

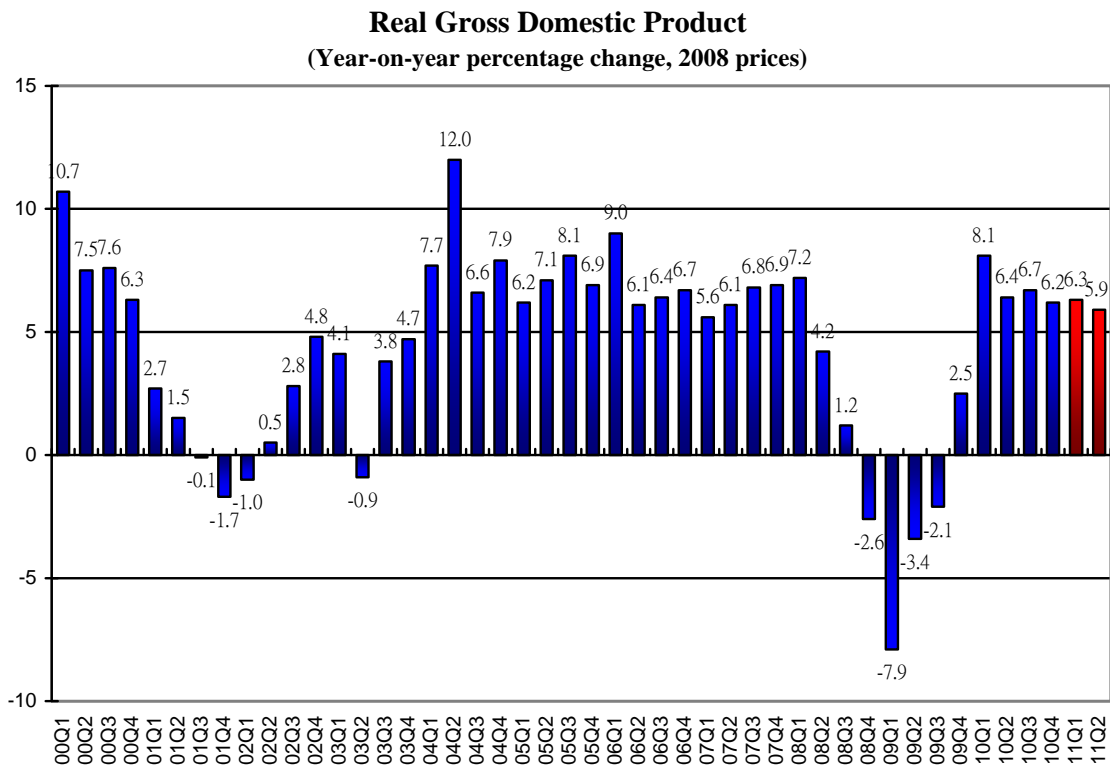


For Immediate Release

HKU Announced 2011 Q2 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 (Mar 30). According to its High Frequency Macroeconomic Forecast, real GDP in 11Q1 is estimated to increase by 6.3% when compared with the same period last year. This is an upward revision of our previous forecast of 4.4% growth released in January 5, 2011, reflecting a strong pickup in external demand. In 11Q2, real GDP growth is forecast to rise by 5.9% when compared with the same period last year.



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "Hong Kong has fully recovered from the global financial crisis, with real GDP growing by 6.8% last year, sharply rebounded from the 2.7% contraction in 2009. The natural disasters and the still unfolding nuclear problems in Japan are negative supply shocks and will slow the global economy. But strong growth in the Mainland, ample liquidity and low interest rates will continue to support Hong Kong economic growth in 2011. Hong Kong's real GDP is forecast to slow to 5.9% in the second quarter, down from the estimated growth of 6.3% in the first quarter. This slowdown is due to a weakening of our exports of goods and services."

