



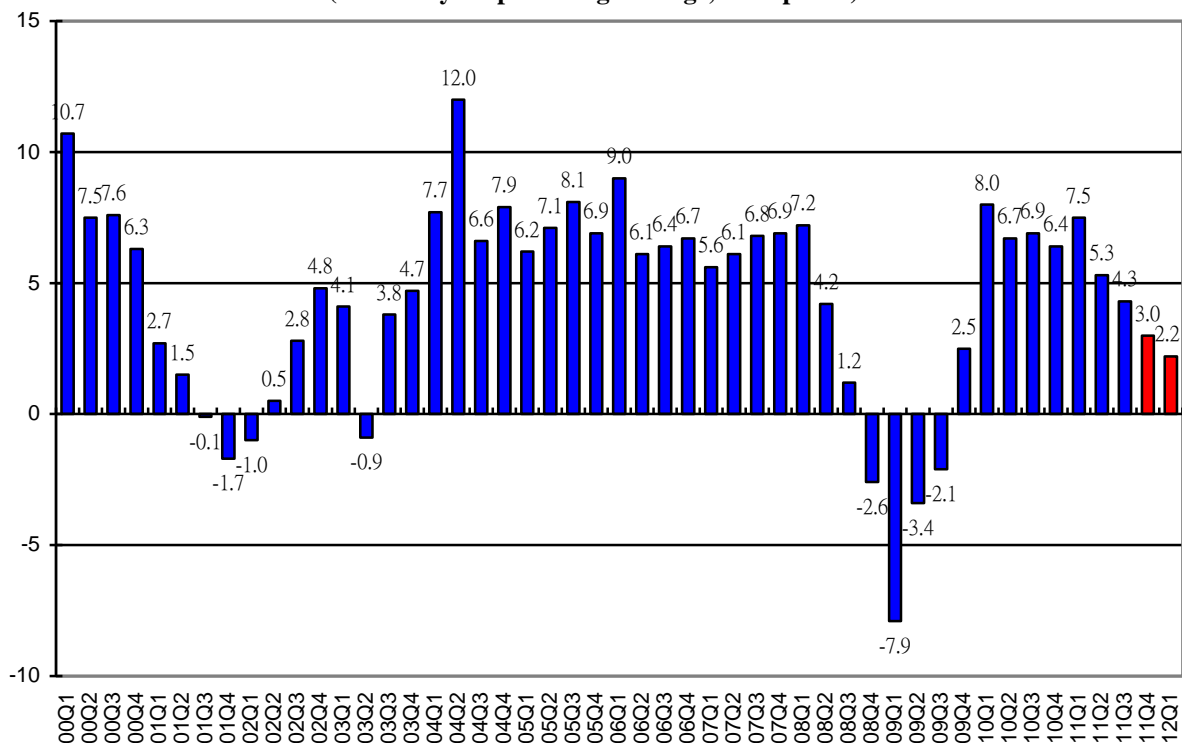
*For Immediate Release*

## HKU Announced 2012 Q1 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 (Jan 4). According to its High Frequency Macroeconomic Forecast, real GDP is estimated to increase by 3.0% in the final quarter of last year when compared with the same period in 2010. This estimate is a slight downward revision from the previous forecast of a 3.3% growth released on October 12, 2011, reflecting a weakening in external demand.

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



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "In the third quarter of last year, Hong Kong's economy growth has been moderating caused by the European sovereign debt crisis. Real GDP is estimated to grow by 3.6% in the second half of 2011, moderating from the 6.4% increase in the first half. For the year as a whole, real GDP is forecast to increase by 4.9% in 2011. The growth in real GDP is driven primarily by domestic demand. The increase in domestic demand is estimated to account for 4.8 percentage points of the 4.9% overall increase in real GDP in the 2011, with external demand accounting for only 0.1 percentage point of the growth. In the current quarter, real GDP growth is forecast to moderate to 2.2% when compared to the same period last year, due to a less supportive external environment."

