

- The Pacific Economic Cooperation Council has revised downwards its forecast for growth in the Asia Pacific from our November forecast for 2008. We now forecast the region to grow at 3.7% this year compared to our earlier forecast of 4.9%
- Inflation is now a greater concern than it was 6 months ago with our forecast for CPI inflation increasing from 2.7% to 3.6% for 2008
- We have downgraded significantly our forecast for the US economy from 2.9% growth to just 1.0% for 2008. Forecasts for growth in almost all other economies of region have been downgraded.
- While we have also downgraded our forecast for 2009, we still expect the region as a whole to bounce back in 2009 with growth forecasted at 4.4%, again, the US economy plays a central role and is expected to recover and grow at 2.5% .
- As we stressed in our November forecast, the risks to the forecast are greater than they have since the tumultuous Asian Financial Crisis period.
- Although East Asia is gradually increasing internal consumption, the forecast for the region has been downgraded with net exports expected to be a drag on most of the region's economies.

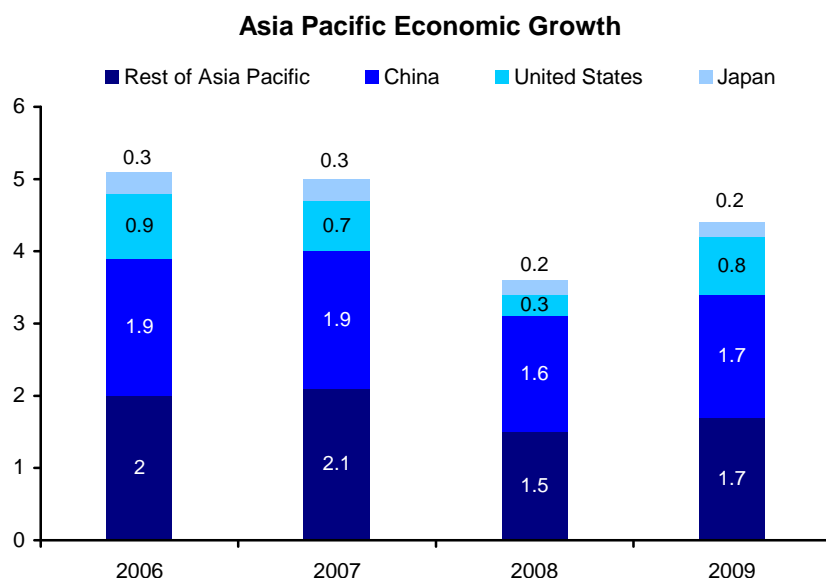
Real GDP Growth and CPI Inflation

	2006	2007	2008	2009
Real GDP Growth (%)				
China	11.1	11.4	9.6	10.0
Japan	2.4	2.1	1.6	1.7
United States	2.9	2.2	1.0	2.5
Asia Pacific	5.1	4.9	3.7	4.4
East Asia	6.8	6.8	5.5	5.8
Southeast Asia	7.2	7.3	5.2	5.9
South America	4.8	6.0	6.7	5.7
Asia Pacific excluding East Asia	2.9	2.6	1.4	2.6
CPI Inflation (%)				
China	1.5	4.8	6.0	5.0
Japan	0.2	0.1	0.6	0.3
United States	3.2	2.9	3.9	2.6
Asia Pacific	2.2	2.7	3.6	3.0
East Asia	1.5	2.6	3.8	3.4
Southeast Asia	3.0	3.2	6.2	4.6
South America	3.5	3.6	6.0	3.6
Asia Pacific excluding East Asia	3.0	2.7	3.5	2.5

The first quarter update to our economic outlook is based on the March 2008 inputs from PECC's panel of 16 economies.

Emerging economies bolster regional growth

The Asia Pacific is forecast to grow at 3.7% this year compared to 4.9% last year. The revision to our forecast comes from increased pessimism about the health of the US economy, which is forecast to grow at only 1.0% this year. The knock-on effects of the slow down in the US economy and the turmoil in financial markets are seen in downward revisions for growth in most Asia Pacific economies.