"The job market is projected to improve further with the unemployment rate forecast to drop to 3.5% in 11Q2 from the estimated 3.6% in 11Q1. Inflation pressure will continue to build up, fueled by increasing food and energy prices, as well as rising rental rates. The headline consumer inflation rate is forecast to rise to 4.5% in the second quarter, up from the estimated 3.7% in the first 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.

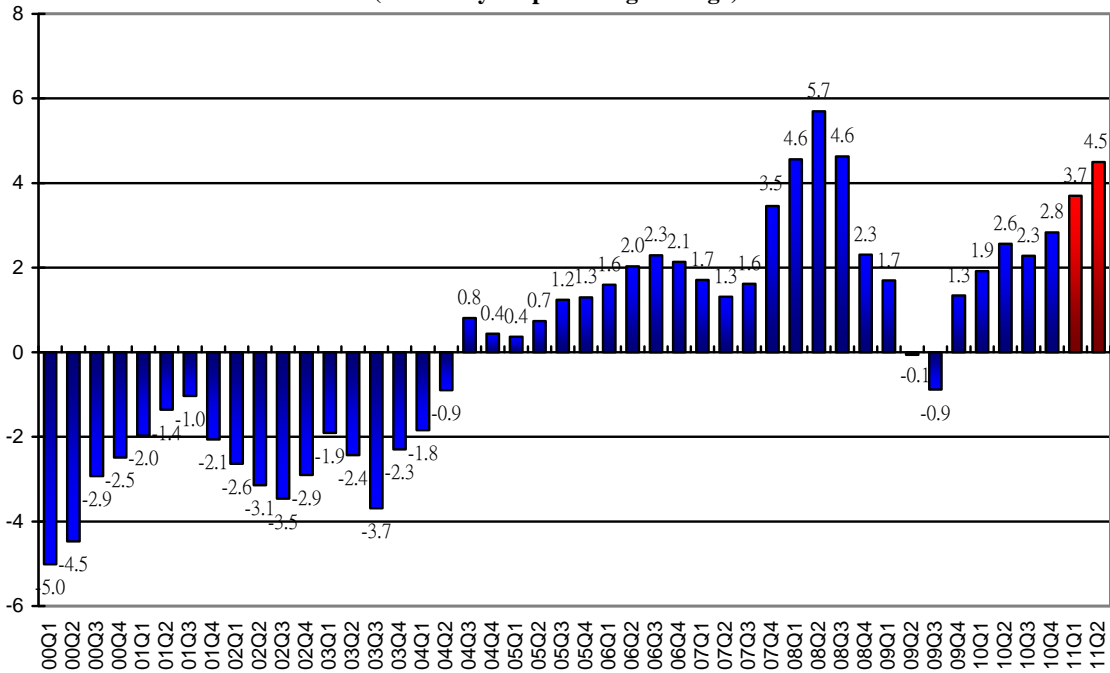
Forecast Highlights

- Given strong economic growth, continued improvement in the job market and buoyant consumer sentiment, private consumption spending is projected to continue to grow robustly, with a growth rate forecast to be 6.0% in 11Q1 and decelerate to 5.6% in 11Q2. The slowdown in consumption growth is due to the projected moderation in output growth in the second quarter.