"Clouded by the slowdown in the global economy, the job market in Hong Kong will continue to soften with the unemployment rate projected to rise from 3.3% in 11Q4 to 3.5% in 12Q1. The headline inflation is forecast to be 4.8% in the current quarter, down from the estimated 5.7% in 11Q4. Inflationary pressure is expected to ease further reflecting a slower growth in aggregate demand," according to Dr. Alan Siu, Executive Director of the Hong Kong Institution 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.

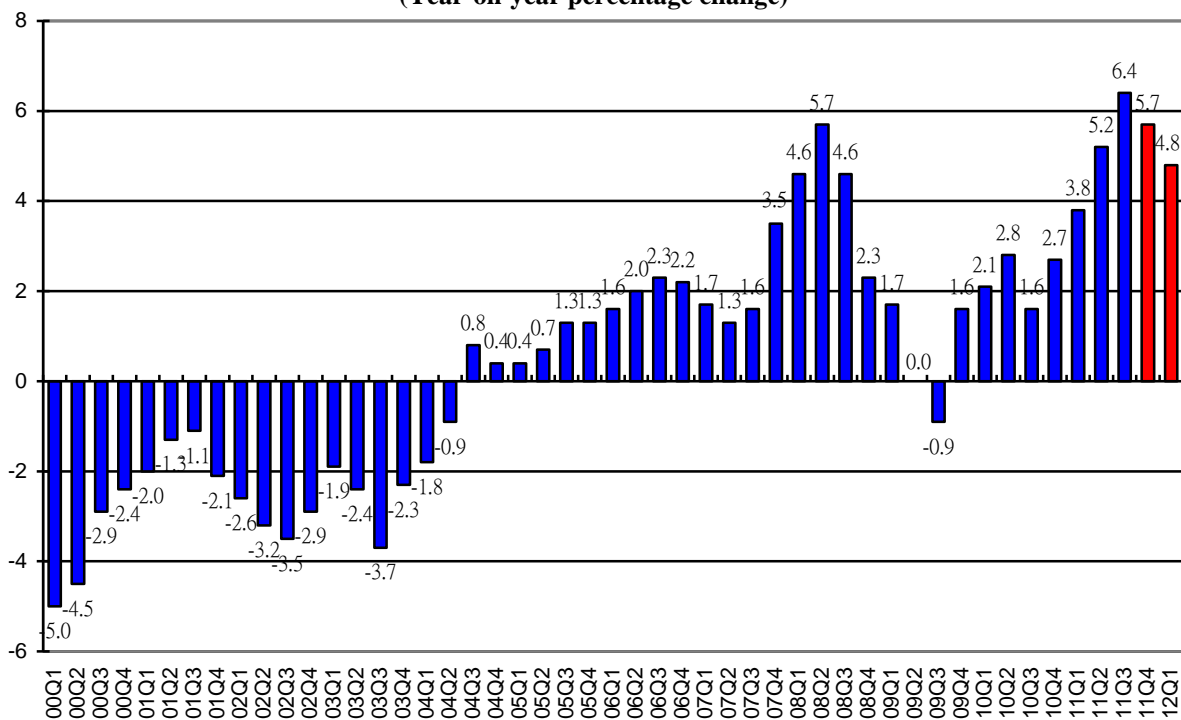
## **Forecast Highlights**

- Private consumption spending grew by 8.8% in 11Q3, decelerating from the 9.7% growth in 11Q2. This strong consumption growth is expected to moderate further given the uncertainties in the global economic outlook. The growth in private consumption expenditure is estimated to moderate to 5.9% in 11Q4. For the last year as a whole, private consumption spending is projected to grow by 8.1%. In the current quarter, the growth rate is forecast to slow down to 4.7%.