However, aggregate growth in the region is being supported by continued strength in the developing economies, especially East Asia. Aggregate growth in the rest of the Asia Pacific, excluding East Asia will only be 1.4%, a rate not seen since the 2001 downturn in the US economy. China continues to drive Asia Pacific economic growth accounting for 45% of the growth of the region's economy – contributing 1.6% to the region's total of 3.7%. or 43% of the region's growth.

The US economy grew by 2.2% in 2007, down from 2.9% in 2006, and is set to slow even further to just 1.0% growth in 2008 before rebounding to 2.5% in 2009. We expect the recovery to start towards the end of 2008 with stronger growth in 2009. The fiscal stimulus package which will give US\$120 billion to households and easing monetary policy will begin to take effect in the second half of this year.

Japan's real GDP growth in 2007 was 2.1% slowing from 2.4% growth in 2006. Economic growth this year is expected to slow further to 1.6% and will grow at much the same rate in 2009 at 1.7%. Private-sector demand is responsible for 0.9% of this growth and is the same level as in the previous year. The contribution of the external sector to economic growth is expected to decrease from 1.1% in 2007 to 0.7%. The US is still a key market for Japanese exports and the expected slowdown in the US accounts for this decrease in the contribution of net exports to Japan's economic recovery.

In line with the expected slowdown in the region, China's economy is also set to slow from 11.4% in 2007 to 9.6% this year before rebounding to 10.0% in 2009.

The rest of the region follows a similar pattern to the big three Asia Pacific economies except for the South American economies (Chile, Ecuador, Colombia, and Peru) where growth is forecast to increase in 2008 to 6.7% from last year's 6.0%. buoyed mostly by strong commodities exports.

There is evidence that the impact of the sharp slowdown in the US is somewhat muted due to the increased importance of consumption in the region. However, for much of the region, with the exception of a few notable economies including Japan, the United States, Singapore

and Chinese Taipei, the external sector is expected to be a drag on growth.

Inflation a major concern

While the slowdown in growth weighs heavily on policy makers minds, it is the specter of inflation that is causing the biggest headaches. Combined together, there is very little room for monetary stimuli. As we noted in our November forecast, inflation in the region is on an upward trend. Indonesia and China in particular stand out with inflation in China expected to hit 6.0% this year and Indonesia to jump to 11.7%.

Our latest revision to the forecasts upgraded inflation for the region as a whole from 2.7% to 3.6%.

Inflation remains the biggest concern for China's economy and we have sharply increased our forecast for CPI inflation for 2008. Inflation has been on a steady rise in China, increasing from 1.5% in 2006 to 4.8% in 2007. Our forecast update includes an upwards revision of 1.8% from the 4.2% we forecasted back in November.

China is not alone in struggling with price pressures. In Southeast Asia CPI inflation is set to almost double from 3.2% in 2007 to 6.2% this year. Indonesia has already been mentioned but same holds for the Philippines and Singapore.

One key development that needs to be watched is whether this year represents an end to the deflationary cycle in the Japan. CPI inflation is creeping upwards from 0.1% in 2007 to a forecasted 0.6% thus year.