- The volume of retail sales grew by 23.6% in January 2011, and is projected to continue to grow at double-digit rates in the next couple of months, supported by robust local demand, as well as by the continued strong growth in visitor arrivals. It is forecast to grow by 19.1% in 11Q1 and by 20.6% in 11Q2.
- Total exports of goods only grew by 8.4% in real terms in 10Q4, decelerating from the 20.8% increase in 10Q3. The growth momentum is projected to pick up. In the first two months of this year, the exports of goods from Hong Kong registered robust growth, with electrical machinery, telecommunication equipment and office machinery rose by 23.5%, 34.4% and 50.0% respectively. The total exports of goods in real terms is estimated to grow by 16.4% in 11Q1. Given the disruptions in Japan, the growth is projected to moderate to 11.9% in 11Q2.
- Imports of goods increased by 7.4% in 10Q4, decelerating from the 16.5% growth in 10Q3. In tandem with strong export growth, the imports of goods also grew rapidly in the first two months of this year, with electrical machinery, telecommunication equipment and office machinery growing by 18.7%, 29.9% and 33.8% respectively. Given the projected robust growth in private consumption spending, the demand for imports for local use will remain strong. The imports of goods is forecast to increase by 13.5% and 10.9% in 11Q1 and 11Q2 respectively.
- Service exports grew by 9.4% in 10Q4, decelerating from the 15.7% growth in 10Q3. The pickup in visible trade boosted the demand for trade-related services. The strong growth in visitor arrivals also provided further impetus for the growth of service exports, the share of visitors from the Mainland increasing to 70% in January 2011, up from the last year average of 63%. The increase in service exports is forecast to accelerate to 10.8% in 11Q1 but moderate to 8.7% in 11Q2.

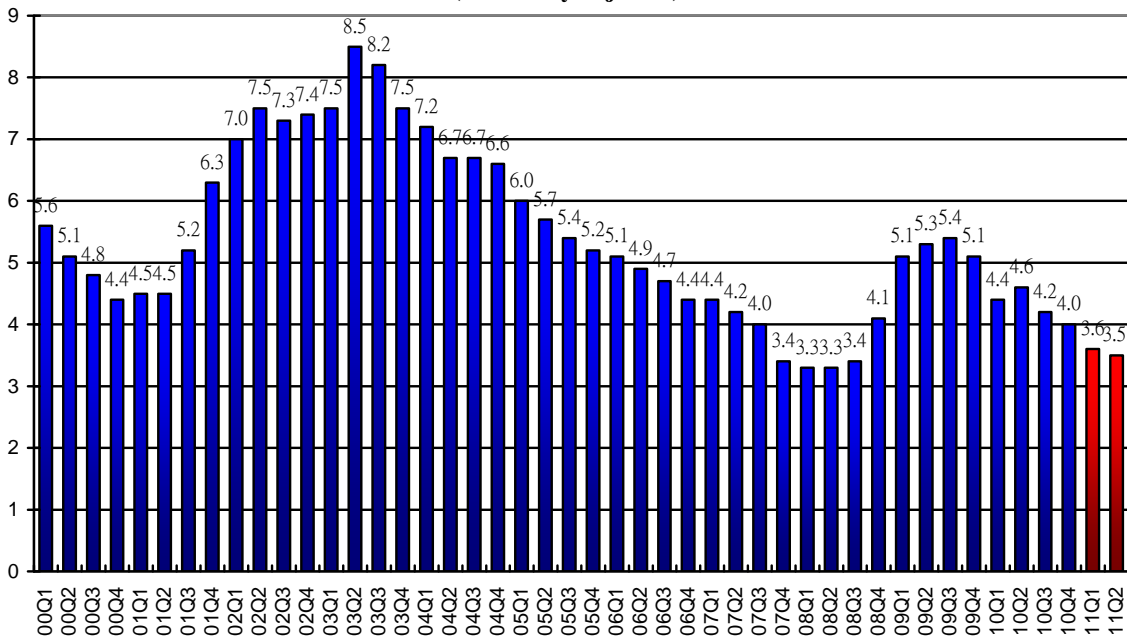
- Service imports went up by 7.8% in 10Q4, moderated from the 11.6% growth in 10Q3. It is forecast to grow by 5.7% and 5.3% in 11Q1 and 11Q2 respectively.
- Gross fixed capital formation rose by 8.8% in 10Q4, picking up from the 0.2% growth in 10Q3. Projected Economic growth and infrastructural projects will continue to provide impetus for investment spending. Gross fixed capital formation is forecast to grow by 9.5% in 11Q1 and 8.2% in 11Q2.
- Investment in land and construction went up by 11.5% in 10Q4. The commencement of infrastructural projects will provide support for steady growth, with the growth rate projected to be 14.6% in 11Q1 and 11.0% in 11Q2.
- Investment spending in machinery, equipment and computer software grew by 6.5% in the 10Q4. Underpinned by the continued economic growth, investment in machinery, equipment and computer software is projected to increase by 5.4% in 11Q1 and 5.9% in 11Q2 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 3.7% in February 2011, with food and housing contributed 1.5 and 1.2 percentage points respectively to the overall increase. These two items accounted for 73% of the total increase in the general price level. Inflationary pressure coming from increasing food and energy prices and rising rental rates will continue to build up. The headline consumer inflation rate is forecast to be 3.7% in 11Q1 and increase to 4.5% in 11Q2. The upcoming electricity charge subsidy will provide around 1% easing in the measured CPI inflation rate in the second half of this year.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate improved to 3.6% in the 3 months ending in February 2011 from 3.8% in the 3 months ending in January 2011. Marked improvement was recorded in the construction sector as a result of the commencement of infrastructural projects. The job market is expected to continue to improve. The number of employed workers is estimated to increase by 10,000 in 11Q2, and the number of unemployed workers is projected to fall by 3,000. The unemployment rate is forecast to be 3.6% in 11Q1, and to fall to 3.5% in 11Q2.

