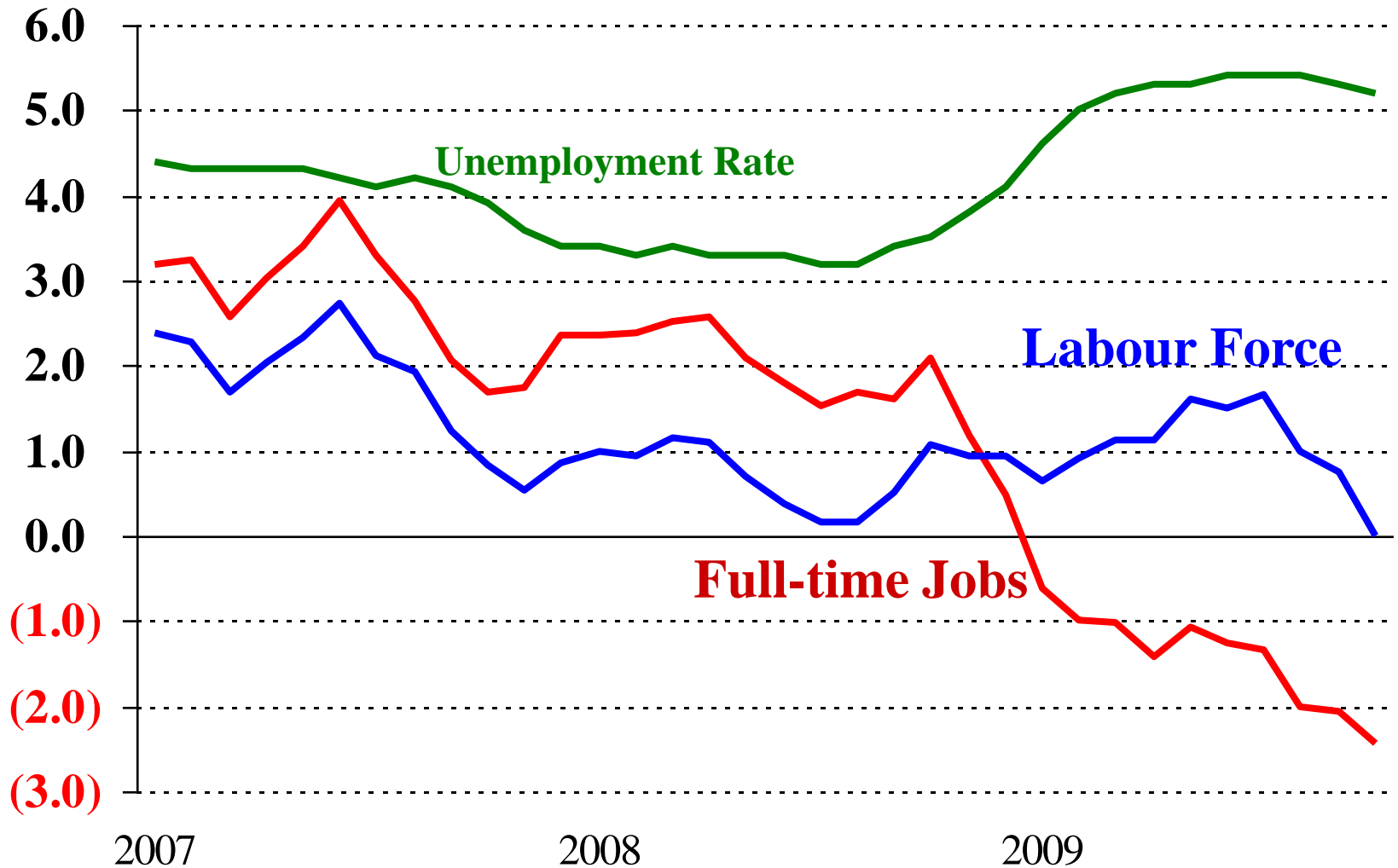
Real Percent Change Year-on-Year



Diverging HK Inflation Rates



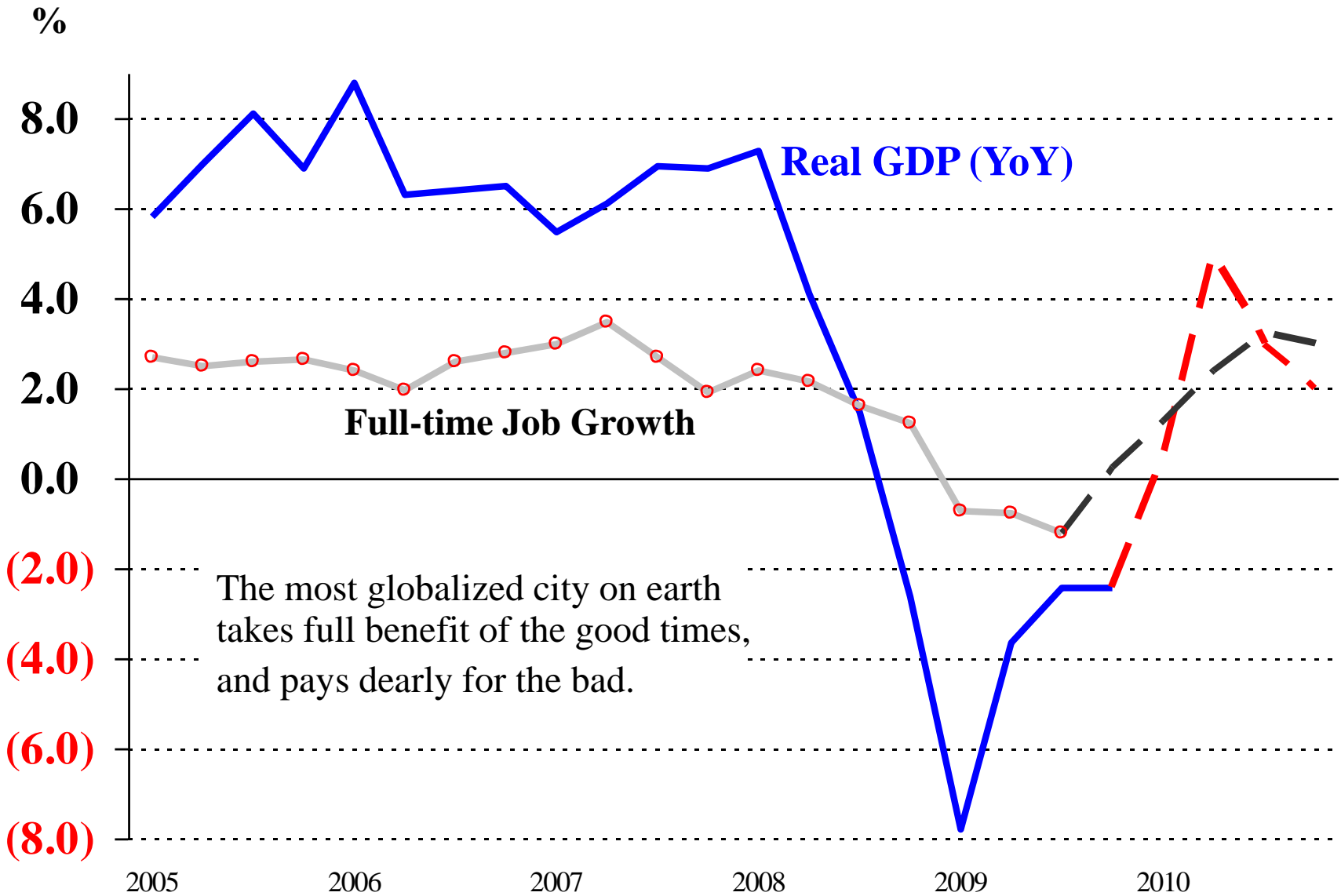
Laboring





Hong Kong's Real Economic Growth

Year-on-Year, Still Underwater



Pending Regulatory Matters

In expected chronological order

- ▷ Minimum wage law
- ▷ Quarterly accounts reporting requirement
- ▷ Financial sector compensation limits
- ▷ Company Ordinance rewrite
- ▷ Statutory backing for listing regulations
- ▷ Trustee Ordinance rewrite
- ▷ Competition law
- ▷ Healthcare financing reform

Thank You.