



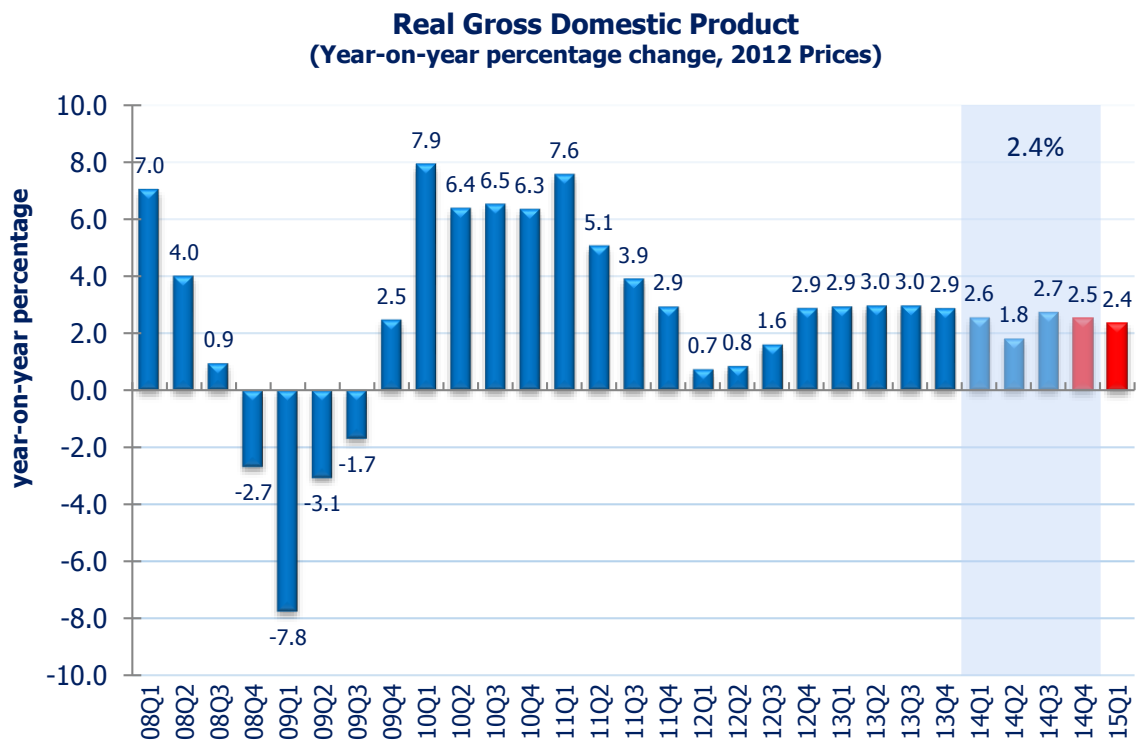
HKU announces 2015 Q1 HK Macroeconomic Forecast

January 6, 2015

1 Overview

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 (January 6). According to its High Frequency Macroeconomic Forecast, real GDP in 14Q4 is estimated to grow by 2.5% when compared with the same period in 2013. This is an upward revision from the previous forecast release of 2.1%. This revision reflects the stronger-than-expected private consumption.

In 15Q1, real GDP growth is forecast to be 2.4% when compared with the same period last year.



Global demand has recovered moderately in 2014, especially in the second half. US economy extended stable growth from the second quarter's 4.6% growth to the third quarter's 3.9% growth in 2014, with US unemployment rate kept at 5.8% in November 2014. China's economy is expected to grow by 7.4% in 2014.

With the moderate recovery of global demand and low interest rate environment, Hong Kong's economy is expected to grow at 2.6% in the second half of 2014, slightly faster than the 2.2% in the first half. For the year of 2014 as a whole, Hong Kong's real GDP is estimated to grow by 2.4%.

	2014				2015
	Q2	Q3	Q4 (estimate)	Annual (estimate)	Q1 (forecast)
Gross Domestic Product	1.8	2.7	2.5	2.4	2.4
Private Consumption Expenditure	1.2	3.2	2.9	2.2	3.7
Government Consumption Expenditure	2.7	3.5	3.0	3.0	3.0
Total Exports of Goods & Services	1.4	1.5	1.3	1.3	2.3
Total Imports of Goods & Services	1.5	0.8	0.5	0.9	2.8
Gross Fixed Capital Formation	-5.7	-4.7	-5.1	-3.3	5.4
Unemployment Rate	3.2	3.3	3.3	3.2	3.3
Date of Forecast: January 2, 2015					

This annual growth of 2.4% appears to be driven by both domestic demand and external demand. Accounting for the contribution of various components to the growth, domestic demand contributes 1.5 percentage points and external demand 0.9 percentage point.

The labour market is expected to remain stable. The unemployment rate is projected to be 3.3% in 15Q1, same as 14Q4.

Inflation is expected to be stable in the near term. The headline consumer inflation rate is forecast to be 4.4% in 15Q1.

