



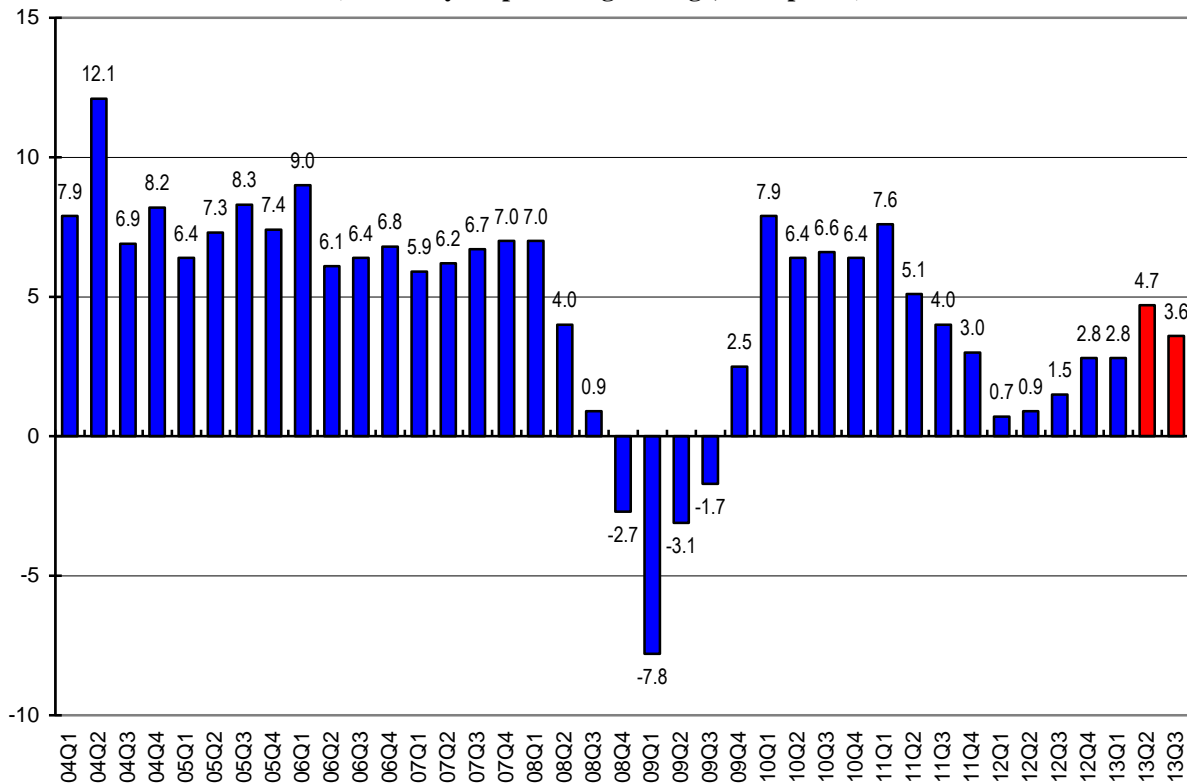
For Immediate Release

HKU Announced 2013 Q3 HK Macroeconomic Forecast

Hong Kong 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 4). According to its High Frequency Macroeconomic Forecast, real GDP in 13Q2 is estimated to increase by 4.7% when compared with the same period last year. This is a downward revision of the previous forecast of 5.3% growth released on April 9, 2013, reflecting a slightly weaker domestic demand. In 13Q3, real GDP growth is forecast to rise by 3.6% when compared with the same period last year.

Real Gross Domestic Product
(Year-on-year percentage change, 2011 prices)



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "Amid the mild recovery of US economy, Hong Kong's external demand has seen a slight rebound in the first half of 2013. Nevertheless, the real GDP growth in the current quarter appears primarily driven by domestic demand, accounted for 5.7 percentage points. The external demand, as measured by the net exports of goods and services, is forecast to make a negative 2.1 percentage points contribution to the total GDP growth. In aggregate, Hong Kong GDP growth is forecast to grow by 3.6% in the current quarter."