- The volume of retail sales increased by 19.5 % in 11Q3, buoyed by strong domestic demand and the influx of visitors from the Mainland. In October 2011, the volume grew 15.0% and the momentum is projected to continue. The growth in the volume of retail sales is estimated to be 12.9% in 11Q4, and 17.5% for the whole of last year. In the current quarter, it is forecast in increase by 9.1% in 12Q1.
- Reflecting the slowdown in the global economy, the exports of goods dropped by 2.2% in 11Q3, down from the anemic 0.3% growth in 11Q2. In 11Q4, it is estimated to grow by 1.4%, supported by the slow recovery in the United States. Taking into account of the strong growth of 16.8% in 11Q1, the exports of goods is estimated to grow by 3.4% for the year as a whole last year. In the current quarter, it is projected to contract by 4.5%.
- Imports of goods increased by 1.4% in 11Q3, decelerating from the 2.6% growth in 11Q2. This slowdown is projected to continue due to the weakening of global demand. Imports of goods is estimated to grow by 2.4% in 11Q4, and by 4.5% for the whole of last year. In the current quarter, it is forecast to shrink by 4.0%.
- Service exports grew by 6.6% in 11Q3, slowing down from the 7.7% growth in 11Q2. The weakening in external demand will drag down the demand for trade related services, but strong inbound tourism due to the influx of Mainland visitors will provide support for continuous growth in service exports. Visitor arrivals rose by 16.4% in November 2011, with Mainland visitors accounting for 15.3 percentage points of the 16.4% overall growth. The increase in service exports is forecast to be 5.0% in 11Q4, and 7.0% for the whole of last year. In the current quarter, the growth of service exports is forecast to moderate to 3.5%.
- Service imports went up by 2.1% in 11Q3, decelerating from the 3.2% growth in 11Q2. Service imports is forecast to grow by 1.3% in 11Q4 and 3.0% for the whole of last year. It is estimated to grow by 0.8% in the current quarter.
- Gross fixed capital formation grew by 10.2% in 11Q3, accelerating from the 8.1% growth in 11Q2 due to a surge in machinery and equipment investment. It is projected to fall by 1.0% in 11Q4, and to grow by 4.3% for the whole of last year. In the current quarter, gross fixed capital formation is forecast to increase by 2.6%.

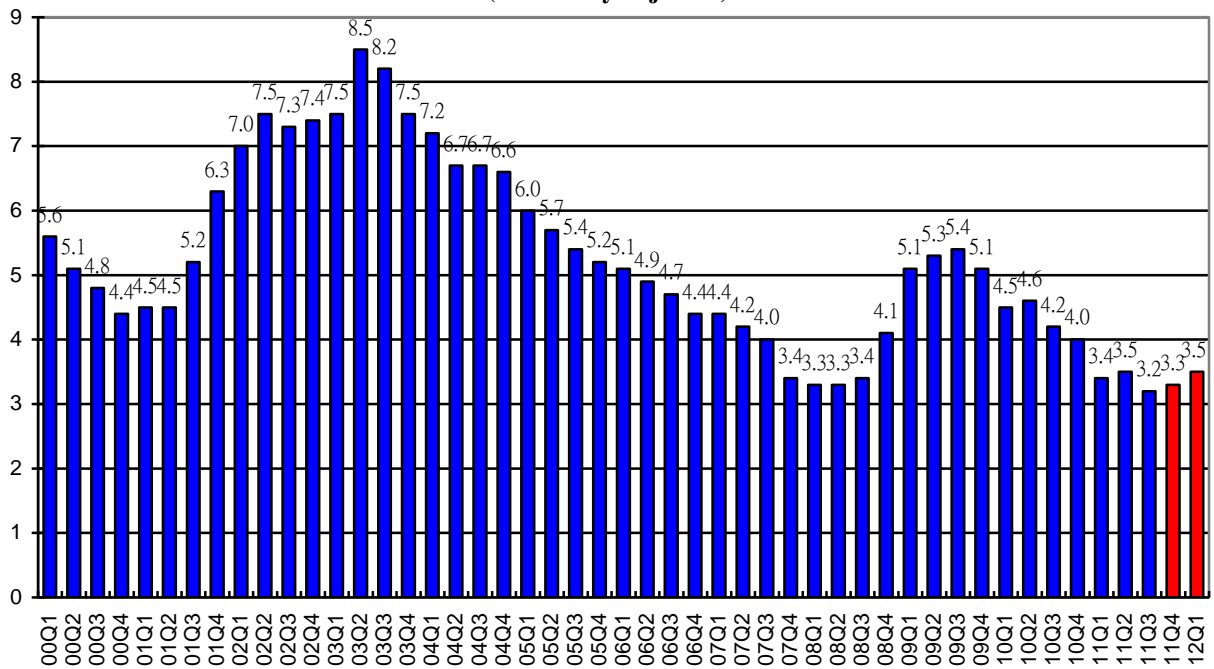
- Investment in land and construction dropped by 7.3% in 11Q3, and is estimated to decrease by 7.8% in 11Q4. For the year of 2011 as a whole, it is estimated to fall by 2.0%. With the resumption of Hong Kong-Zhuhai-Macao Bridge project along with other ongoing major infrastructural projects, the fall in land and construction investment is expected to moderate to 2.2% in the current quarter.
- Investment spending in machinery, equipment and computer software surged by 26.4% in the 11Q3, and is projected to increase by 5.2% in 11Q4, and by 9.3% for the year of 2011 as a whole. In the current quarter, it is forecast to grow by 7.7%, mainly due to a lower base of comparison when it contracted by 12.1% in 11Q1.