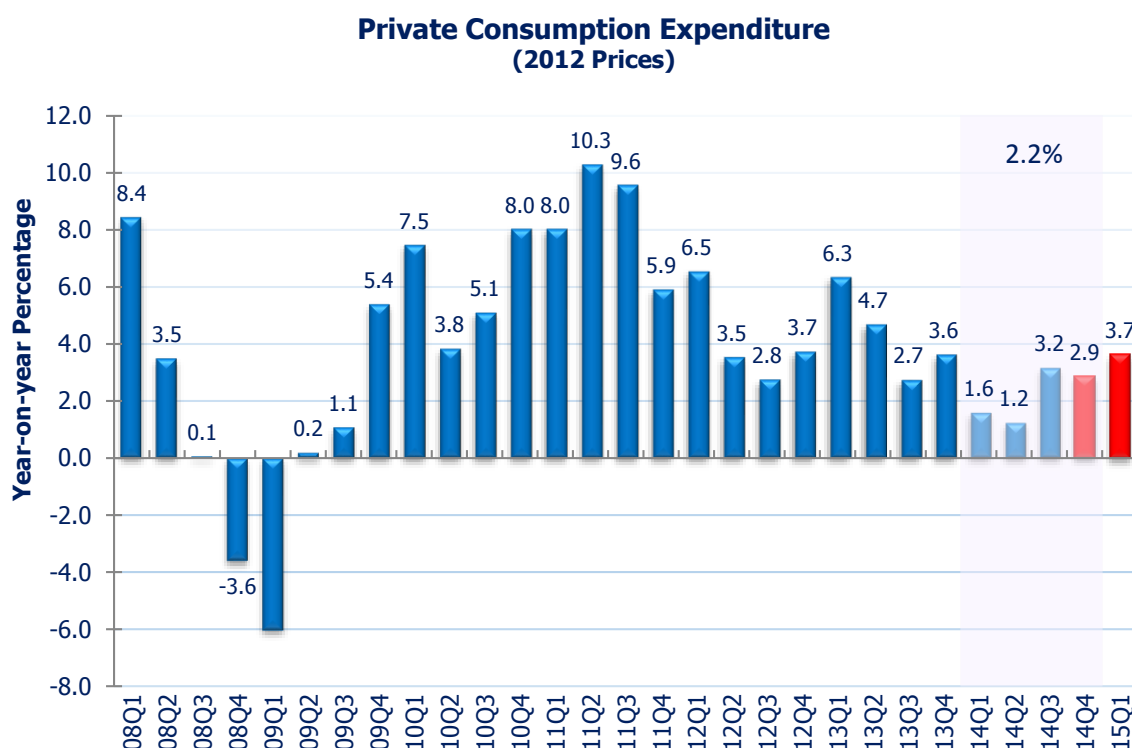
The forecast details are in appendix Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3 by the end of this document. All growth rates reported are on a year-on-year basis.

2 Domestic Demand

2.1 Private Consumption

Benefiting from a buoyant labour market and desirable labour wage growth, private consumption grew by 3.2% in 14Q3, accelerated from the 1.2% in 14Q2. It is expected to grow at a slightly slower rate of 2.9% in 14Q4. For the year of 2014 as a whole, private consumption is estimated to grow by 2.2%.

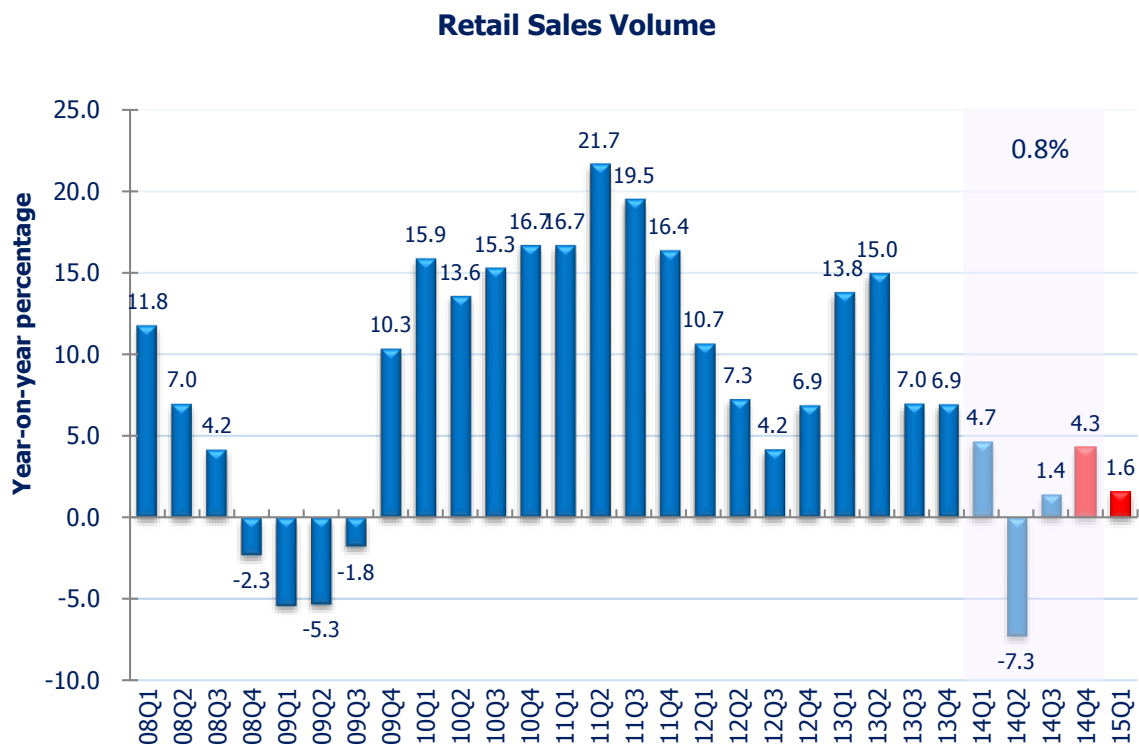
In 15Q1, private consumption is forecast to grow slightly faster than previous quarter, at 3.7%.