"The labour market is projected to remain relatively stable with the unemployment rate projected to be flat at 3.4% in 13Q3. Inflation is expected to rise in the near term, fueled by increasing food prices, as well as rising rental rates. The headline consumer inflation rate is forecast to rise to 5.1% in the third quarter, up from the estimated 4.1% in the second quarter in 2013," according to Dr. Ka-fu Wong, Principal Lecturer of Economics at HKU.

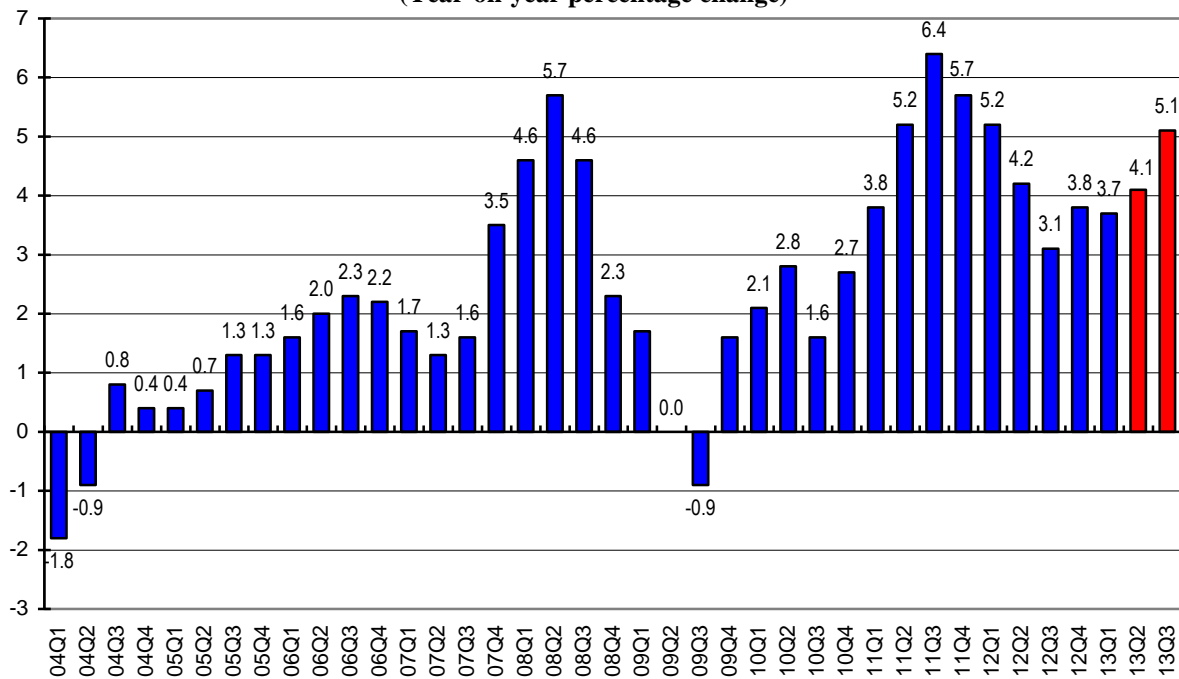
The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3. All growth rates reported are on a year-on-year basis.

Forecast Highlights

- Given an optimistic economic outlook and outstanding job market, private consumption spending surged by 7.0% in 13Q1, picked up from the 2.8% growth in 12Q4. Private consumption spending is projected to grow, but at a slower pace, with a growth rate forecast to be 6.7% in 13Q2 and decelerate to 6.3% in 13Q3.
- The volume of retail sales grew by 19.4% in April 2013 and 12.2% in May 2013, up from the 10.1% in March 2013. These surges are largely boosted by the physical gold sales brought by the drop in gold price, caused 69.0% and 35.6% growth in jewellery volume sales in April and May 2013 respectively. The double-digit growth is unlikely to be sustained in current quarter. The growth of the volume of retail sales is expected to be 14.7% in 13Q2 and moderate to 9.7% in 13Q3.
- Total exports of goods rose by 8.8% in 13Q1, reflecting somewhat stabilization in the Euro zone and mild recovery in US. External demand is projected to grow in the second and third quarters. The total exports of goods are estimated to grow by 9.0% in 13Q2, and are forecast to grow moderately by 8.7% in 13Q3.