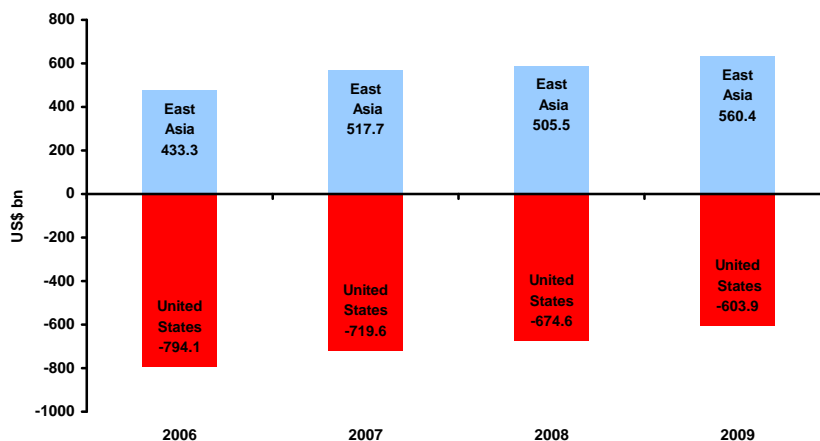
Inflation in the US as measured by CPI decreased slightly in 2007 dropping from 3.2% to 2.9% from 2006. However, inflation is set to increase to 3.9% due to the sharp increase in oil prices before dropping back to 2.6% in 2009 in line with an expected drop in the price of oil next year.

Looking at another measure of prices, the GDP deflator, a similar picture emerges, however price pressures in China (GDP deflator y-o-y increase 10.5%), Indonesia (GDP deflator y-o-y increase 17.0%), and Singapore (GDP deflator y-o-y increase 6.0%) appear more severe than as reflected in the CPI increases while less so for the Philippines (3.3%). While CPI inflation might indicate that Japan's deflationary cycle is coming to and end, the GDP deflator reflects a continuation. (GDP deflator y-o-y increase -1.0%).

External Sector Weakness

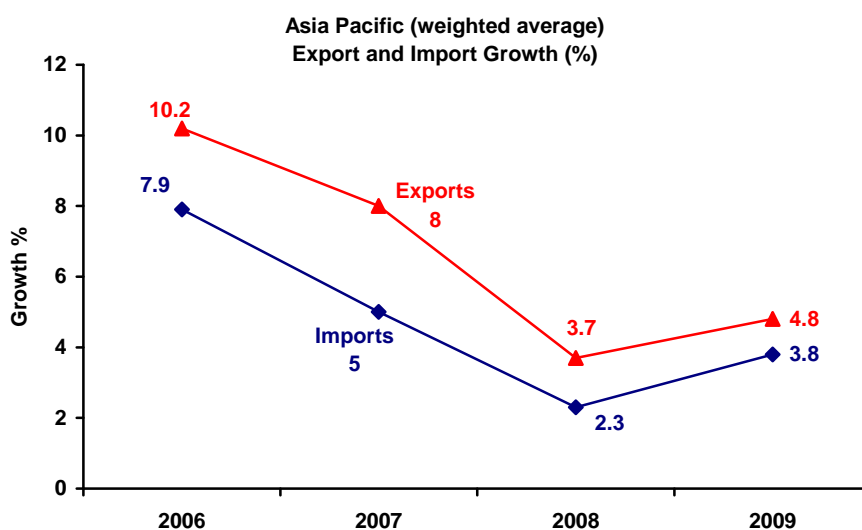
The impact of the US slowdown is not forecast to be as severe on the region's growth as on previous occasions, with much of the region's and especially East Asia's growth depending more in internal demand than the external sector. The external sector is expected to be a drag on growth for many of the region's economies with some notable exceptions, including the US where import growth is expected to significantly slow to 0.9% and export growth to remain fairly strong at 7.5%.

Current Account Balance (US\$ bn)



The slowdown in US imports and strong export performance is another sign that the transpacific current account imbalance is beginning to unwind. The US current account deficit is forecast to drop from US\$720 billion in 2007 to US\$675 billion in 2008. The decline is even greater in terms of percent of GDP with the current account deficit in terms of GDP falling from its peak in 2006 of 6.0% of GDP to 5.2% in 2007, 4.7% in 2008 and then 4.0% in 2009.

However, Canada, which exports over three-quarters of its goods and services to the United States is expected have a reversal in its current account this year, from having a surplus of US\$15 billion to a deficit of US\$17 billion. Continued strong import growth, bolstered by a strong Canadian dollar and reduction in exports due to the slowdown in the United States are the prime causes of this reversal. While still forecasting 1.0% growth in Canada, if the US slowdown is worse than expected then Canada will not be far behind.