2.2 Retail Sales

The volume of retail sales grew by 7.5% in November 2014, it was largely due to the sales of a newly released smart phone model. Retail sales started out weakly in the first half of 2014 with a 1.1% decline and followed by a strong recovery in the second half, with an estimated 2.8% increase. Taken together, retail sales is expected to register a positive growth of 0.8% in 2014 as a whole. The growth in the volume of retail sales is estimated to be 4.3% in 14Q4

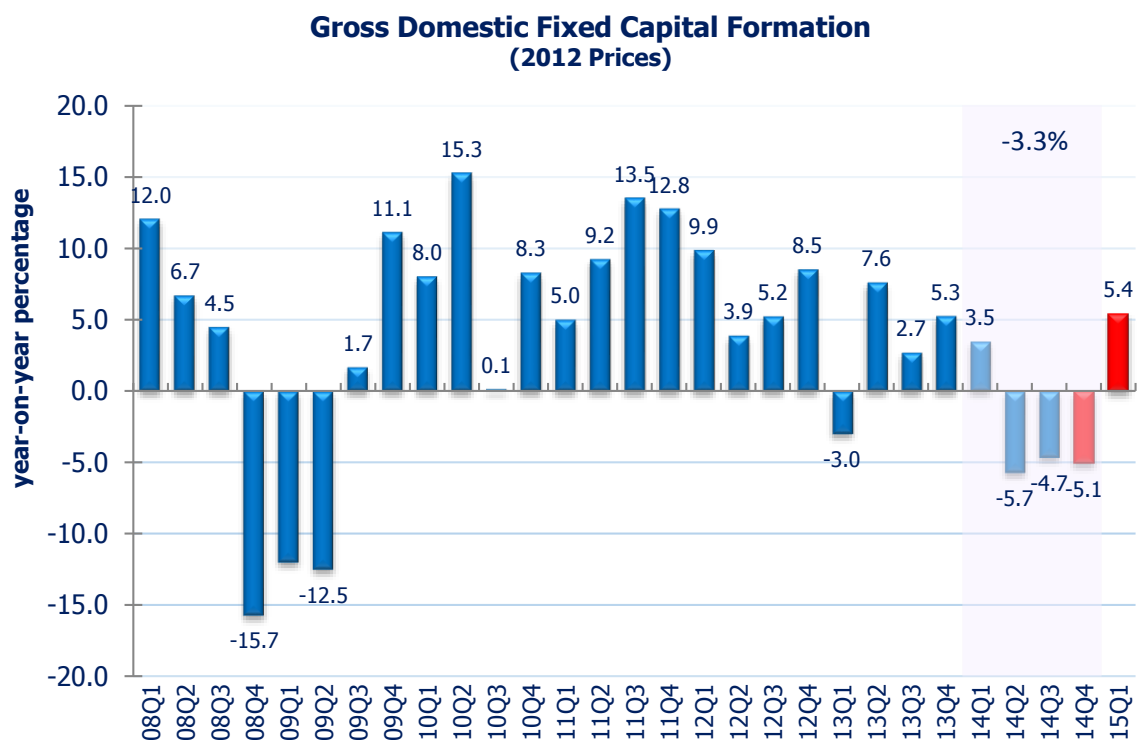
Retail sales is projected to be moderate in the current quarter. The growth in the volume of retail sales is estimated to be 1.6% in 15Q1.



2.3 Gross Fixed Capital Formation

Gross fixed capital formation dropped by 4.7% in 14Q3, narrowed from the 5.7% drop in 14Q2. Due to the slack in spending of machinery and equipment, slowdown in gross fixed capital formation is expected. The gross fixed capital formation is projected to shrink by 5.1% in 14Q4 and 3.3% in 2014 as a whole. For 15Q1, it is estimated to revert to a positive growth of 5.4%.

For 15Q1, it is estimated to revert to a positive growth of 5.4%.



