



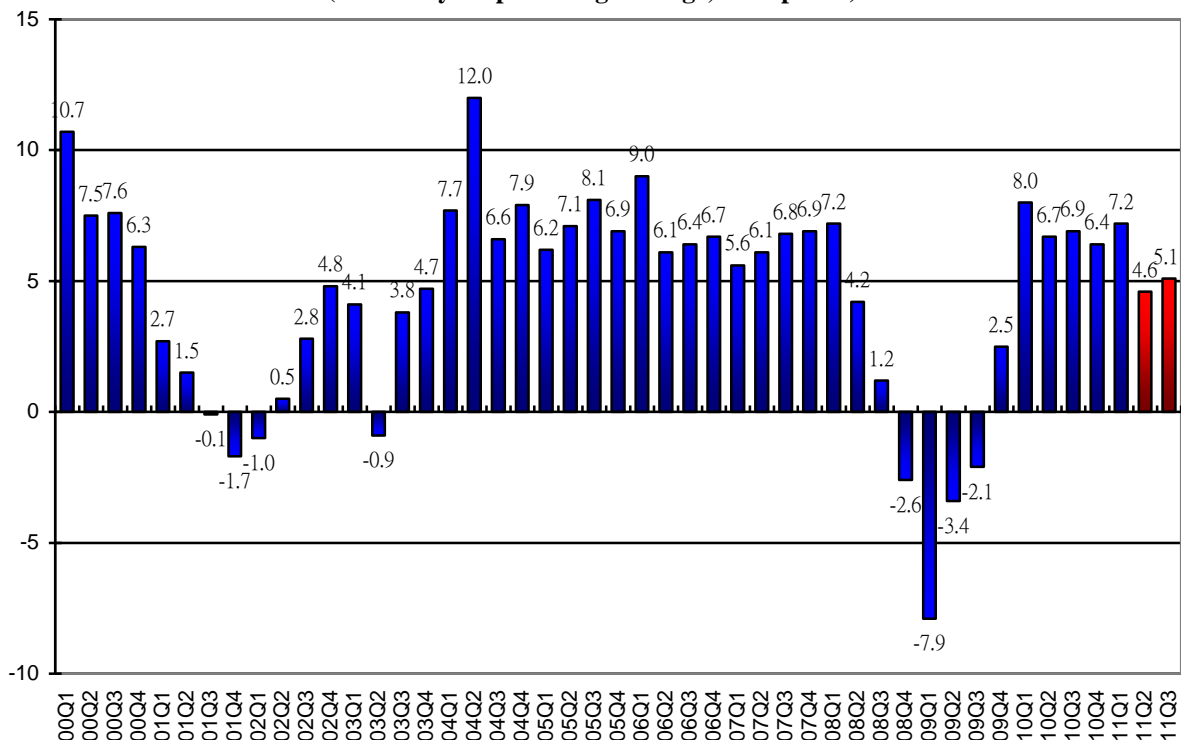
*For Immediate Release*

## HKU Announced 2011 Q3 HK Macroeconomic Forecast

### Economic Outlook

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 (July 5). According to its High Frequency Macroeconomic Forecast, real GDP in 11Q2 is estimated to increase by 4.6% when compared with the same period last year. This is a downward revision of our previous forecast of 5.9% growth released in March 31, 2011, reflecting a weaker external demand. In 11Q3, real GDP growth is forecast to gain traction and rise by 5.1% when compared with the same period last year.

**Real Gross Domestic Product**  
(Year-on-year percentage change, 2009 prices)



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "Following the broad-based economic growth last year with real GDP growing at an above trend-rate of 7.0%, Hong Kong's economy remained strong in the first quarter by growing at 7.2%. In the second quarter, our external trade performance suffered because of the supply chain disruptions in Japan and the deceleration of growth in the developed economies. The negative demand and supply shocks dragged down real GDP growth to 4.6%. In the current quarter, the external trade sector will perform better, but output growth is forecast to be driven primarily by domestic demand. Real GDP growth is estimated to grow by 5.1% in this quarter, with domestic demand accounting for 6.7 percentage points of this output growth and net external demand making a negative contribution of 1.5 percentage points to the overall growth. In the first half of this year, real GDP is estimated to grow by 6% when compared with the first half of last year. In the second half, the growth will slow to 5% reflecting a weaker global economy. For the whole year, real GDP is forecast to grow by 5.5%."

