



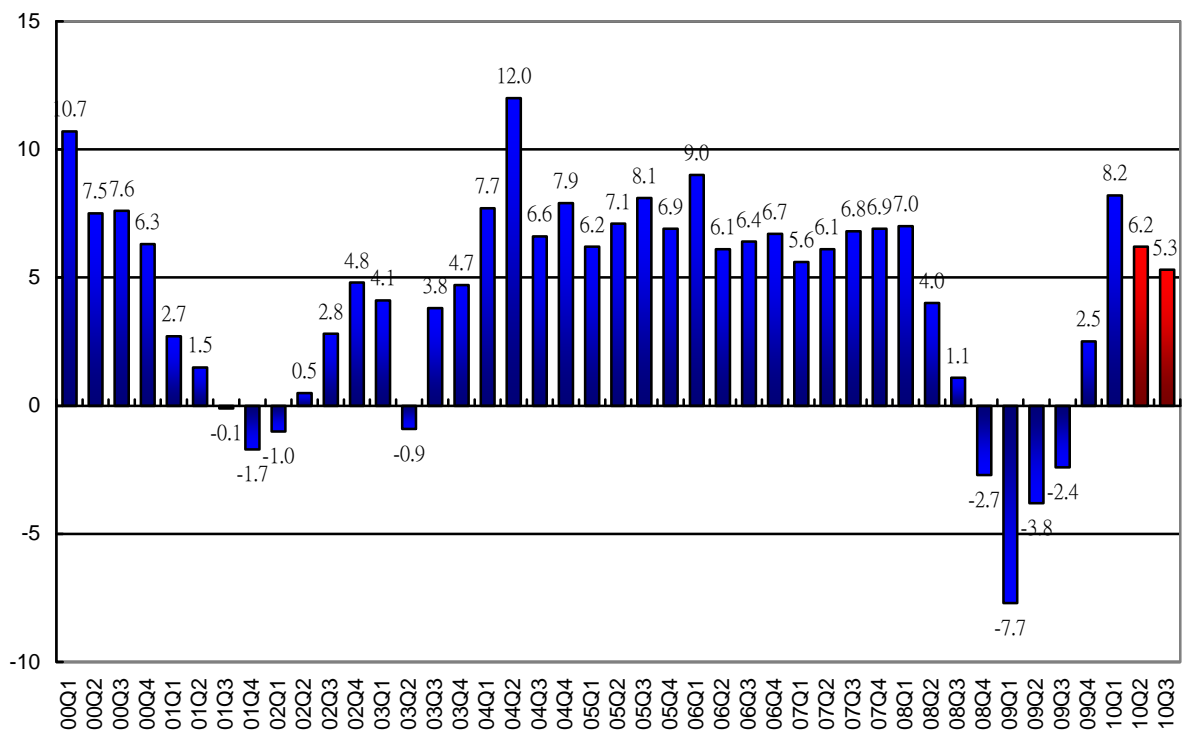
For Immediate Release

HKU Announced 2010 Q3 HK Macroeconomic Forecast

Sustained Economic Growth

The APEC Studies Programme of the Hong Kong Institute of Economics and Business Strategy at the University of Hong Kong (HKU) released its quarterly Hong Kong Macroeconomic Forecast today (Jul 7). Following the spectacular performance in 10Q1, with GDP growing by 8.2%, output growth is expected to continue but at a more moderate pace. According to its High Frequency Macroeconomic Forecast, real GDP is estimated to increase by 6.2% in 10Q2 when compared with the same period last year, and is forecast to grow more slowly at 5.3% in 10Q3.

Real Gross Domestic Product
(Year-on-year percentage change, 2008 prices)



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "Hong Kong's broad-based economic recovery, starting from the second half of last year, is expected to be sustainable. The global economy will continue to grow, albeit at a slower rate. This will provide support for Hong Kong's external demand. In particular, the Mainland economy has remained vibrant, despite the Great Recession brought on by the global financial crisis, growing by 9.1% in 2009 and by 11.9% in 10Q1. The strong growth in the Mainland provides the underpinning of sustained growth in the local economy. All the output loss due to the financial crisis has already been recouped by 10Q2. The GDP growth in the current quarter is roughly equally driven by domestic and external demand, with net external demand accounting for 2.9 percentage points of the overall 5.3% GDP growth, and domestic demand accounting for the rest the growth."