Concluding Remarks

Prolonged disruptions to the supply chains due to the natural disasters and the still unfolding nuclear problems in Japan will hurt the global economy. Hong Kong's real GDP is forecast to slow in the second quarter due to a projected weakening in the exports of goods and services. Inflation will prove to be a major challenge, with the general price level accelerating in the coming quarter. The nominal wage has not kept pace with inflation, resulting in a fall in the real wage last year. A repeat of this will further erode the standard of living of the workers.

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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March 30, 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 2008 HK Dollar)

	2010					2011	
	Q1	Q2	Q3	Q4	Annual	Q1 (forecast)	Q2 (forecast)
Gross Domestic Product	411,905	415,538	446,819	469,203	1,743,465	438,041	440,257
Private Consumption Expenditure	256,977	271,164	268,087	292,390	1,088,618	272,476	286,481
Government Consumption Expenditure	38,806	34,571	36,420	36,616	146,413	39,970	35,608
Exports of Goods	624,241	746,102	791,336	750,678	2,912,357	726,502	835,133
Imports of Goods	718,677	832,930	850,387	830,480	3,232,474	815,807	923,852
Exports of Services	195,060	188,166	221,948	223,466	828,640	216,130	204,443
Imports of Services	91,880	92,910	102,058	99,920	386,768	97,121	97,832
Gross Fixed Capital Formation	81,529	88,912	87,229	89,450	347,120	89,241	96,239
GFCF in Land & Construction	35,949	40,889	40,832	41,549	159,219	41,184	45,370
GFCF in Mach., Equip. & Comp. Soft.	45,580	48,023	46,397	47,901	187,901	48,058	50,868
Changes in Inventories	25,849	12,463	-5,756	7,003	39,559	6,649	4,038

Date of Forecast: March 29, 2011

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

	2010					2011	
	Q1	Q2	Q3	Q4	Annual	Q1 (Forecast)	Q2 (Forecast)
Gross Domestic Product	8.1	6.4	6.7	6.2	6.8	6.3	5.9
Private Consumption Expenditure	7.2	3.9	4.9	7.1	5.8	6.0	5.6
Government Consumption Expenditure	3.3	2.7	3.1	1.8	2.7	3.0	3.0
Exports of Goods	21.6	20.1	20.8	8.4	17.3	16.4	11.9
Imports of Goods	28.0	23.6	16.5	7.4	18.1	13.5	10.9
Exports of Services	18.3	17.8	15.7	9.4	15.0	10.8	8.7
Imports of Services	11.6	13.1	11.6	7.8	10.9	5.7	5.3
Gross Fixed Capital Formation	8.4	16.0	0.2	8.8	8.1	9.5	8.2
GFCF in Land & Construction	4.5	15.7	9.1	11.5	10.2	14.6	11.0
GFCF in Machinery, Equip. & Computer Software	11.8	16.2	-6.6	6.5	6.3	5.4	5.9
GDP Deflator Growth Rate	0.6	-0.8	1.7	1.8	0.9	1.9	2.1
CPI (Composite) Inflation Rate	1.9	2.6	2.3	2.8	2.4	3.7	4.5
Unemployment Rate	4.4	4.6	4.2	4.0	4.3	3.6	3.5