"The labour market is tight, with the unemployment rate expected to remain at the current level of 3.5%. The general consumer price level has now exceeded the 1998Q2 historical peak level. Inflationary pressure will continue to build up, fueled by increasing food prices and rental rates and wages. The headline consumer inflation rate is forecast to rise to 5.9% in the current quarter, up from the estimated 5.2% in the second quarter," according to Dr. Alan Siu, Executive Director of the Hong Kong Institute 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.

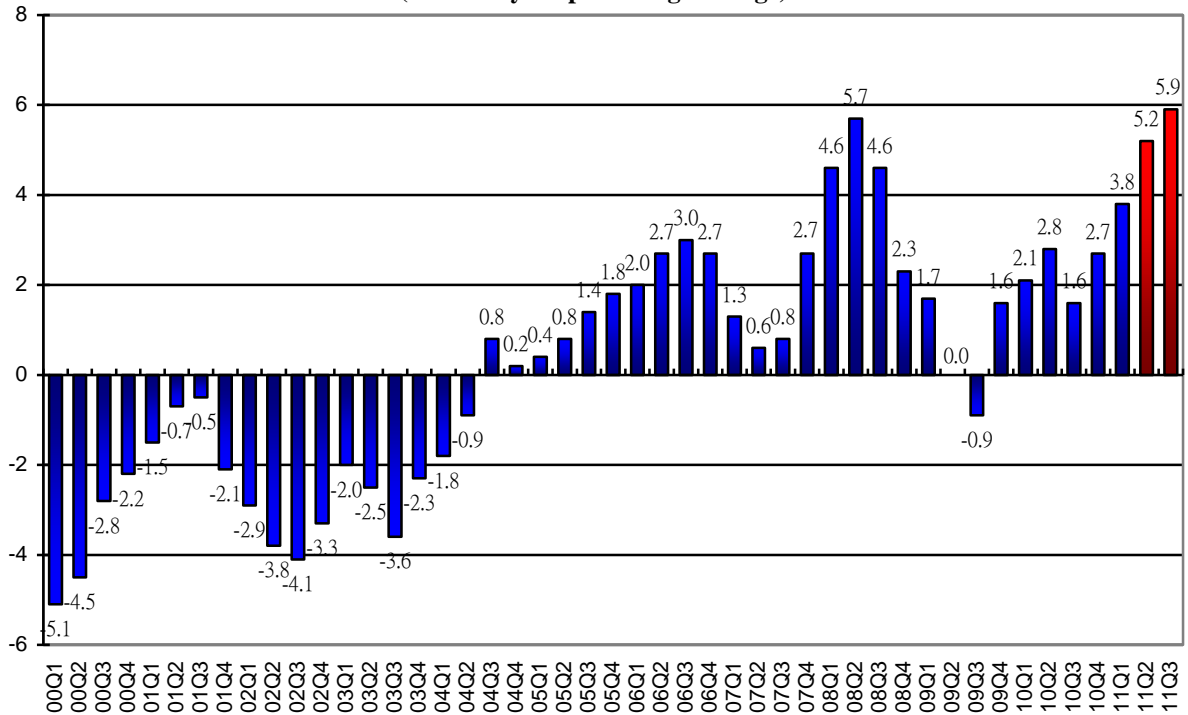
## **Forecast Highlights**

- Underpinned by the strong economic growth, private consumption spending grew at 7.6% in 11Q1. It is projected to continue to grow but at a slower rate. Consumer spending is forecast to grow by 5.1% in 11Q2 and accelerate to 5.4% in 11Q3. The slowdown in consumption growth is due to the projected moderation in output growth in the 11Q2 but it is expected to regain momentum in the 11Q3.

