



*For Immediate Release*

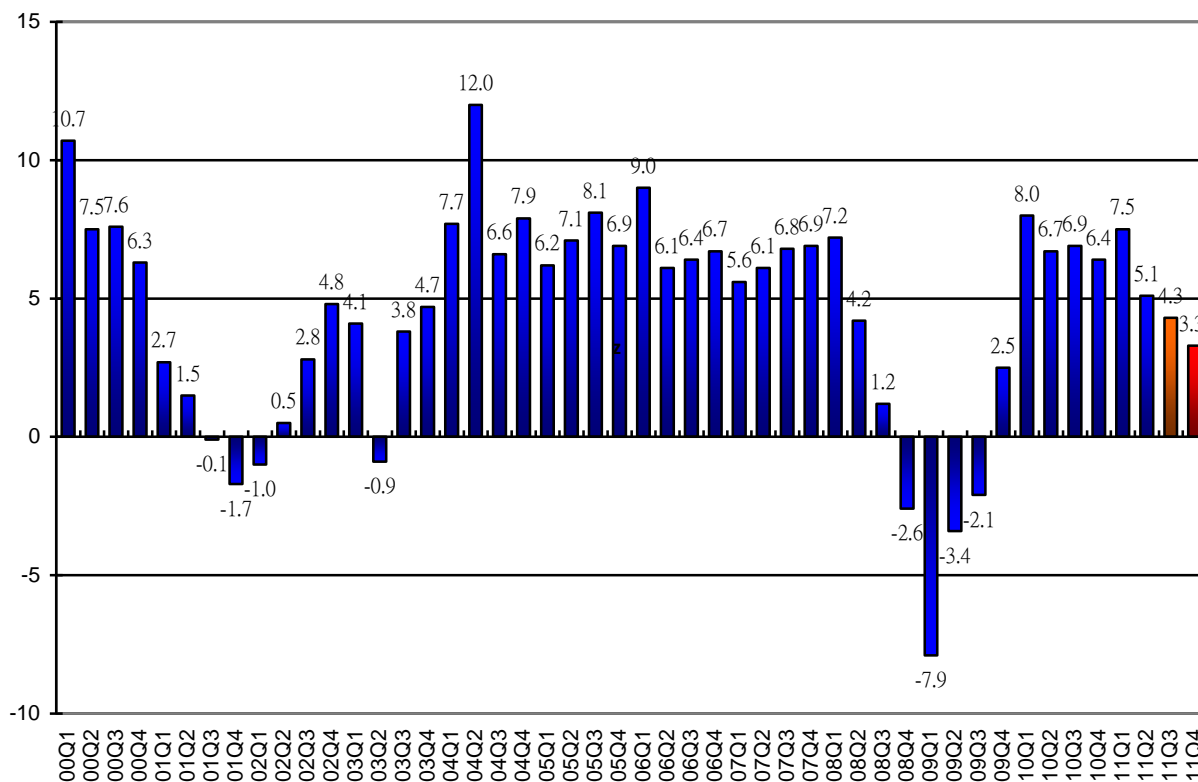
## HKU Announced 2011 Q4 HK Macroeconomic Forecast

### Slower 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 (Oct 12). Following the robust performance in the first half of 2011, with real GDP growing by 7.5% in 11Q1 and 5.1% in 11Q2, output growth is expected to continue in the second half of this year but at a much slower pace.

According to its High Frequency Macroeconomic Forecast, real GDP is estimated to increase by 4.3% in 11Q3 when compared with the same period last year. This estimate is a downward revision from the previous forecast of a 5.1% growth released on July 5, 2011, reflecting a slowing down in the external economies. In 11Q4, real GDP growth is forecast to grow by 3.3% when compared to 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, "After expanding at above its trend rate of growth for 6 consecutive quarters since 2010Q1, the Hong Kong economy has been slowing down since the summer. Its real GDP in 2011 is estimated to grow by 3.8% in the second half of this year, dropping from the 7.3% increase in the first half. This deceleration in output growth reflects a slowdown in the developed economies which has been worsened by the turmoil in the financial markets and the credit crunch faced by small and medium sized firms. For the year as a whole, real GDP is forecast to increase by 5.0%, as compared with the 7% growth in 2010. The growth in real GDP is driven by domestic demand, with external demand making a negative contribution. The increase in domestic demand is estimated to account for 5.1 percentage point of the 5.0% overall increase in real GDP in the current year, while the net exports of goods and services is estimated to subtract 0.1 percentage point from overall growth."