Date of Forecast: March 29, 2011

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

	2010						2011					
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Unit Value Trade Index (Domestic Exports)	6.5	5.6	5.0	6.5	6.5	7.1	6.6	5.9	5.9	5.5	4.9	5.6
Unit Value Trade Index (Imports of Foodstuffs)	5.7	5.7	5.4	5.9	7.1	8.3	6.9	6.6	6.9	7.1	6.5	6.0
Unit Value Trade Index (Imports of Consumer Goods)	5.1	6.6	5.8	6.8	7.5	7.5	7.4	6.4	6.6	6.3	6.2	5.3
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	10.1	10.8	9.9	9.6	10.8	8.1	8.6	8.5	7.2	5.1	3.7	2.8
Unit Value Trade Index (Imports of Fuels)	11.2	10.7	6.9	13.4	11.9	9.1	16.0	22.1	24.9	24.1	22.5	26.1
Unit Value Trade Index (Imports of Capital Goods)	4.1	3.2	5.4	5.9	6.8	7.6	6.0	5.8	5.6	4.4	4.0	2.9
Real Retained Imports of Foodstuffs	16.2	-0.8	-6.8	8.0	10.9	13.0	-18.1	9.8	3.2	8.3	9.2	1.5
Real Retained Imports of Consumer Goods	29.5	10.6	-4.8	11.4	17.5	22.0	12.6	38.1	21.4	29.6	29.7	21.1
Real Retained Imports of Raw Materials & Semi-Manufactures	14.8	-20.0	-12.7	-12.6	-20.9	10.8	-22.7	5.9	-2.7	15.6	19.1	19.8
Real Retained Imports of Fuels	5.8	11.5	30.0	-5.2	0.4	7.9	-5.0	20.7	21.3	-22.8	1.5	-14.0
Real Retained Imports of Capital Goods	-1.3	-18.2	-9.2	1.1	13.3	4.8	-28.6	11.6	-15.4	-15.4	10.4	0.9
Total Motor Vehicles Newly Registered	57.5	64.6	18.7	32.3	18.4	18.2	36.1	26.2	13.5	28.3	30.5	15.5
Private Cars Newly Registered	70.2	68.8	15.4	33.8	16.7	12.0	42.2	28.0	22.4	19.5	22.9	13.1
Money Supply (M2)	3.1	3.7	5.3	9.1	5.7	8.1	10.8	11.8	12.1	10.8	16.5	16.5
Loans and Advances	21.2	24.1	25.9	29.5	25.9	28.6	29.9	28.3	28.0	24.2	25.6	21.5
Volume Index of Retail Sales	16.1	14.9	15.9	19.7	15.4	16.0	23.7	11.9	21.6	21.6	19.5	20.9
Visitors Arrivals	31.9	21.9	21.2	18.0	17.1	15.7	21.5	14.0	17.7	14.2	6.9	7.6
Hong Kong Resident Departures	5.8	2.4	5.4	-1.1	2.3	1.9	0.3	-1.1	1.9	-2.2	-3.0	0.3
Electricity Consumption	-1.7	-5.2	-9.1	-4.5	-1.4	0.8	-5.2	-4.7	-11.0	-3.5	-3.6	-0.7
Gas Consumption	0.7	1.1	2.0	1.4	3.8	-1.4	4.7	3.5	4.8	2.8	1.3	2.5

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