- The volume of retail sales grew by 21.9% in April 2011, and is projected to continue to grow at double-digit rates, supported by robust local demand, as well as by the continued strong growth in visitor arrivals. It is forecast to grow by 20.1% in 11Q2 and by 16.0% in 11Q3.
- Total exports of goods grew by 16.8% in real terms in 11Q1, accelerating from the 8.2% increase in 10Q4. This was a sharp slowdown in the second quarter due to supply chains problems and the deceleration of growth in the developed economies. The export volume, as measured by quantum index of exports, increased only by 3.4% in May 2011, as compared with the 17.7% growth in the first quarter. The total exports of goods in real terms is estimated to grow by 1.5% in 11Q2. As the problems in the supply chains are worked out, exports of goods will revive. Total exports of goods are forecast to grow by 5.2% in 11Q3.
- Imports of goods increased by 12.6% in 11Q1, accelerating from the 7.5% growth in 10Q4. Concomitant with the slowdown in the exports of goods, imports of goods also dropped to a slower 5.8% growth in May 2011 from the 12.9% growth in 11Q1. The imports of goods is estimated to grow by 2.6% in the last quarter and is forecast to pick up to 6.5% in the current quarter.
- Service exports grew by 9.1% in 11Q1, continuing from the 9.3% growth in 10Q4. The slowdown in visible trade in the last quarter also suppressed the demand for trade-related services, but the strong growth in visitor arrivals continued to provide support for the tourism related service exports. The growth in service exports is forecast to moderate to 3.4% in 11Q2 but pick up to a 4.6% in 11Q3.

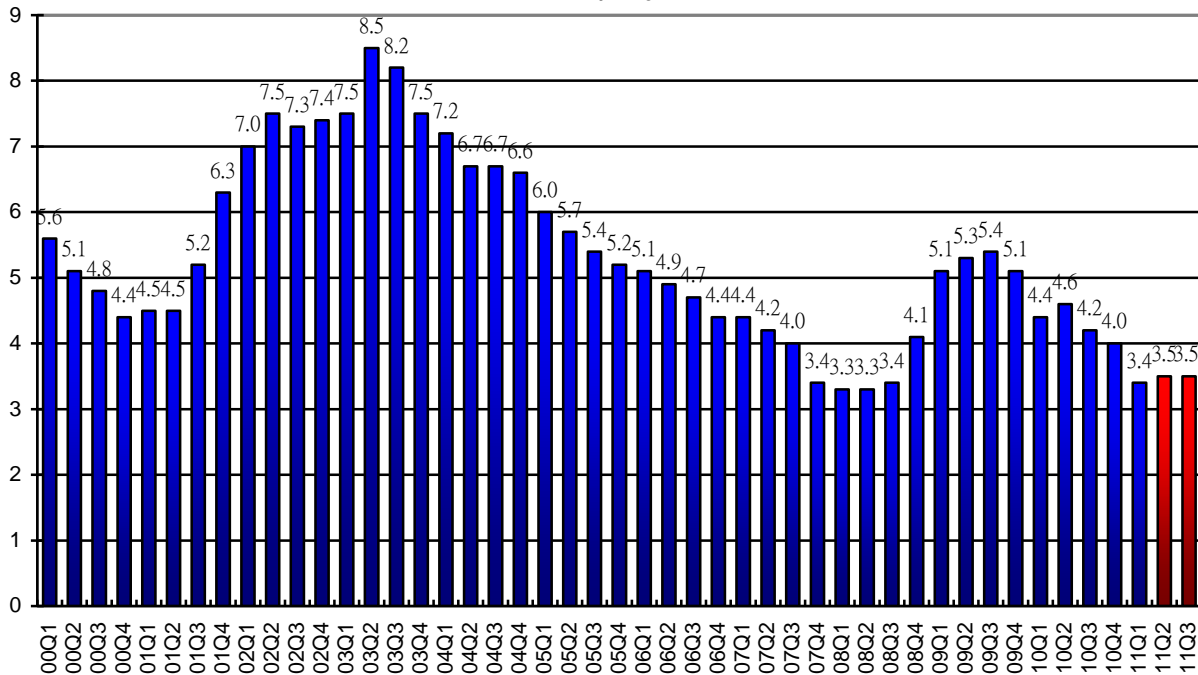
- Service imports went up by 5.1% in 11Q1, moderated from the 7.7% growth in 10Q4. It is forecast to grow by 1.9% and 3.4% in 11Q2 and 11Q3 respectively.
- Gross fixed capital formation fell by 1.1% in 11Q1, reverting from the 8.6% growth in 10Q4. Projected economic growth and infrastructural projects will provide impetus for investment spending. Gross fixed capital formation is forecast to grow by 5.7% in 11Q2 and 6.9% in 11Q3.
- Investment in land and construction went up by 12.0% in 11Q1. The commencement of infrastructural projects will provide support for steady growth, with the growth rate projected to be 8.8% in 11Q2 and 6.4% in 11Q3. The slowdown reflects the shortage of skilled construction workers.
- Investment spending in machinery, equipment and computer software dropped by 11.8% in the 11Q1, a sharp turnaround from the 6.4% growth in 10Q4. Underpinned by steady economic growth, investment in machinery, equipment and computer software is projected to increase by 3.1% in 11Q2 and 7.4% in 11Q3 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 5.3% in May 2011, with food and housing each contributed 1.9 percentage points to the overall increase. In particular, prices in basic needs such as food excluding meals away from home and housing surged by 10.1% and 6.1% respectively. Inflationary pressure coming from rising rental rates will continue to build up due to the renewal of rental contracts signed during the 2009 financial tsunami. The headline consumer inflation rate is forecast to be 5.2% in 11Q2 and increase to 5.9% in 11Q3. The upcoming electricity charge subsidy will provide about half a percentage point relief in the measured CPI inflation rate in the second half of 2011. Without this fiscal measure, the consumer inflation rate would then be 6.4% in 11Q3.

### Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate remained at 3.6% in the 3 months ending in May 2011. The tight labour market is expected to continue in the near term supported by strong domestic demand. The number of employed workers is estimated to increase by 19,000 persons to an all-time high at 3.6 million persons in 11Q3, and the number of unemployed workers is projected to remain unchanged in 11Q3 at 130,000. The unemployment rate is forecast to be at 3.5% in 11Q2 and 11Q3.

### Concluding Remarks

Despite recovery from the supply chain disruptions in Japan, the global economy is growing more slowly due to the deceleration of growth in the developed economies. Hong Kong's economy is forecast to grow at 5.1% in the current quarter from 4.6% in the last quarter. The growth is primarily driven by domestic demand. The labour market is getting very tight with the unemployment rate at 3.5% and the nominal payroll index rising by 7.2% in the first quarter. A wage-price spiral is in the process of gathering up momentum. Consumer price inflation will get worse in the coming months.

## **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/macroforecast.htm>

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July 5, 2011

**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 2009 HK Dollar)

	2010					2011		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2 (forecast)	Q3 (forecast)
Gross Domestic Product	408,926	414,132	445,100	467,241	1,735,399	438,525	433,105	467,861
Private Consumption Expenditure	253,295	267,508	264,829	290,395	1,076,027	272,567	281,134	279,160
Government Consumption Expenditure	38,888	34,684	36,534	36,630	146,736	39,937	35,725	37,630
Exports of Goods	627,154	750,033	795,294	753,560	2,926,041	732,363	761,536	836,703
Imports of Goods	710,819	820,890	841,030	820,722	3,193,461	800,560	842,409	895,389
Exports of Services	181,470	174,482	206,517	207,515	769,984	197,966	180,371	216,053
Imports of Services	89,464	89,838	99,020	97,574	375,896	94,028	91,504	102,351
Gross Fixed Capital Formation	81,737	89,184	87,271	89,747	347,939	80,840	94,304	93,315
GFCF in Land & Construction	36,787	41,827	41,758	42,460	162,832	41,204	45,489	44,446
GFCF in Mach., Equip. & Comp. Soft.	44,950	47,357	45,513	47,287	185,107	39,636	48,815	48,868
Changes in Inventories	26,665	8,969	-5,295	7,690	38,029	9,440	13,949	2,741