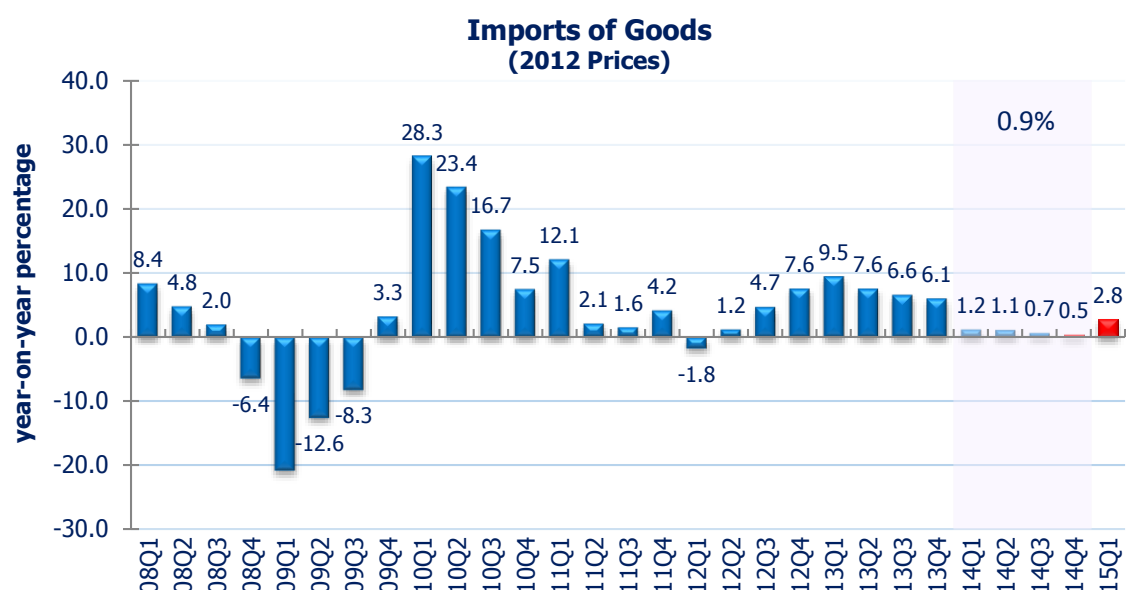
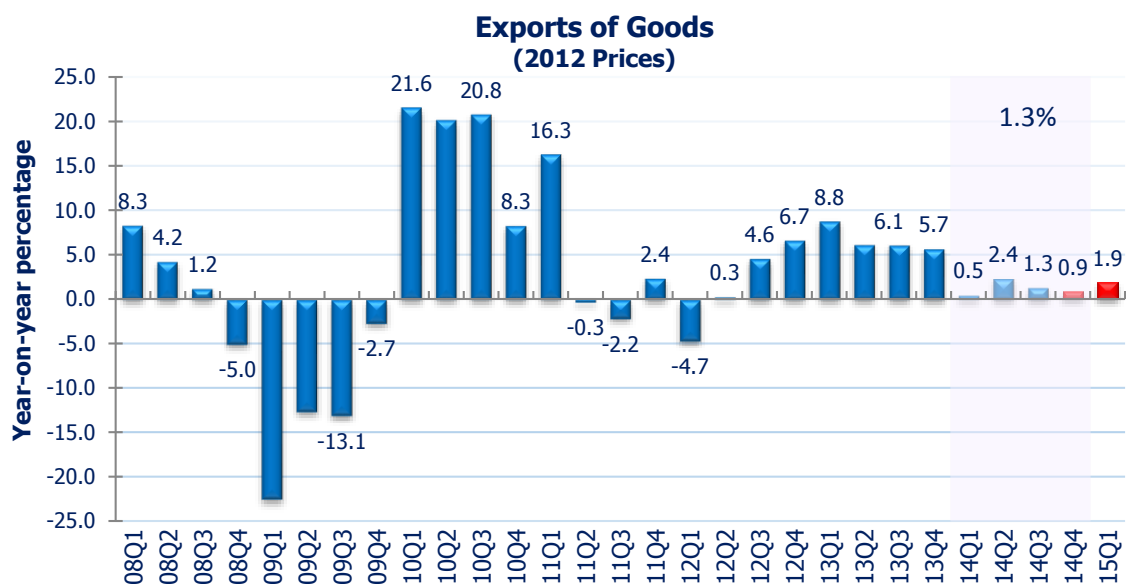
3 External Demand

3.1 Goods

In the external sector, total exports of goods slowed from 2.4% in 14Q2 to 1.3% in 14Q3. It is expected to grow by 0.9% in 14Q4 and 1.3% for the year 2014 as a whole.

Imports of goods showed similar movement from 1.1% in 14Q2 to 0.7% in 14Q3. It is expected to grow by 0.5% in 14Q4 and 0.9% for the year 2014 as a whole.

Along with improved external demand, we expect the growth in 15Q1 to pick up. Total exports of goods and imports of goods are forecast to grow by 1.9% and 2.8% respectively.