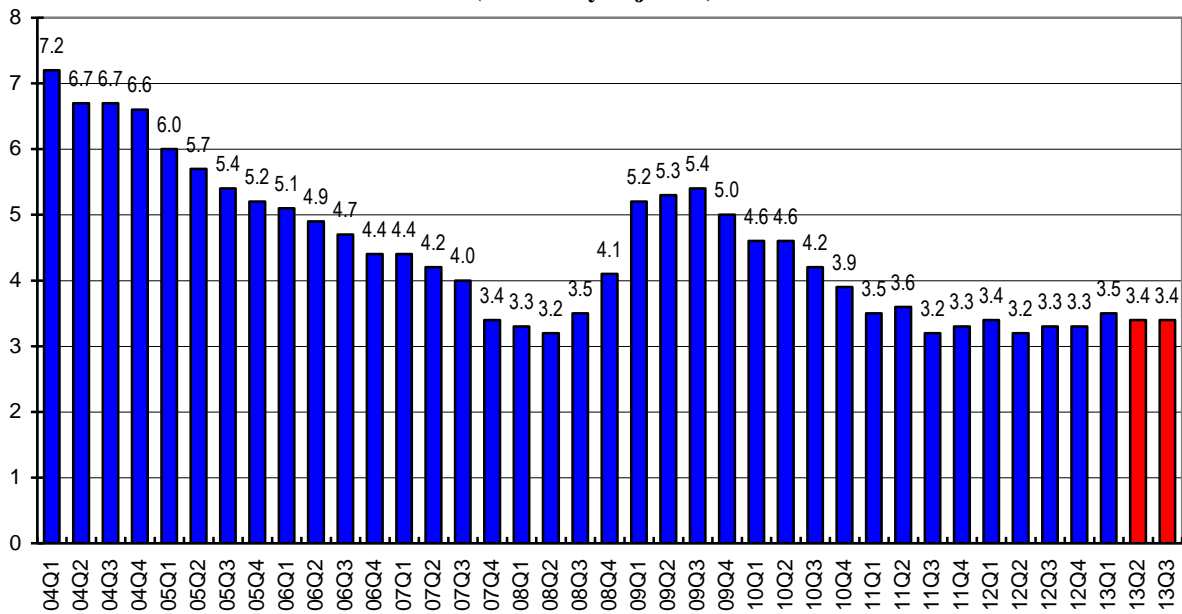
- Imports of goods increased by 9.6% in 13Q1, up from the 7.6% growth in 12Q4. In tandem with the rebound in the exports of goods, imports of goods are forecast to grow by 9.9% in 13Q2 and 9.8% in 13Q3.
- Service exports grew by 4.9% in 13Q1, accelerating from the 2.9% growth in 12Q4. Growth in visitor arrivals held up well at 13.8% in May 2013. The pickup in visible trade will increase the demand for trade related services in 13Q3. The increase in service exports is forecast to be 5.4% in 13Q2 and picking up to 4.6% in 13Q3.
- Service imports went up by 1.2% in 13Q1, reverting the 0.8% decrease in 12Q4. Service imports are forecast to grow by 0.7% and 0.9% in 13Q2 and 13Q3 respectively.
- Gross fixed capital formation dropped by 2.2% in 13Q1, in stark contrast to the 11.4% growth in 12Q4. Infrastructural projects will continue to provide impetus for investment spending. The gross fixed capital formation is projected to grow by 4.7% in 13Q2 and 0.6% in 13Q3.
- Investment in land and construction fell by 0.4% in 13Q1. The investment in land and construction is projected to fall by 3.3% in both 13Q2 and 13Q3.
- Investment spending in machinery, equipment and computer software dropped by 4.0% in the 13Q1. Underpinned by the low interest environment, investment in machinery, equipment and computer software is projected to increase by 11.3% in 13Q2 and 3.7% in 13Q3 when compared with the same period last year. The higher year-on-year growth rate in 13Q2 is partly due to a lower base of comparison.