"The labour market will improve further with the unemployment rate projected to fall from 4.5% in 10Q2 to 4.4% in 10Q3. The number of unemployed workers is forecast to drop by 3,000, and the number of employed workers is estimated to go up by 13,000. Inflation is mild in the first half of this year, but inflationary pressure is building up, fueled by the weak dollar and rising rental rates. The price level, as measured by the composite CPI, is forecast to increase by 2.9% in 10Q3, up from a 2.5% rise in 10Q2," according to Dr. Alan Siu, Executive Director of the Hong Kong Institution of Economics and Business Strategy 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.

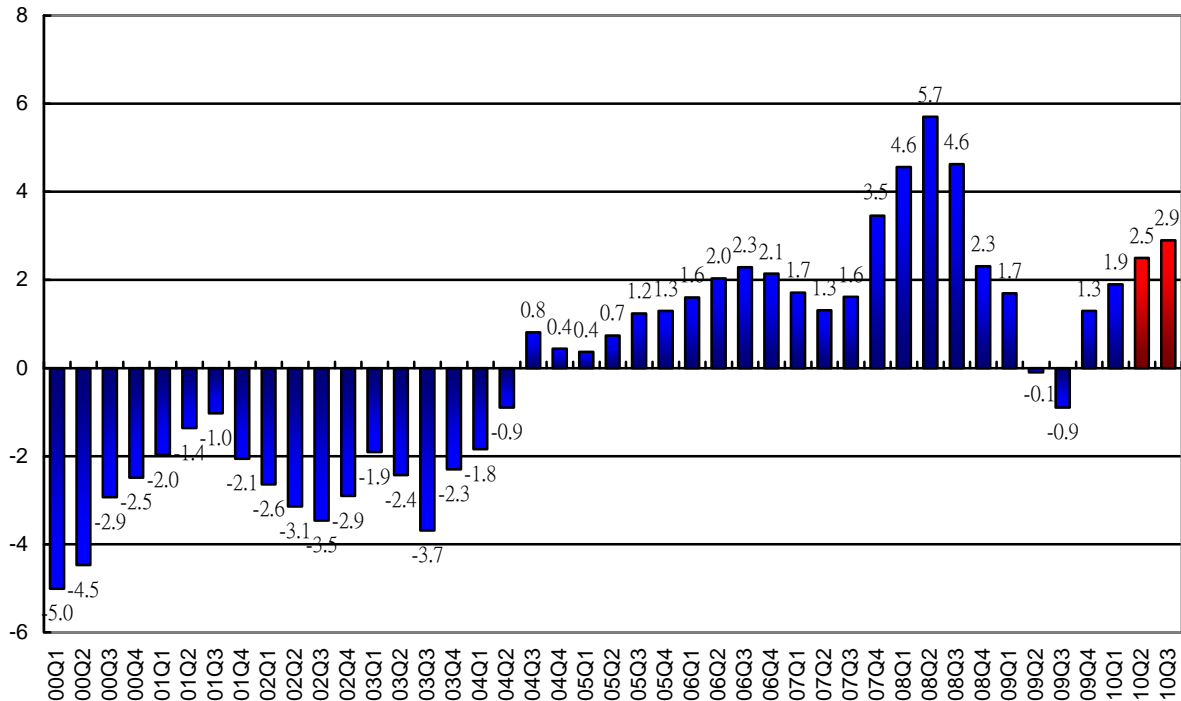
Forecast Highlights

- Buoyed by an improving job market and boosted by a lower base of comparison in 09Q1, private consumption spending surged by 6.5% in 10Q1. Consumption growth will slowdown as the economic outlook is getting more cloudy. The growth of private consumption spending is forecast to be 5.2% in 10Q2 and to decelerate to 5.0% in 10Q3.