"Clouded by economic uncertainties and given slower economic growth, the job market will worsen. The unemployment rate is projected to rise from 3.2% in 11Q3 to 3.4% in 11Q4, with the number of unemployed workers forecasted to rise by 7,000, and the number of employed workers estimated to decrease by 26,000. The headline inflation is forecast to be 6.0% in the second half of this year, up from the 4.5% increase in the first half. For the year as a whole, the headline consumer inflation is estimated to be 5.2% for the year of 2011, as compared to the 2.3% increase in 2010", 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.

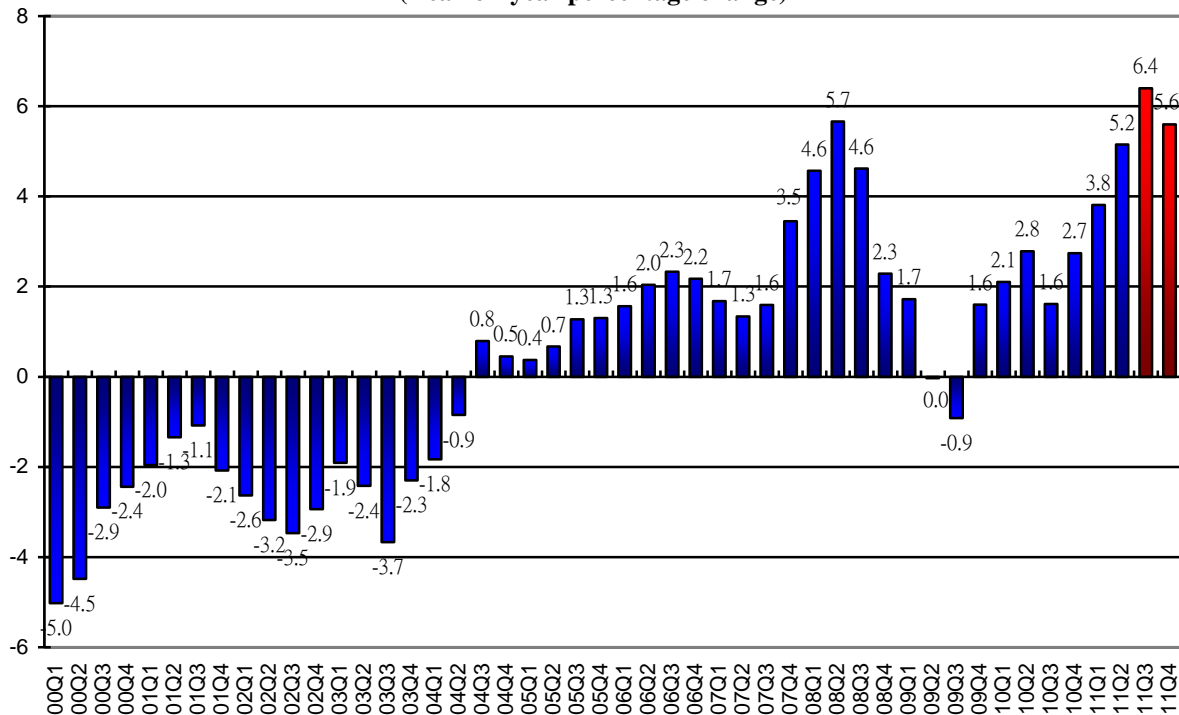
## **Forecast Highlights**

- Falling asset prices and the deceleration of output growth will dampen the growth in private consumption spending which has been boosted by a robust job market so far this year. Private consumption spending is projected to grow by 6.3% in the current quarter, slowing down from 7.5% increase in the 11Q3. For the year as a whole, private consumption spending is forecast to grow by 7.7%.