Date of Forecast: June 28, 2011



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

	2010					2011		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2 (Forecast)	Q3 (Forecast)
Gross Domestic Product	8.0	6.7	6.9	6.4	7.0	7.2	4.6	5.1
Private Consumption Expenditure	7.4	4.1	5.3	8.1	6.2	7.6	5.1	5.4
Government Consumption Expenditure	3.3	2.7	3.2	1.6	2.7	2.7	3.0	3.0
Exports of Goods	21.5	20.2	20.8	8.2	17.3	16.8	1.5	5.2
Imports of Goods	28.3	23.4	16.7	7.5	18.1	12.6	2.6	6.5
Exports of Services	18.4	17.5	15.8	9.3	15.0	9.1	3.4	4.6
Imports of Services	11.2	11.9	10.8	7.7	10.4	5.1	1.9	3.4
Gross Fixed Capital Formation	8.2	15.8	-0.3	8.6	7.8	-1.1	5.7	6.9
GFCF in Land & Construction	4.1	15.5	9.0	11.2	10.0	12.0	8.8	6.4
GFCF in Machinery, Equip. & Computer Software	11.5	15.9	-7.3	6.4	5.9	-11.8	3.1	7.4
GDP Deflator Growth Rate	0.9	-1.9	1.7	1.0	0.5	1.5	3.1	2.5
CPI (Composite) Inflation Rate	2.1	2.8	1.6	2.7	2.3	3.8	5.2	5.9
Unemployment Rate	4.4	4.6	4.2	4.0	4.3	3.4	3.5	3.5
Date of Forecast: June 28, 2011								

# High Frequency Macroeconomic Forecasts

## APEC Studies Programme

### Hong Kong Institute of Economics & Business Strategy

### The University of Hong Kong

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

	2010			2011								
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Unit Value Trade Index (Domestic Exports)	6.5	6.5	7.1	6.6	6.5	6.8	6.6	6.1	6.9	7.4	7.7	8.1
Unit Value Trade Index (Imports of Foodstuffs)	5.9	7.1	8.3	6.9	7.5	8.1	8.8	8.5	8.3	8.3	8.4	8.5
Unit Value Trade Index (Imports of Consumer Goods)	6.8	7.5	7.5	7.4	8.3	8.5	9.0	8.9	7.9	7.8	7.0	7.8
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	9.6	10.8	8.1	8.6	11.0	9.6	6.9	5.9	5.2	5.2	4.4	3.8
Unit Value Trade Index (Imports of Fuels)	13.4	11.9	9.1	16.0	24.3	35.5	43.0	42.4	47.4	48.8	47.7	46.6
Unit Value Trade Index (Imports of Capital Goods)	5.9	6.8	7.6	6.0	8.4	6.9	4.6	4.3	3.1	4.0	4.1	2.8
Real Retained Imports of Foodstuffs	8.0	10.9	13.0	-18.1	-3.9	7.4	12.4	8.8	1.4	0.0	14.7	21.5
Real Retained Imports of Consumer Goods	11.4	17.5	22.0	12.6	44.5	15.6	31.5	28.8	21.1	25.3	44.7	38.4
Real Retained Imports of Raw Materials & Semi-Manufactures	-12.6	-20.9	10.8	-22.7	-4.9	-9.5	-2.5	5.4	5.1	-6.6	13.3	7.5
Real Retained Imports of Fuels	-5.2	0.4	7.9	-5.0	8.3	7.8	-21.4	-2.3	-14.9	7.0	-4.7	1.5
Real Retained Imports of Capital Goods	1.1	13.3	4.8	-28.6	-19.3	-9.9	7.7	12.4	4.3	1.5	26.8	6.7
Total Motor Vehicles Newly Registered	32.3	18.4	18.2	36.1	-1.2	16.5	8.1	14.3	2.7	7.7	3.8	7.7
Private Cars Newly Registered	33.8	16.7	12.0	42.2	-0.9	35.8	4.2	13.8	4.8	6.4	4.5	9.1
Money Supply (M2)	9.1	5.7	8.1	10.8	10.2	11.7	12.0	17.9	18.2	17.7	18.5	15.8
Loans and Advances	29.5	25.9	28.6	29.9	29.8	30.9	27.5	29.2	25.3	24.6	22.1	18.5
Volume Index of Retail Sales	19.7	15.4	16.0	23.7	5.0	20.1	21.9	18.2	20.3	17.2	16.1	14.7
Visitors Arrivals	18.0	17.1	15.7	21.5	2.0	13.9	20.1	14.7	13.4	14.2	12.0	13.1
Hong Kong Resident Departures	-1.1	2.3	1.9	0.3	-1.1	0.0	3.6	-2.6	1.2	2.7	2.5	2.8
Electricity Consumption	-4.5	-1.4	0.8	-5.2	-4.7	-15.1	-5.5	0.5	-0.2	-0.3	-1.0	1.7
Gas Consumption	1.4	3.8	-1.4	4.7	3.5	3.5	4.4	0.1	1.3	2.4	1.7	1.1

Date of Forecast: June 28, 2011