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



- The general price level, as measured by the Composite CPI, rose by 3.9% in May 2013. Inflationary pressure is projected to be fluctuated at around 4% level. The headline consumer inflation rate was 3.7% in 13Q1. It is forecast to be 4.1% in 13Q2 and increase to 5.1% in 13Q3. The acceleration in 13Q3 is mainly due to the 3 months public renter waiver in 2012, while there will be only 2 months waived in 2013. If we take out all the government relief measures, the inflation rate is estimated to be 4.3% in 13Q3.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate improved slightly to 3.4% in the 3 months ending in May 2013 from 3.5% in the 3 months ending in April 2013, reflecting an increase of 17,200 jobs during this period. The unemployment rate is forecast to be 3.4% in 13Q2 and 13Q3. The labour force is estimated reaching 3.87 million persons, increased at 2.0% annually, with job creation growing at around the same rate in current quarter.

Concluding Remarks

We lower our forecast of annual growth of real GDP slightly to lie between 3.3% and 4.1% this year. This revision reflects the recent slowdown in the China's economy, and the slower-than-expected recovery in the world economy.

Nevertheless, we remain optimistic about the economic conditions of Hong Kong. We believe that the European debt crisis has bottomed out, the US is on a solid recovery, and the slowdown in the China's economy will be mild.

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 4, 2013.

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 2011 HK Dollar)

	2012					2013		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2 (Estimate)	Q3 (Forecast)
Gross Domestic Product	473,191	467,305	498,333	526,324	1,965,153	486,594	489,476	516,054
Private Consumption Expenditure	308,764	320,543	312,679	338,496	1,280,482	330,324	341,966	332,440
Government Consumption Expenditure	45,874	41,458	43,445	43,868	174,645	46,791	42,702	44,748
Exports of Goods	783,943	846,169	917,059	924,428	3,471,599	852,711	922,607	997,150
Imports of Goods	899,923	977,116	1,029,803	1,058,115	3,964,957	986,293	1,074,009	1,130,625
Exports of Services	229,488	219,848	247,896	256,655	953,887	240,663	231,741	259,216
Imports of Services	110,806	106,002	112,474	112,109	441,391	112,142	106,733	113,517
Gross Fixed Capital Formation	114,092	122,342	127,966	133,481	497,881	111,627	128,033	128,794
GFCF in Land & Construction	57,578	55,922	55,997	62,864	232,361	57,351	54,076	54,170
GFCF in Mach., Equip. & Comp. Soft.	56,514	66,420	71,969	70,617	265,520	54,276	73,957	74,624
Changes in Inventories	1,759	63	-8,435	-380	-6,993	2,913	3,170	-2,153

Date of Forecast: July 2, 2013

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

	2012					2013		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2 (Estimate)	Q3 (Forecast)
Gross Domestic Product	0.7	0.9	1.5	2.8	1.5	2.8	4.7	3.6
Private Consumption Expenditure	5.7	2.6	1.9	2.8	3.2	7.0	6.7	6.3
Government Consumption Expenditure	3.2	4.2	4.0	3.3	3.7	2.0	3.0	3.0
Exports of Goods	-4.7	0.2	4.5	6.7	1.8	8.8	9.0	8.7
Imports of Goods	-1.8	1.2	4.7	7.6	3.0	9.6	9.9	9.8
Exports of Services	2.2	2.4	0.1	2.9	1.9	4.9	5.4	4.6
Imports of Services	3.0	0.9	-1.5	-0.8	0.4	1.2	0.7	0.9
Gross Fixed Capital Formation	12.5	5.8	8.2	11.4	9.4	-2.2	4.7	0.6
GFCF in Land & Construction	3.6	6.8	6.7	14.8	8.0	-0.4	-3.3	-3.3
GFCF in Machinery, Equip. & Computer Software	21.1	5.2	10.1	9.2	10.7	-4.0	11.3	3.7
GDP Deflator Growth Rate	4.0	3.0	4.3	4.3	3.9	1.3	1.4	1.5
CPI (Composite) Inflation Rate	5.2	4.2	3.1	3.8	4.1	3.7	4.1	5.1
Unemployment Rate	3.4	3.2	3.3	3.3	3.3	3.5	3.4	3.4
Date of Forecast: July 2, 2013								