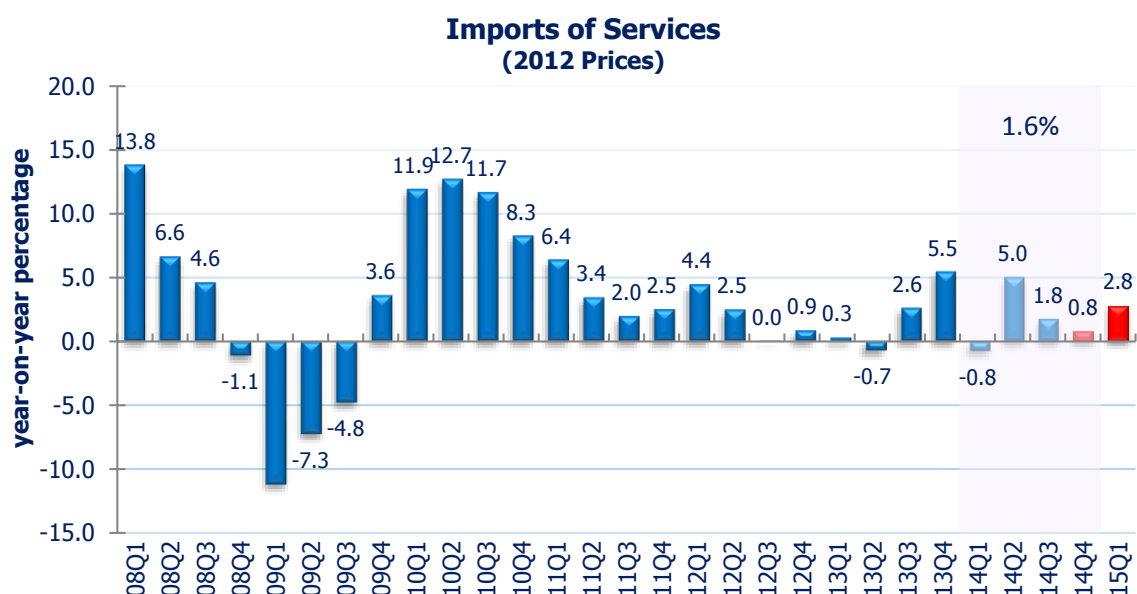
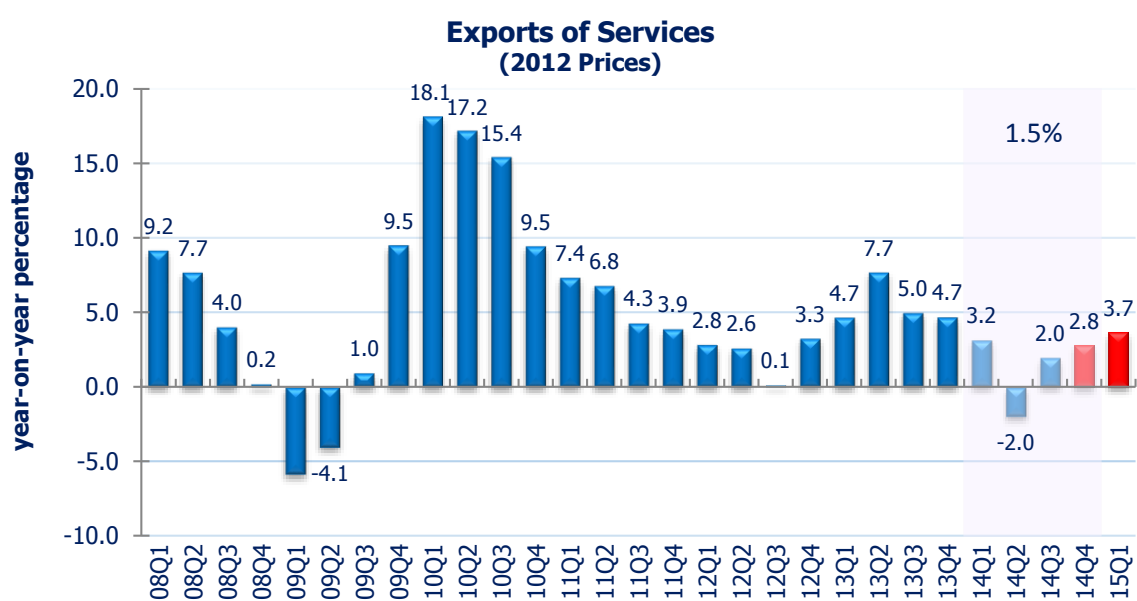


3.2 Services

After the 2.0% drop in 14Q2, services exports reverted to grow by 2.0% in 14Q3. Services exports is forecast to grow by 2.8% in 14Q4. For the year of 2014 as a whole, it is estimated to grow by 1.5%.

Inbound tourism is expected to remain vibrant, visitor arrivals grew at 15.7% in November 2014, in which overnight visitor arrival rose by 5.5%. Services exports is estimated to grow by 3.7% in 15Q1.

On the other hand, services imports grew by 1.8% in 14Q3. It is expected to grow at a moderate rate of 0.8% in 14Q4 and a faster rate of 2.8% in 15Q1.