- The volume of retail sales increased by 12.4% in April 2010. The growth in retail sales is projected to remain at double-digit rates in the next couple of months, supported by strong growth in visitor arrivals. The growth in the volume of retail sales is estimated to be 16.4% in 10Q2 and moderate to 15.8% in 10Q3.
- Total exports of goods surged by 21.6% in 10Q1, turning around from the 2.8% drop in 09Q4. Reflecting the recovery of the global economy, external demand has picked up rapidly. In May 2010, the exports of goods from Hong Kong continued to enjoy robust growth, with electrical machinery, telecommunication equipment and office machinery rose by 39.9%, 19.2% and 40.0% respectively. The total exports of goods is estimated to grow by 18.9% in 10Q2, and is forecast to moderate to grow by 17.6% in the 10Q3, reflecting weaker European demand and the credit-tightening arising from concerns over sovereign debt.
- Imports of goods increased by 28.0% in 10Q1, picking up from the 3.3% growth in 09Q4. In tandem with the strong exports of goods, imports of goods also grew rapidly in May 2010, with electrical machinery, telecommunication equipment and office machinery growing by 51.1%, 27.4% and 37.7% respectively. The growth of imports of goods is forecast to moderate to 21.7% and further drop to 15.8% in 10Q2 and 10Q3 respectively.
- Service exports grew by 17.9% in 10Q1, accelerating from the 8.9% growth in 09Q4. The revival in visible trade led to a pickup in the trade related services. The influx of Mainland visitors was the main driver in the growth of visitor arrivals, accounting for 27 percentage points of the 38.9% overall growth in May 2010. The increase in service exports is forecast to be 12.8% in 10Q2 and moderate to 10.4% 10Q3.
- Service imports went up by 10.2% in 10Q1, accelerating from the 2.5% growth in 09Q4. Service imports is forecast to grow by 8.9% and 8.8% in 10Q2 and 10Q3 respectively.
- Gross fixed capital formation surged by 10.5% in 10Q1, moderating from the 14.1% growth in 09Q4. Infrastructural projects will continue to provide impetus for investment spending. The gross fixed capital formation is projected to grow by 14.9% in 10Q2 and 10.6% in 10Q3.

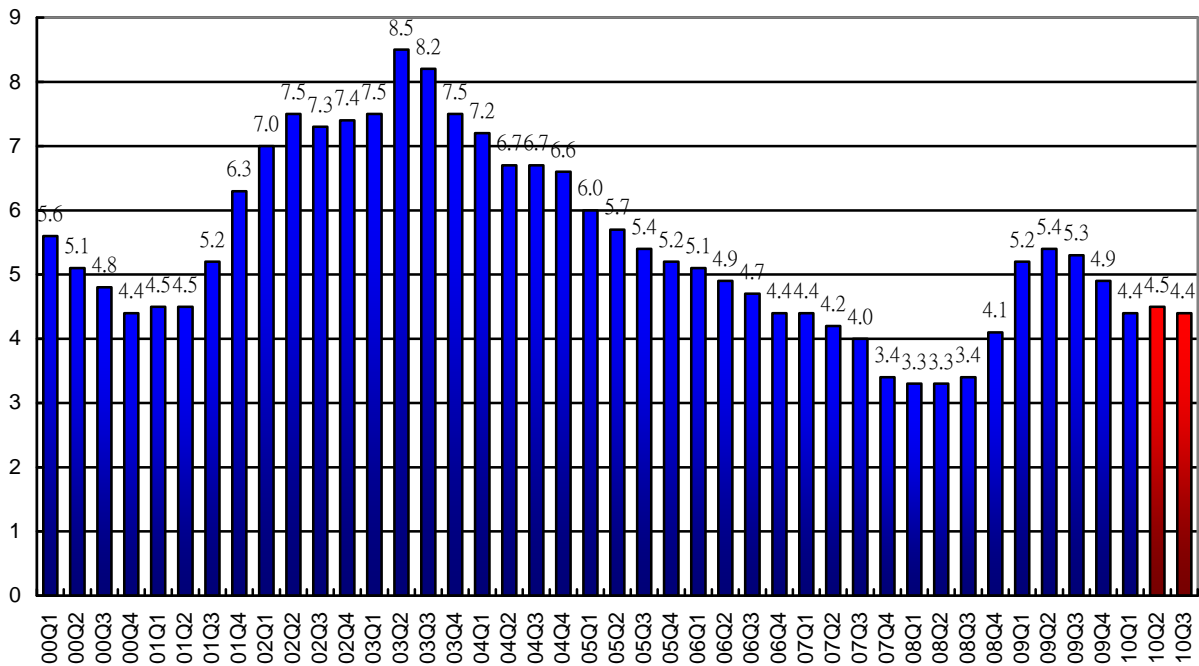
- Investment in land and construction went up by 8.8% in 10Q1. The commencement of infrastructural projects will provide growth momentum, with the growth rate projected picking up to 10.5% in 10Q2 and further to 12.1% in 10Q3.
- Investment spending in machinery, equipment and computer software surged by 12.1% in the 10Q1. Underpinned by the continued economic recovery, investment in machinery, equipment and computer software is projected to increase by 18.8% in 10Q2 and 9.5% in 10Q3 when compared with the same period last year.