- The volume of retail sales increased by 20.7% in August 2011, following the 22.4% increase in July. It has risen consecutively for 24 months in a row. Given slower economic growth, despite the continued influx of Mainland visitors, the growth momentum in retail sales is projected to decelerate. The growth in the volume of retail sales is estimated to be 21.0% in 11Q3 and moderate to 12.4% in 11Q4. For the 2011 as a whole, it is projected to grow by 17.7%.
- Exports of goods inched up by 0.3% in 11Q2, a sharp brake from the 16.8% growth in 11Q1. The unfolding of the Europe sovereign debt crisis and anemic growth in the US will continue to drag down the exports of goods. The growth of the exports of goods is estimated to be 0.8% in 11Q3, and picking up to 5.7% in the current quarter. For the year as whole, total exports of goods is forecast to increase by 5.4% in 2011.
- Imports of goods increased by 2.6% in 11Q2, dropping sharply from the 12.6% growth in 11Q1. In tandem with the slow growth in the exports of goods, imports of goods is forecast to grow by 4.0% in 11Q3 and to rise by 7.2% in 11Q4. For the year as a whole, it is projected to grow by 6.4%.
- Service exports grew by 7.8% in 11Q2, decelerating from the 9.3% growth in 11Q1. Although the growth in trade related services went down from 11.4% in 11Q1 to 3.4% in 11Q2, travel related services surged from 10.8% in 11Q1 to 17.9% in 11Q2, fueled by the surge of visitors from the Mainland. The increase in service exports is forecast to be 5.9% in 11Q3 and 7.6% 11Q4. The annual growth is estimated to be 7.6%.
- Service imports went up by 2.9% in 11Q2, decelerating from the 5.8% growth in 11Q1. Service imports is forecast to grow by 3.1 and 2.2% in 11Q3 and 11Q4 respectively. It is estimated to grow by 3.5% in the whole year of 2011.
- Gross fixed capital formation grew by 8.1% in 11Q2, reverting from the 0.3% drop in 11Q1. Infrastructural projects will continue to provide impetus for investment spending. The gross fixed capital formation is projected to grow by 5.8% in 11Q3 and 4.0% in 11Q4. The annual growth is estimated to be 4.5%.

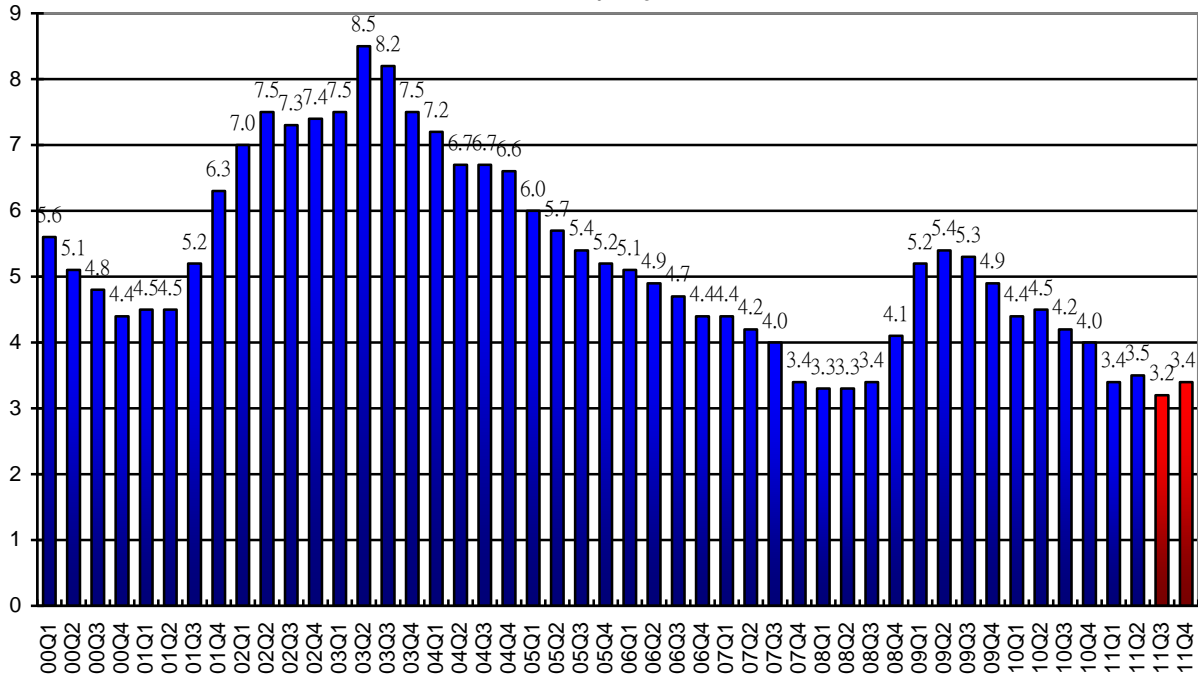
- Investment in land and construction dropped by 2.4% in 11Q2. With the continue of infrastructural projects, the growth momentum is expected to resume, with the growth rate projected to be 2.8% in 11Q3 and 3.6% in the current quarter. The annual growth of 2011 is estimated to be 4.2%.
- Investment spending in machinery, equipment and computer software surged by 17.4% in the 11Q2, reverting the 12.1% drop in 11Q1. Underpinned by the continued development projects, investment in machinery, equipment and computer software is projected to increase by 8.5% in 11Q3 and 4.4% in 11Q4 when compared with the same period last year. It is projected to increase by 4.7% for the year of 2011 as a whole.