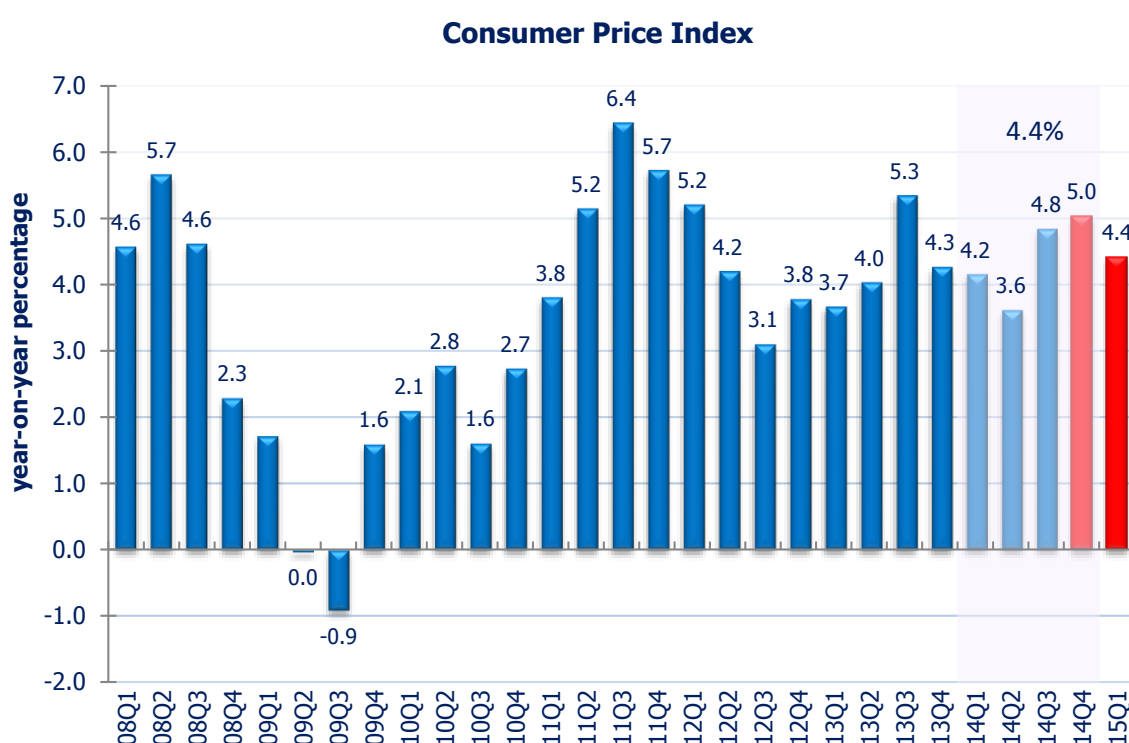


4 Prices

The general price level, as measured by the Composite CPI, rose by 5.1% in November 2014. The headline consumer-price based inflation rate is estimated to be 5.0% in 14Q4 and the rate would only be 3.2% in 14Q4 after stripping out the effect of rates concession and electricity subsidy implemented last year.

The consumer-price based inflation rate is forecast to be 4.4% in 15Q1, with underlying rate at 2.6% after netting out the government measures.

For year 2014 as a whole, the headline inflation is estimated to be 4.4%, only a slight increase as compared to the 4.3% inflation in 2013.

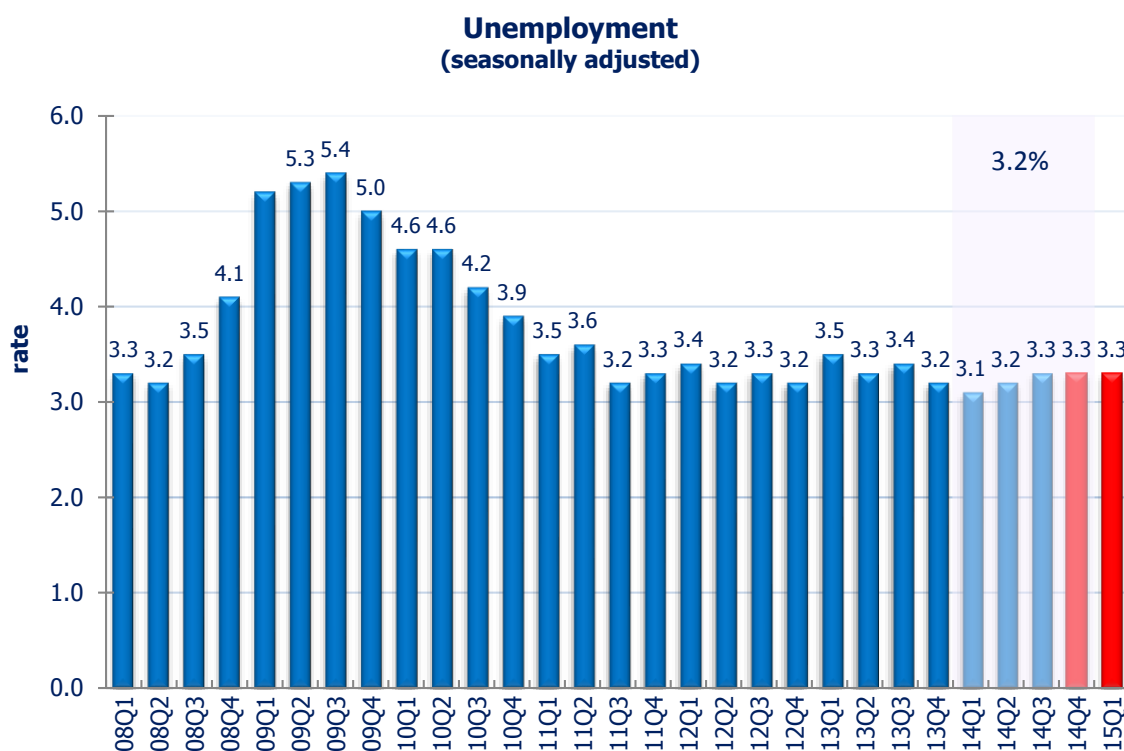


The inflation forecast will have an implication on the real wage. Although the labour market continued to be tight and drove the nominal labour wage up by 4.0% in September 2014, the higher inflation anticipated following the end of various government relief measures may offset the rise and result in a negative growth in the real wage. Indeed, the real wage recorded a negative growth of 0.8% in 14Q3, when the 4.0% wage growth in 14Q3 is deflated by the 4.8% composite CPI inflation in the same period. If the nominal wage continues to grow at approximately 4%, with a 4.4% projected inflation rate for 15Q1, negative real wage growth is expected to continue in 15Q1.

5 Labour Market

The provisional seasonally adjusted unemployment rate stood at 3.3% in the three months ending in November 2014, reflecting a tight labour market. The unemployment rate is forecast to stay at 3.3% in 14Q4. For the year of 2014 as a whole, the unemployment rate is estimated to be 3.2%.

Due to seasonal factor, the number of jobs is estimated to decrease by 35,000 and the number of unemployed workers to rise by 3,000 in 15Q1 compared with the previous quarter. We expect the job market to stay tight throughout the year of 2015. The unemployment rate is forecast to stay at 3.3% in 15Q1.