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



- The general price level, as measured by the Composite CPI, rose by 2.5% in May 2010. Inflation is mild in the first half of this year, but inflationary pressure is building up, fueled by the weak dollar and rising rental rates. The headline consumer inflation rate is forecast to be 2.5% in 10Q2 and increase to 2.9% in 10Q3.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate rose slightly to 4.5% in the 3 months ending in May 2010 from 4.4% in the 3 months ending in April 2010, reflecting a decrease of 7,000 jobs during this period. The unemployment rate is forecast to be 4.5% in 10Q2, and improve slightly to 4.4% in 10Q3 with the number of jobs increased by 17,000 and the number of unemployed workers dropping by 3,000. The numbers of employed and unemployed workers in 10Q3 are estimated to be 3,507,000 and 161,000 respectively.

Concluding Remarks

The global economy is expected to continue to grow in the second half of this year, though at a slower rate due to fiscal and credit tightening arising from the sovereign debt crisis in Europe. The Hong Kong economy is estimated to grow by 7.2% in the first half of this year, and is forecast to moderate to a 4.5% growth in the second half. For the year as a whole, Hong Kong is forecast to grow by 5.8%, turning around from the 2.8% contraction last year. The labour market will hold up with the unemployment rate fluctuate around the current level of 4.5%. Inflation rate will pick up and increase to 3% by year-end.

About Hong Kong Macroeconomic Forecast Project

The Hong Kong Macroeconomic Forecast is based on research conducted by the APEC Studies Programme of the Hong Kong Institute of Economics and Business Strategy at HKU in the 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 APEC Study Center which is now a research programme area of the Hong Kong Institution of Economics and Business Strategy.

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 Hong Kong Institution of Economics and Business Strategy are solely responsible for the accuracy and interpretation of the forecasts. Our quarterly forecasts can be accessed at:

<http://www.hiebs.hku.hk/apec/macrooforecast.htm>

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July 7, 2010.

High Frequency Macroeconomic Forecasts
APEC Studies Programme
Hong Kong Institute of Economics & Business Strategy
The University of Hong Kong

Table 1: Current Quarter Model Forecast
(Millions of 2008 HK Dollar)

	2009					2010		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2 (forecast)	Q3 (forecast)
Gross Domestic Product	381,692	388,326	417,284	441,755	1,629,057	413,178	412,374	439,567
Private Consumption Expenditure	238,438	257,936	253,433	269,261	1,019,068	253,886	271,410	266,046
Government Consumption Expenditure	37,563	33,707	35,339	36,041	142,650	38,875	34,718	36,399
Total Exports of Goods	513,309	621,064	655,043	692,651	2,482,067	624,241	738,283	770,453
Domestic Exports of Goods	18,280	18,722	18,039	19,623	74,664	16,560	19,728	20,238
Re-exports of Goods	495,029	602,342	637,004	673,028	2,407,403	607,681	718,555	750,215
Imports of Goods	561,265	673,714	729,695	773,174	2,737,848	718,677	819,715	844,852
Exports of Services	165,316	159,906	191,300	202,876	719,398	194,838	180,381	211,284
Imports of Services	83,696	84,015	93,356	91,686	352,753	92,237	91,458	101,592
Gross Fixed Capital Formation	76,948	78,012	88,585	84,470	328,015	85,054	89,648	98,003
GFCF in Land & Construction	35,868	36,739	38,757	39,389	150,753	39,009	40,614	43,453
GFCF in Mach., Equip. & Comp. Soft.	41,080	41,273	49,828	45,081	177,262	46,045	49,034	54,550
Changes in Inventories	-4,921	-4,570	16,635	21,316	28,460	27,198	9,109	3,826
Date of Forecast: June 28, 2010								

High Frequency Macroeconomic Forecasts
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Table 2: Current Quarter Model Forecast
Year-on-Year Growth Rate (%)