Both export and import growth are expected to continue on the downward trend in the region that began in 2006. Exports are forecast to slow due to the deteriorating conditions in the global economy. Further evidence in the decline of the external sector is seen in the breakdown of contributions to individual economy's GDP growth. Net exports a drag on economic growth for most economies with the notable exceptions of Indonesia, Japan, Korea, Singapore, Chinese Taipei and the United States. However, in line with the recovery in the US economy in 2009, export and import growth are expected recover in 2009.

Exchange rates Most Asia Pacific currencies are forecast to continue their appreciation against the US dollar. The impact of the appreciation on the external sector is being felt with the US current account deficit expected to continue to improve.

While the Renminbi continues to appreciate against the US dollar, our forecast for the year-end rate has been adjusted from our November forecast, from US\$1:RMB6.89 to US\$1:RMB6.91. The Chinese economy in 2008 is facing more uncertainties than in the past few years, such as the higher inflation rate, the rising cost of labor, the effect of new labor contract law, the contractionary monetary policy, the impact of the RMB appreciation and the uncertainty of international economy. Our forecast for one year deposits, our measure for short term interest rates in China is 7.7% by year-end compared to 6.9% in 2007.

Uncertainty and downside risks dominate The predicted recovery in the US economy is by no means assured. The swift rise in commodity prices over the first quarter of the year has led many economies in the region to pursue more protectionist stances in their trade policy, imposing export limits and bans in

some cases, thus further reducing supply to the global market and leading to even further hikes in good prices.

However, while prices of key commodities continue to rise with little end in sight. These forecasts were made in March and the continued increases in commodity prices since then may make these forecasts too optimistic unless a correction takes place over the coming months. On the other side, if the global slowdown is more severe than anticipated, demand for key commodities could taper off reducing price pressures.

T1: Real economic growth and increase in consumer prices for PECC economies, 2006-2009 (%)

	Real GDP				CPI			
	2006	2007	2008	2009	2006	2007	2008	2009
Australia	2.8	3.9	4.2	3.6	3.5	2.3	3.1	2.4
Canada	2.8	2.7	1.0	2.3	2.0	2.1	1.6	1.9
Chile	4.0	5.2	n.a.	n.a.	3.4	4.4	7.1	3.1
China	11.1	11.4	9.6	10.0	1.5	4.8	6.0	5.0
Colombia	4.7	6.8	7.0	5.0	5.0	4.3	5.7	4.8
Ecuador	3.9	2.6	4.2	n.a.	3.3	2.3	3.7	n.a.
Hong Kong, China	7.0	6.3	4.5	4.9	2.0	2.0	3.6	4.9
Indonesia	5.5	6.3	5.8	6.3	6.6	6.6	11.7	7.0
Japan	2.4	2.1	1.6	1.7	0.2	0.1	0.6	0.3
Korea	5.0	4.9	5.0	5.0	2.2	2.5	2.8	n.a.
New Zealand	2.2	3.3	1.8	2.8	3.4	2.4	3.3	2.8
Peru	7.6	9.0	7.9	6.6	2.0	1.8	5.0	3.1
Philippines	5.4	7.3	6.3	7.1	6.3	2.8	5.0	5.6
Singapore	8.2	7.7	4.8	5.5	1.0	2.1	4.5	3.5
Chinese Taipei	4.9	5.7	4.3	4.5	0.6	1.8	2.0	1.7
United States	2.9	2.2	1.0	2.5	3.2	2.9	3.9	2.6

Source: SOTR forecasters

T2: Real export and import growth for PEO economies, 2006-2009 (%)