High Frequency Macroeconomic Forecasts

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

	2012			2013								
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Unit Value Trade Index (Domestic Exports)	2.1	2.9	3.0	4.5	4.3	4.0	2.3	2.6	3.6	3.3	3.1	3.7
Unit Value Trade Index (Imports of Foodstuffs)	0.8	-0.2	0.5	0.9	1.4	2.8	3.1	2.3	3.2	3.7	3.6	4.4
Unit Value Trade Index (Imports of Consumer Goods)	2.8	2.1	2.2	2.0	2.2	2.0	2.4	1.3	0.8	1.1	0.4	0.9
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	0.3	0.7	1.2	-0.7	0.7	1.2	1.0	-0.4	-0.6	0.4	0.4	0.3
Unit Value Trade Index (Imports of Fuels)	2.1	-3.1	-5.5	-3.7	-5.5	-7.1	-8.1	-4.3	8.4	10.8	6.8	1.0
Unit Value Trade Index (Imports of Capital Goods)	5.0	4.4	2.7	2.5	1.2	2.5	0.9	-0.5	-0.3	-1.1	-1.1	-0.7
Real Retained Imports of Foodstuffs	4.7	0.7	3.4	44.6	-12.9	10.0	-10.6	8.1	8.7	12.6	9.2	2.5
Real Retained Imports of Consumer Goods	24.3	15.8	12.4	78.7	-34.6	7.5	-1.7	9.6	8.9	20.5	8.3	16.0
Real Retained Imports of Raw Materials & Semi-Manufactures	11.7	3.9	-18.5	15.7	-15.3	23.0	-14.6	-2.1	-7.3	-12.0	-2.8	-12.4
Real Retained Imports of Fuels	-17.4	-4.5	-8.5	10.5	0.6	12.1	-26.3	14.0	-6.2	50.1	-0.5	-14.7
Real Retained Imports of Capital Goods	69.1	-16.6	22.6	60.2	-34.5	-14.4	61.4	11.0	-1.9	5.0	-1.5	2.6
Total Motor Vehicles Newly Registered	-0.5	4.2	0.8	38.3	1.0	32.6	10.9	-6.2	7.0	9.1	2.0	9.9
Private Cars Newly Registered	-3.1	-0.8	-4.6	30.9	3.1	11.1	9.8	-14.2	-4.6	3.2	-3.3	4.2
Money Supply (M2)	10.4	10.3	11.1	12.4	9.7	9.5	10.3	12.9	12.5	12.9	13.1	12.9
Loans and Advances	7.5	7.3	9.6	11.1	10.1	10.4	10.7	11.1	10.7	10.5	11.6	11.2
Volume Index of Retail Sales	3.6	8.1	8.5	10.5	22.0	10.1	19.3	12.8	12.6	10.9	9.7	8.4
Visitors Arrivals	11.9	18.7	15.1	11.9	19.3	10.2	11.5	13.8	8.9	10.6	7.9	10.4
Hong Kong Resident Departures	0.1	-0.7	-1.7	-2.3	3.5	13.3	-11.1	0.9	-0.8	2.8	2.3	-2.1
Electricity Consumption	-1.7	-12.1	-5.9	4.4	-10.7	-4.6	-6.6	-5.1	0.2	2.9	2.8	6.7
Gas Consumption	-3.2	1.3	6.1	5.4	-2.1	-12.1	-2.9	-1.1	-1.9	-3.2	-4.4	-5.4
Date of Forecast: July 2, 2013												