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



- The general price level, as measured by the Composite CPI, rose by 5.7% in August 2011. If there were no fiscal measures, the price index would have risen by 6.3%. The headline consumer inflation rate is estimated to be 6.4% in 11Q3 and after stripping out the effects of fiscal relief measures, the rate would be 6.1% in 11Q3. Rising food prices and rentals will push the price level higher, with the consumer inflation rate and the underlying inflation rate forecast to be 5.6% and 6.2% respectively in the current quarter. For the year as a whole, the headline consumer inflation is estimated to be 5.2% for the year of 2011, as compared to the 2.3% increase in 2010.

### Unemployment Rate (Seasonally adjusted)



- With an additional 10,800 jobs, the provisional seasonally adjusted unemployment rate improved slightly to 3.2% in the 3 months ending in August 2011 from the 3.4% in the 3 months ending in July 2011. The unemployment rate is forecast to be 3.2% in 11Q3, and rise to 3.4% in 11Q4 reflecting slower economic growth. The number of unemployed workers is projected to increase by 7,000 to 127,000 in the current quarter, with the number of employed workers estimated to be 3,610,000. For the year of 2011 as a whole, the unemployment rate is estimated to average out to be 3.4%.

### Concluding Remarks

Given the sovereign debt crisis in Europe and a slowing US economy, the Hong Kong economy will continue to be slow in the current quarter. Domestic demand is the only driver popping up growth. This pattern of growth is not sustainable. Hong Kong needs a more robust external trading environment, but without a resolution of the European debt crisis and more supportive policies in the US, the global economy will remain weak.

## **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>

For media enquiries, please contact Ms Trinni Choy, Assistant Director (Media) (Tel: 2859 2606/Email: [pychoy@hku.hk](mailto:pychoy@hku.hk)), or Ms Melanie Wan, Manager (Media) (Tel: 2859 2600/Email: [melwkwan@hku.hk](mailto:melwkwan@hku.hk)), Communications & Public Affairs Office, HKU.

October 12, 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				
	Q3	Q4	Annual	Q1	Q2	Q3 (forecast)	Q4 (forecast)	Annual
Gross Domestic Product	445,100	467,241	1,735,399	439,441	435,353	464,361	482,434	1,821,589
Private Consumption Expenditure	264,829	290,395	1,076,027	273,453	292,094	284,659	308,748	1,158,955
Government Consumption Expenditure	36,534	36,630	146,736	39,916	35,153	37,630	37,729	150,428
Exports of Goods	795,294	753,560	2,926,041	732,363	751,936	801,703	796,599	3,082,600
Imports of Goods	841,030	820,722	3,193,461	800,560	841,955	874,389	879,886	3,396,790
Exports of Services	206,517	207,515	769,984	198,264	188,145	218,752	223,343	828,504
Imports of Services	99,020	97,574	375,896	94,666	92,434	102,051	99,734	388,885
Gross Fixed Capital Formation	87,271	89,747	347,939	81,472	96,414	92,315	93,345	363,545
GFCF in Land & Construction	41,758	42,460	162,832	41,959	40,806	42,946	44,000	169,711
GFCF in Mach., Equip. & Comp. Soft.	45,513	47,287	185,107	39,513	55,608	49,369	49,345	193,835
Changes in Inventories	-5,295	7,690	38,029	9,199	6,000	5,742	2,290	23,231