	Exports				Imports			
	2006	2007	2008	2009	2006	2007	2008	2009
Australia	3.3	3.5	3.9	7.8	7.3	10.9	12.1	5.2
Canada	0.7	0.9	-3.5	1.3	5.0	5.7	5.4	3.1
Chile	4.2	8.1	n.a.	n.a.	9.4	15.1	n.a.	n.a.
China	19.6	10.9	-5.8	0.4	13.1	6.7	-5.2	3.0
Colombia	7.0	7.8	6.0	4.0	19.9	20.8	15.1	12.6
Ecuador	8.6	-1.7	5.3	n.a.	9.2	6.5	5.0	n.a.
Hong Kong, China	9.4	7.9	5.7	6.7	9.1	8.9	7.4	6.7
Indonesia	9.4	8.0	8.0	8.5	8.6	8.9	8.0	8.8
Japan	9.7	8.8	5.5	2.6	4.2	1.7	1.1	0.3
Korea	12.4	11.8	9.7	n.a.	11.3	11.8	10.5	n.a.
New Zealand	3.3	0.3	2.8	3.2	0.1	2.8	-0.6	4.7
Peru	0.5	6.2	7.2	4.9	12.3	19.1	13.9	13.1
Philippines	11.2	3.1	2.3	11.9	1.9	-5.4	2.8	8.0
Singapore	11.0	6.6	6.7	7.7	11.4	6.8	6.6	7.5
Chinese Taipei	10.4	8.8	4.2	5.6	5.2	4.0	2.4	3.8
United States	8.4	8.0	7.5	7.4	5.9	1.9	0.9	3.7

Source: SOTR forecasters

T3: Current account of the balance of payments for the PECC economies, 2006-2009
(US\$B and % of GDP)

	2006	2007	2008	2009	2006	2007	2008	2009
	US\$	US\$	US\$	US\$	%	%	%	%
Australia	-41.3	-52.2	-46.4	-41.4	-5.5	-5.7	-5.0	-4.2
Canada	26.7	15.2	-17.1	-31.3	1.6	0.9	-1.0	-1.6
Chile	5.3	6.3	n.a.	n.a.	3.6	3.8	n.a.	n.a.
China	208.9	260.3	284.7	287.3	7.9	8.0	6.8	5.7
Colombia	-1.9	-3.1	-6.5	-9.6	-1.5	-2.2	-3.8	-4.8
Ecuador	1.5	1.5	2.4	n.a.	3.7	3.4	4.9	n.a.
Hong Kong, China	22.8	27.4	26.9	25.2	12.1	13.3	12.1	10.6
Indonesia	10.8	11.0	6.1	8.2	3.0	2.5	1.2	1.4
Japan	171.5	194.9	196.6	221.4	3.9	4.4	3.9	4.3
Korea	5.4	6.0	-2.6	n.a.	0.6	n.a.	n.a.	n.a.
New Zealand	-9.1	-9.8	-7.8	-8.4	-8.6	-7.6	-5.2	-5.5
Peru	2.8	1.5	0.9	-3.7	2.9	1.3	0.6	-2.4
Philippines	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Singapore	29.8	39.2	50.5	62.7	21.8	24.3	27.1	29.8
Chinese Taipei	24.7	29.1	25.2	26.5	6.7	7.6	5.9	5.8
United States	-794.1	-719.6	-674.6	-603.9	-6.0	-5.2	-4.7	-4.0

Source: SOTR forecasters

T4: Forecast of contributions to real GDP/GNP growth rate for PECC economies, 2008-2009 (% per year)