	2009					2010		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2 (Forecast)	Q3 (Forecast)
Gross Domestic Product	-7.7	-3.8	-2.4	2.5	-2.8	8.2	6.2	5.3
Private Consumption Expenditure	-6.2	-0.6	0.6	4.8	-0.4	6.5	5.2	5.0
Government Consumption Expenditure	1.5	2.6	3.4	2.0	2.4	3.5	3.0	3.0
Total Exports of Goods	-22.7	-12.8	-13.2	-2.8	-12.7	21.6	18.9	17.6
Domestic Exports of Goods	-28.4	-27.4	-31.4	-18.6	-26.6	-9.4	5.4	12.2
Re-exports of Goods	-22.5	-12.2	-12.6	-2.3	-12.2	22.8	19.3	17.8
Imports of Goods	-20.8	-12.6	-8.3	3.3	-9.5	28.0	21.7	15.8
Exports of Services	-5.5	-3.8	0.8	8.9	0.3	17.9	12.8	10.4
Imports of Services	-9.7	-5.0	-2.7	2.5	-3.7	10.2	8.9	8.8
Gross Fixed Capital Formation	-10.9	-11.7	3.8	14.1	-1.8	10.5	14.9	10.6
GFCF in Land & Construction	-17.7	-5.5	12.5	11.7	-0.9	8.8	10.5	12.1
GFCF in Machinery, Equip. & Computer Software	-4.1	-16.6	-2.1	16.2	-2.6	12.1	18.8	9.5
GDP Deflator Growth Rate	0.7	1.0	-1.0	0.2	0.2	0.9	1.4	1.8
CPI (Composite) Inflation Rate	1.7	-0.1	-0.9	1.3	0.5	1.9	2.5	2.9
Unemployment Rate	5.2	5.4	5.3	4.9	5.2	4.4	4.5	4.4
Date of Forecast: June 28, 2010								

High Frequency Macroeconomic Forecasts

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

	2009			2010								
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Unit Value Trade Index (Domestic Exports)	-1.9	-1.2	-0.5	1.7	3.3	4.6	5.5	5.2	6.8	7.4	6.7	6.6
Unit Value Trade Index (Imports of Foodstuffs)	-1.8	-1.1	-0.1	1.9	3.1	3.7	3.1	3.7	3.7	4.7	4.8	4.5
Unit Value Trade Index (Imports of Consumer Goods)	-2.2	-2.0	-1.1	-0.5	1.4	2.4	3.3	3.3	3.2	3.2	3.8	3.4
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	1.9	1.5	2.7	2.4	3.1	5.3	8.0	7.9	8.2	7.4	7.1	5.6
Unit Value Trade Index (Imports of Fuels)	-24.8	0.7	26.8	38.3	39.2	49.7	40.7	34.0	15.6	15.4	12.4	9.7
Unit Value Trade Index (Imports of Capital Goods)	1.8	1.5	1.2	2.2	2.1	3.1	3.6	3.2	2.1	3.5	2.8	3.6
Real Retained Imports of Foodstuffs	3.8	16.0	22.1	57.1	7.3	11.1	0.6	9.5	2.9	8.6	10.3	11.5
Real Retained Imports of Consumer Goods	6.0	32.8	37.0	296.0	-19.0	86.8	27.4	53.3	44.0	28.2	38.1	10.2
Real Retained Imports of Raw Materials & Semi-Manufactures	-2.4	32.5	101.6	366.3	77.4	111.8	44.9	67.6	22.5	-8.3	-25.0	-20.9
Real Retained Imports of Fuels	31.2	13.8	26.9	16.4	-12.2	-19.0	46.5	13.3	21.1	8.3	4.1	28.5
Real Retained Imports of Capital Goods	-20.5	4.3	14.6	59.4	-17.2	23.9	39.3	36.2	20.2	17.5	21.8	12.6
Total Motor Vehicles Newly Registered	23.4	111.2	78.9	84.9	99.9	128.1	75.2	110.6	42.7	54.8	54.8	24.2
Private Cars Newly Registered	7.9	83.5	55.3	44.9	67.5	72.9	63.2	84.1	42.2	55.8	54.0	24.1
Volume Index of Retail Sales	8.2	10.0	11.4	3.2	31.5	17.3	12.4	18.9	17.7	16.7	15.6	15.0
Money Supply (M2)	11.3	10.1	5.3	5.5	6.6	5.8	8.0	2.0	3.3	4.6	5.8	4.9
Loans and Advances	-4.4	-1.8	0.1	2.6	5.6	9.5	15.1	13.8	14.7	15.8	16.3	13.2
Visitors Arrivals	9.0	7.6	10.0	5.9	32.5	14.4	14.6	38.9	36.5	29.4	19.5	19.4
Hong Kong Resident Departures	4.8	-1.0	0.9	-4.3	7.3	4.4	0.5	8.3	8.2	10.2	6.8	9.9
Electricity Consumption	-0.9	-0.1	0.9	9.6	-7.2	7.9	2.0	1.1	-0.5	1.4	-2.6	-2.8
Gas Consumption	-1.4	-1.2	8.3	0.1	0.8	0.3	0.9	2.2	1.6	0.8	0.3	0.0

Date of Forecast: June 28, 2010