6 Concluding Remarks

6.1 Impact of Occupy Movement

Despite the prolonged duration of the Occupy Movement (79 days), its impact on measurable economic activities (real GDP) appears negligible.

At the beginning of the Movement, the public seemed to worry that the Movement might adversely affect the economy via a decline in visitor arrival and retail sales. In our previous press release (dated October 8, 2014), we discussed the possible impact of the Movement on economic activities (measured by real GDP). A scenario put forth was for visitor arrival and retail sales to drop by 10% for a month. In such case, real GDP growth was expected to lower by approximately 0.4%. It turns out from the data that there has essentially been no adverse effect of the Movement on visitor arrival and retail sales, which is consistent with our analysis.

One explanation is that visitors and retail sales were able to avoid the several districts severely affected by the movement, namely Admiralty, Causeway Bay and Mongkok. The media reported widely that some businesses in these districts had been adversely affected, hence giving an impression that the whole economy was heavily impacted. In fact, at least as revealed by our data, adverse impact of the Movement was likely to be concentrated in specific districts and major business activities were not dampened.

We agree that there are other costs to the general public, for example, additional commuting time and psychological distress. These costs are difficult to quantify and are not part of the GDP measure, and thus not covered in this report.

Will the Movement cause loss in business confidence and consequently slower growth? It is true that gross fixed capital formation is the most volatile among the GDP components, since business tendency is very sensitive to changes in domestic as well as external environment. In general, for every 5% changes in gross fixed capital formation, output growth could be impacted by as much as 1%. It is possible that a pessimistic view of Hong Kong's business environment may cause a drop in gross fixed capital formation and hence a drop in the output growth.

Nevertheless, loss of business confidence due to the Movement is possible but unlikely, at least in the short term. The Movement might have caused short-term stress to businesses but the fundamental factors that attract businesses to Hong Kong remain intact. These factors include the rule of law, free flow of information, Hong Kong's role as a gateway to China, low tax rate, world class infrastructure, etc. As long as there is no drastic deterioration of these factors, we remain optimistic.

6.2 Uncertainty due to external development

The impact of external development on output growth is likely to be deeper than that of the Occupy Movement.

In 2014, the global economy went diverging in different continents. The US started slow and picked up by the 2014 year end, and is now preparing a monetary tightening in 2015; Japan went sluggish, intervening by quantitative easing; EU bottomed out but remained weak; China plateaued, still with sizeable growth momentum; oil prices has fallen substantially, Russia is in a crisis. We are cautious of the macro-economic impact of these developments, especially the unfolding in the Russian market. These external developments add much uncertainty to Hong Kong's economic outlook of 2015.

The robust US recovery has increased the chance of raising target interest rate, and hence the recent notable dollar appreciation. Our external demand will likely benefit from the US recovery but be hurt by the US dollar appreciation. Netting out, we expect an improvement of external demand due to the US factor.

At the same time, US dollar appreciation will also help constrain the imported part of inflation. Nevertheless, such passing through can take a while.

Despite the expected on-going nominal wage growth, inflation offsets part of growth, and consequently limits the growth of real wage and hence that of purchasing power. Indeed, we have seen a negative real wage growth in 14Q3 and this situation will likely continue for a few quarters. A negative real wage growth and the consequent decline in purchasing power may constrain the growth of private consumption.

While the chance of seeing a rise of interest rate target by the US in the first half of 2015 is high, the step will likely be small and infrequent. Therefore, we expect private consumption and capital formation to continue to benefit from the low interest rate environment.

Evaluating all these factors, we would expect Hong Kong to have a modest growth in 2015, mainly supported by optimistic local demand. Hong Kong's real GDP growth in 2015 is expected to be around 2.9%, likely between 2.3% and 3.3%, marginally better than the estimated 2.4% growth of 2014.

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 and led by Dr. Ka-Fu Wong, Principal Lecturer of Economics at HKU. 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>

For media enquiries, please contact the HKU Hong Kong Institute of Economics & Business Strategy, tel: 2548 9300, email: info@hiebs.hku.hk.

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 2012 HK Dollar)

	2013			2014					2015
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (Estimate)	Annual (Forecast)	Q1 (Forecast)
Gross Domestic Product	532,056	561,064	2,096,796	518,090	507,492	546,639	575,261	2,147,482	530,287
Private Consumption Expenditure	329,685	359,900	1,371,974	342,419	349,605	340,111	370,262	1,402,397	354,917
Government Consumption Expenditure	47,155	47,422	189,616	50,949	46,615	48,816	48,845	195,225	52,477
Exports of Goods	1,006,590	1,010,628	3,828,822	886,475	951,092	1,019,895	1,019,472	3,876,934	903,580
Imports of Goods	1,139,956	1,165,175	4,419,842	1,035,605	1,103,831	1,147,501	1,170,750	4,457,687	1,064,723
Exports of Services	273,054	282,670	1,057,857	261,460	243,731	278,457	290,526	1,074,174	271,028
Imports of Services	119,145	122,039	464,285	113,617	114,051	121,245	123,008	471,921	116,824
Gross Fixed Capital Formation	136,000	145,686	534,392	119,100	129,726	129,664	138,301	516,791	125,577
GFCF in Land & Construction	54,963	59,150	225,983	61,455	53,754	58,231	60,955	234,395	62,607
GFCF in Mach., Equip. & Comp. Soft.	81,037	86,536	308,409	57,645	75,972	71,433	77,346	282,396	62,970
Changes in Inventories	-1,327	1,972	-1,738	6,909	4,605	-1,558	1,613	11,569	4,255

