

Press Release

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Growth Forecasts Revised Downwards; Inflation to Rise Sharply

(Singapore) Inflation in the Asia Pacific is set to rise sharply this year in the face of increased oil and commodity prices. Headline consumer prices will increase this year by 3.6% compared with a 2.7% increase in 2007. The aggregate numbers mask much sharper price spikes in certain Asian economies. China, for example, will see an increase in the CPI of about 6.0% for 2008 as a whole, with year-on-year increases in the second half of the year in excess of 8.0%. In Indonesia, the consumer price index is expected to jump 11.7%. For Southeast Asia, CPI inflation is set to almost double from 3.2% in 2007 to 6.2% in 2008.

“The period of strong growth with very low inflation has come to an end. Even with appreciating currencies, Asia Pacific economies are starting to feel the pinch of higher energy and commodity prices. The recent spike in food prices has not helped. Indeed, it has exacerbated the adverse impact on vulnerable groups who spend a high proportion of their incomes on rice and other staples,” said Yuen Pau Woo, coordinator of the Pacific Economic Cooperation Council’s (PECC’s) State of the Region Report and President of the Asia Pacific Foundation of Canada, based in Vancouver.

PECC’s first quarter economic outlook update projects 3.7% real GDP growth for the Asia Pacific region in 2008, a substantial downward revision from the 4.9% forecast in November 2007, due to growing pessimism about the United States economy. The region is expected as a whole to bounce back in 2009 with growth at 4.4%.

“In the context rising inflation and an uncertain end to the US credit crunch, policymakers around the region will have less policy space to reflate their economies,” added Woo. The PECC forecast downgraded significantly the forecast for the US economy from 2.9% growth to just 1% for 2008. However, the forecast notes that growth in the region is coming mostly from developing economies, in particular China, which is expected to contribute almost half of the region’s growth this year.

“The across-the-board slowdown, although affecting some economies more than others, highlights the continued inter-dependence of the Asia Pacific and the importance of regional cooperation,” said Charles Morrison, chair of PECC and President of the East West Center. “Trade and the freer flow of capital have been driving forces for high rates of growth in the Asia-Pacific region, in a time of slowdown, it is critical that these drivers not be lost. Instead we have seen the opposite with policy actions such as the imposition of exports restrains and financial protectionism. APEC has a chance this week to prove its worth and show leadership and restore confidence in the system,” he added.

PECC expects the external sector to be a drag on growth for many of the region’s economies with the notable exceptions of Indonesia, Japan, Korea, Singapore, Chinese Taipei, and the United States. However, export and import growth are expected to recover in 2009 as will growth in the region with an expected recovery in the US by late 2008.

“We expect the fiscal stimulus package to have a positive effect on the US economy, even though it will taper off by late 2008,” said Woo. “If the fall in housing prices does not abate by the end of the year, or if there are other big surprises in financial sector write-downs, the risk of a further downward spiral becomes very real. The risks to our forecasts are higher than they have been for a decade.”

The first quarter update to our economic outlook is based on the March 2008 inputs from PECC's panel of 16 economies. The report can be downloaded from: www.pecc.org/sotr. The report coordinator is Mr Yuen Pau Woo, President of the Asia Pacific Foundation of Canada based in Vancouver.

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Pacific Economic Cooperation Council

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