		GDP growth rate	Personal consumption expenditure	Gross private domestic investment	Government purchasing	Net exports
Australia	2008	4.2	2.7	2.1	1.5	-2.1
	2009	3.6	2.0	0.5	1.2	0.2
Canada	2008	1.0	2.7	0.5	0.5	-3.7
	2009	2.3	2.1	0.3	0.6	-0.9
Chile	2008	n.a.	n.a.	n.a.	n.a.	n.a.
	2009	n.a.	n.a.	n.a.	n.a.	n.a.
China	2008	9.6	2.8	3.3	n.a.	-0.6
	2009	9.6	3.9	4.3	n.a.	-0.7
Colombia	2008	7.0	4.4	3.8	1.6	-2.8
	2009	5.0	3.8	2.8	1.2	-2.8
Ecuador	2008	4.2	3.3	0.9	0.4	-0.3
	2009	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong, China	2008	4.5	3.8	1.8	1.7	-2.8
	2009	4.9	3.6	0.7	0.1	0.5
Indonesia	2008	5.8	2.9	2.4	0.6	2.4
	2009	6.3	2.8	2.3	0.4	0.7
Japan	2008	1.6	0.6	0.2	n.a.	0.7
	2009	1.7	0.7	0.6	0.1	0.4
Korea	2008	5.0	2.2	n.a.	n.a.	0.7
	2009	n.a.	n.a.	n.a.	n.a.	n.a.
New Zealand	2008	1.8	0.7	0.5	0.5	1.1
	2009	2.8	1.3	0.3	0.5	-0.6
Peru	2008	7.9	4.4	3.1	1.9	-1.5
	2009	6.6	3.9	3.4	1.2	-1.9
Philippines	2008	6.3	4.7	1.5	0.5	-0.2
	2009	7.1	4.8	0.4	0.2	1.9
Singapore	2008	4.8	0.9	1.4	0.6	1.9
	2009	5.5	1.1	1.2	0.7	2.6
Chinese Taipei	2008	4.3	1.7	0.6	0.4	1.6
	2009	4.5	-0.1	0.0	0.1	1.9
United States	2008	1.0	0.8	0.7	0.1	0.3
	2009	2.5	1.4	1.8	0.1	-0.2

Source: SOTR forecasters

T5: Actual and forecast levels of short-term, long-term interest rates for PECC economies, 2006-2009 (%)

Short-term interest rates						Long-term interest rates					
	Type	2006	2007	2008	2009		Type	2006	2007	2008	2009
Australia	90-day Dealer Bill rate (period average)	5.85	6.43	6.90	6.40		10-yr Government bond yield (period average)	5.47	5.91	6.60	6.30
Canada	3-month TB	4.04	4.12	3.25	2.99		Canada 10-Yr	4.22	4.28	4.00	3.95
Chile	30-day deposit rate	5.00	5.30	n.a.	n.a.		10-yr Central Bank bond	2.80	2.70	n.a.	n.a.
China	1 yr. Deposit	5.99	6.93	7.71	8.01		5-yr + Deposit	6.62	7.65	8.43	8.73
Colombia	DTF-90 days (Corresponds to 90 days certificate deposit nominal interest rate)	6.35	6.82	9.01	n.a.		TES-Largo plazo (Corresponds to long term (9 yrs to 16 yrs) nominal interest rate for Colombian treasury bills)	9.12	8.80	10.29	n.a.
Ecuador	Wtd avg rates on private banking loans up to 360 days	10.24	10.72 *	10.50 **	n.a.		Wtd avg rates on private banking loans over 360 days	11.35	11.51 ***	n.a.	n.a.
Hong Kong, China	3-mth HIBOR (yr end)	3.84	3.31	4.00	4.00		HSBC Prime yr end	7.75	6.75	7.50	7.00
Indonesia	1 month Bank Indonesia certificate (end of year)	9.75	8.00	9.50	8.50		10 years government bond	11.50	10.50	11.80	10.50
Japan	3-mth CD rate	0.19	0.57	0.67	1.05		10-yr govt bond	1.74	1.65	1.41	1.72
Korea	Yields on CD(91-day)	4.5	5.2	n.a.	n.a.		Yields of Treasury Bonds(3-year)	4.8	5.2	n.a.	n.a.
New Zealand	90 day bank bill, calendar yr	7.55	8.33	8.43	6.88		10-yr govt bond, calendar yr	5.78	6.26	6.27	6.40
Peru	Interbank average interest rate	4.50	5.00	5.25	5.25		Loans and discounts more than 360 days	n.a.	n.a.	n.a.	n.a.
Philippines	91-day T-bill	5.31	3.38	2.98	1.57		364-day T-bill	6.89	5.21	4.89	4.33
Singapore	3-Mth Interbank Rate (End of Period)	5.33	5.33	5.33	5.33		15-Yr Bond Yield (End of Period)	3.05	3.00	3.00	3.00
Chinese Taipei	Interbank overnight rate	1.55	2.00	2.10	2.24		10-yr Gov.t Bond	1.98	2.32	2.63	2.99
United States	3-Mth T-bill	4.35	1.58	1.86	1.86		10-Yr T-bond	4.63	3.21	3.02	3.02