Date of Forecast: January 2, 2015

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

Table 2: Current Quarter Model Forecast
Year-on-Year Growth Rate (%)

	2013			2014					2015
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (Estimate)	Annual (Estimate)	Q1 (Forecast)
Gross Domestic Product	3.0	2.9	2.9	2.6	1.8	2.7	2.5	2.4	2.4
Private Consumption Expenditure	2.7	3.6	4.3	1.6	1.2	3.2	2.9	2.2	3.7
Government Consumption Expenditure	2.3	2.0	2.3	2.6	2.7	3.5	3.0	3.0	3.0
Exports of Goods	6.1	5.7	6.6	0.5	2.4	1.3	0.9	1.3	1.9
Imports of Goods	6.6	6.1	7.4	1.2	1.1	0.7	0.5	0.9	2.8
Exports of Services	5.0	4.7	5.5	3.2	-2.0	2.0	2.8	1.5	3.7
Imports of Services	2.6	5.5	2.0	-0.8	5.0	1.8	0.8	1.6	2.8
Gross Fixed Capital Formation	2.7	5.3	3.3	3.5	-5.7	-4.7	-5.1	-3.3	5.4
GFCF in Land & Construction	-3.7	-8.6	-5.4	5.0	0.8	5.9	3.1	3.7	1.9
GFCF in Machinery, Equip. & Computer Software	7.6	17.5	10.8	1.9	-9.8	-11.9	-10.6	-8.4	9.2
GDP Deflator Growth Rate	1.5	1.5	1.4	2.2	3.7	2.5	1.6	2.4	2.0
CPI (Composite) Inflation Rate	5.3	4.3	4.3	4.2	3.6	4.8	5.0	4.4	4.4
Unemployment Rate	3.4	3.2	3.4	3.1	3.2	3.3	3.3	3.2	3.3
Date of Forecast: January 2, 2015									

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 (%)

	2014									2015		
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
Unit Value Trade Index (Domestic Exports)	-1.3	-0.2	1.4	1.4	0.8	0.7	-0.9	0.6	-0.1	0.5	0.5	1.6
Unit Value Trade Index (Imports of Foodstuffs)	3.7	5.2	5.6	5.8	4.8	6.1	5.3	6.0	5.3	5.3	7.2	6.6
Unit Value Trade Index (Imports of Consumer Goods)	2.7	1.6	2.7	3.3	4.1	2.6	1.8	1.2	2.2	2.6	1.3	2.8
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	3.0	2.1	2.6	2.7	2.4	0.8	-0.4	1.3	1.9	2.9	1.9	3.6
Unit Value Trade Index (Imports of Fuels)	-3.9	-0.9	0.6	2.2	0.1	-7.1	-8.5	-5.2	-3.3	-4.2	-2.9	-2.6
Unit Value Trade Index (Imports of Capital Goods)	0.2	1.8	1.9	2.3	0.1	3.9	3.3	4.4	6.0	6.3	4.6	6.8
Real Retained Imports of Foodstuffs	18.5	5.1	12.3	4.9	0.2	14.1	2.2	-4.0	-2.0	7.1	10.7	12.7
Real Retained Imports of Consumer Goods	-3.8	5.8	7.8	12.0	-9.7	21.5	22.4	10.3	15.9	15.2	-3.1	17.6
Real Retained Imports of Raw Materials & Semi-Manufactures	34.1	7.3	-9.9	19.7	11.7	9.6	31.0	9.1	28.4	2.7	-3.9	-4.0
Real Retained Imports of Fuels	28.4	0.3	-24.1	3.7	-13.3	-13.2	-6.0	-12.2	-17.8	-14.0	-5.8	-8.5
Real Retained Imports of Capital Goods	-6.2	-20.5	-10.0	-20.5	-22.8	-3.3	3.5	-21.4	-31.2	14.6	-5.0	-2.0
Total Motor Vehicles Newly Registered	26.6	12.4	16.6	16.9	19.1	30.9	5.9	15.7	7.4	10.8	1.3	19.2
Private Cars Newly Registered	13.4	-0.4	11.6	0.5	7.4	14.2	-0.7	5.2	-6.1	14.2	-17.2	6.1
Money Supply (M2)	12.5	12.6	15.0	15.9	15.2	12.2	12.1	11.2	11.1	12.0	11.2	13.8
Loans and Advances	18.1	18.0	16.0	15.5	14.0	12.7	13.7	12.8	14.6	11.4	8.9	11.1
Volume Index of Retail Sales	-9.6	-4.6	-7.5	-4.6	2.8	6.6	4.3	7.5	1.1	-6.3	3.0	8.1
Visitors Arrivals	10.9	10.8	6.9	11.2	12.2	10.2	12.6	15.7	12.0	7.3	12.7	10.0
Hong Kong Resident Departures	11.7	-1.0	-2.7	-0.4	1.7	3.4	0.7	3.3	3.4	-1.4	8.0	4.1
Electricity Consumption	3.0	1.8	2.7	8.1	-1.4	3.7	2.6	0.1	4.8	1.8	1.2	1.9
Gas Consumption	2.2	-0.6	-1.0	-1.9	-3.7	-3.1	-3.4	-1.3	-6.8	-5.7	-3.6	-2.0

Date of Forecast: January 2, 2015