Date of Forecast: October 6, 2011

**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 (%)

	2010			2011				
	Q3	Q4	Annual	Q1	Q2	Q3 (Forecast)	Q4 (Forecast)	Annual (Forecast)
Gross Domestic Product	6.9	6.4	7.0	7.5	5.1	4.3	3.3	5.0
Private Consumption Expenditure	5.3	8.1	6.2	8.0	9.2	7.5	6.3	7.7
Government Consumption Expenditure	3.2	1.6	2.7	2.6	1.4	3.0	3.0	2.5
Exports of Goods	20.8	8.2	17.3	16.8	0.3	0.8	5.7	5.4
Imports of Goods	16.7	7.5	18.1	12.6	2.6	4.0	7.2	6.4
Exports of Services	15.8	9.3	15.0	9.3	7.8	5.9	7.6	7.6
Imports of Services	10.8	7.7	10.4	5.8	2.9	3.1	2.2	3.5
Gross Fixed Capital Formation	-0.3	8.6	7.8	-0.3	8.1	5.8	4.0	4.5
GFCF in Land & Construction	9.0	11.2	10.0	14.1	-2.4	2.8	3.6	4.2
GFCF in Machinery, Equip. & Computer Software	-7.3	6.4	5.9	-12.1	17.4	8.5	4.4	4.7
GDP Deflator Growth Rate	1.7	1.0	0.5	1.2	4.5	2.0	2.5	2.0
CPI (Composite) Inflation Rate	1.6	2.7	2.3	3.8	5.2	6.4	5.6	5.2
Unemployment Rate	4.2	4.0	4.3	3.4	3.5	3.2	3.4	3.4
Date of Forecast: October 6, 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 (%)

	2011											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Unit Value Trade Index (Domestic Exports)	6.6	6.5	6.8	6.6	6.2	6.5	8.0	8.4	8.8	7.9	7.5	6.7
Unit Value Trade Index (Imports of Foodstuffs)	6.9	7.5	8.1	8.8	10.4	11.4	11.6	12.4	12.8	12.4	11.4	9.9
Unit Value Trade Index (Imports of Consumer Goods)	7.4	8.3	8.5	9.0	9.4	10.6	10.2	10.2	10.9	10.6	10.5	10.6
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	8.6	11.0	9.6	6.9	5.8	5.5	5.7	4.9	4.5	4.4	4.2	5.9
Unit Value Trade Index (Imports of Fuels)	16.0	24.3	35.5	43.0	36.7	42.9	48.0	49.6	49.6	43.8	35.8	30.8
Unit Value Trade Index (Imports of Capital Goods)	6.0	8.4	6.9	4.6	6.5	5.1	6.1	6.7	5.4	4.9	4.4	3.5
Real Retained Imports of Foodstuffs	-18.1	-3.9	7.4	12.4	14.1	-7.6	1.3	13.7	20.7	4.6	-1.6	-4.7
Real Retained Imports of Consumer Goods	12.6	44.5	15.6	31.5	47.6	41.5	25.6	58.3	47.2	34.5	31.9	27.6
Real Retained Imports of Raw Materials & Semi-Manufactures	-22.7	-4.9	-9.5	-2.5	4.9	-4.1	-11.3	7.1	1.6	7.4	6.7	-16.6
Real Retained Imports of Fuels	-5.0	8.3	7.8	-21.4	-19.9	-19.2	-11.6	-9.5	-5.5	-1.9	0.1	-11.4
Real Retained Imports of Capital Goods	-28.6	-19.3	-9.9	7.7	25.0	27.9	9.6	41.2	19.3	33.2	19.0	13.7
Total Motor Vehicles Newly Registered	36.1	-1.2	16.5	8.1	11.3	-5.2	3.4	-0.8	2.1	-0.3	-4.3	-12.6
Private Cars Newly Registered	42.2	-0.9	35.8	4.2	1.5	-5.6	-2.3	-4.0	0.3	-0.6	-2.9	-9.9
Money Supply (M2)	10.9	10.2	11.8	12.1	17.7	15.9	16.3	15.5	12.6	9.0	13.2	14.1
Loans and Advances	29.9	29.8	30.9	27.5	32.4	28.0	27.6	26.7	23.0	22.3	25.1	24.6
Volume Index of Retail Sales	24.3	4.8	20.6	21.9	21.0	22.1	22.4	20.7	19.8	12.9	13.9	10.8
Visitors Arrivals	21.5	2.0	13.9	20.1	14.7	15.9	22.4	17.7	16.7	15.2	16.2	14.0
Hong Kong Resident Departures	0.3	-1.1	0.0	3.6	-2.6	1.5	1.7	-4.2	1.0	1.9	1.9	1.9
Electricity Consumption	-5.2	-4.7	-15.1	-5.5	0.5	13.1	-1.5	9.0	7.2	8.3	4.8	3.4
Gas Consumption	4.7	3.5	3.5	4.4	0.1	0.3	1.1	0.4	0.1	1.0	-0.4	0.4
Date of Forecast: October 6, 2011												