Source: SOTR forecasters

T6: Exchange Rates, 2006-2009 (Local Currency Per US\$)

	2006	2007	2008	2009
Australia	1.33	1.19	1.25	1.25
Canada	0.88	1.13	1.18	1.21
Chile	530.28	522.50	n.a.	n.a.
China	7.97	7.60	6.91	6.58
Colombia	2321.49	2358.96	2076.24	1935.69
Ecuador	1.00	1.00	1.00	1.00
Hong Kong, China	7.80	7.80	7.80	7.80
Indonesia	9141.30	9163.70	9200.00	9100.00
Japan	116.31	117.76	103.88	102.50
Korea	955.08	929.16	n.a.	n.a.
New Zealand	1.54	1.36	1.24	1.26
Peru	3.20	2.97	2.60	2.60
Philippines	51.31	46.15	41.58	41.86
Singapore	1.59	1.51	1.45	1.42
Chinese Taipei	32.53	32.84	30.88	30.06
United States	1.00	1.00	1.00	1.00

Source: SOTR forecasters

T7: GDP Deflator Index

	2006	2007	2008	2009
Australia	102.37	106.18	109.20	111.12
Canada	1.13	1.16	1.20	1.23
Chile	129.79	138.22	n.a.	n.a.
China	118.66	128.61	142.11	153.48
Colombia	3.24	3.39	3.54	3.68
Ecuador	192.07	201.07	210.29	n.a.
Hong Kong, China	99.70	102.45	105.21	109.37
Indonesia	180.78	201.50	235.75	267.11
Japan	92.57	91.87	91.01	91.76
Korea	111.70	n.a.	n.a.	n.a.
New Zealand	1234.68	1276.89	1329.81	1357.74
Peru	190.44	195.74	197.83	200.53
Philippines	472.61	485.49	501.32	514.46
Singapore	102.00	106.10	112.50	118.12
Chinese Taipei	95.99	96.15	96.22	96.89
United States	116.57	119.68	122.73	126.12

Source: SOTR forecasters

T8: Trade Weights, 2004-2006 average (%)

	All	Excluding United States and Japan	East Asia*	Southeast Asia	Latin America	Excluding East Asia
Australia	2.7%	4.8%				6.1%
Canada	7.9%	14.1%				17.9%
Chile	0.9%	1.6%			45.0%	2.0%
China	16.9%	30.2%	30.2%			
Colombia	0.5%	0.9%			24.8%	1.1%
Ecuador	0.2%	0.4%			12.1%	0.5%
Hong Kong, China	7.0%	12.5%	12.5%			
Indonesia	1.8%	3.3%	3.3%	22.9%		
Japan	13.1%		23.4%			
Korea	6.5%	11.5%	11.5%			
New Zealand	0.5%	1.0%				1.2%
Peru	0.4%	0.6%			18.1%	0.8%
Philippines	1.1%	1.9%	1.9%	13.5%		
Singapore	5.1%	9.1%	9.1%	63.6%		
Chinese Taipei	4.5%	8.1%	8.1%			
United States	30.9%					70.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Compiled from WTO Statistics. Trade Weights are the total merchandise (imports and exports) of each economy over the total trade merchandise of the region.

** East Asia aggregates include Southeast Asia*