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



- The general price level, as measured by the Composite CPI, rose by 5.7% in November 2011, with food prices and private rental rates accounting for 2.3 and 2.7 percentage points respectively of the overall increase. If there were no fiscal measures, the price index would increase by 6.4%. The headline consumer inflation rate is estimated to be 5.7% in 11Q4, and 5.3% for the whole of last year. Given the easing in food prices, falling asset prices and slower economic growth, inflationary pressure is expected to ease. In the current quarter, the headline consumer inflation rate is projected to increase by 4.8%.

## Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate worsened slightly to 3.4% in the three months ending in November 2011 from 3.3% in the three months ending in October 2011. The unemployment rate is estimated to be 3.3% in 11Q4, as well as for the whole of last year. In the current quarter, unemployment rate is forecast to rise to 3.5%, with the number of unemployed workers increasing by 8,000 to 132,000 in total.

### Concluding Remarks

Despite a challenging global environment due to the sovereign debt crisis in Europe and anemic economic recovery in the United States, the Hong Kong economy still managed to grow by an estimated 4.9% last year, down from the 7.0% growth in 2010. This year the global economy is projected to continue to slow, weighed down by the austerity measures in Europe to cope with its debt problems and policy deadlock during an election year in the United States. Given the fragile and uncertain economic environment, Hong Kong's economy will slow further, with its real GDP growing by 2% to 3%. Unemployment rate is projected to go up to 4.5% and consumer inflation rate to fluctuate around 4% in this year.

## **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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January 4, 2012.

**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					2012
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (forecast)	Annual (forecast)	Q1 (forecast)
Gross Domestic Product	445,100	467,241	1,735,399	439,441	436,060	464,231	481,239	1,820,971	449,037
Private Consumption Expenditure	264,829	290,395	1,076,027	273,453	293,568	288,198	307,578	1,162,797	286,199
Government Consumption Expenditure	36,534	36,630	146,736	39,916	35,111	37,139	37,729	149,895	41,113
Exports of Goods	795,294	753,560	2,926,041	732,363	751,936	777,945	764,453	3,026,697	699,703
Imports of Goods	841,030	820,722	3,193,461	800,560	841,955	852,913	840,331	3,335,759	768,668
Exports of Services	206,517	207,515	769,984	198,264	187,949	220,062	217,982	824,257	205,224
Imports of Services	99,020	97,574	375,896	94,666	92,684	101,138	98,802	387,290	95,408
Gross Fixed Capital Formation	87,271	89,747	347,939	81,472	96,414	96,209	88,866	362,961	83,575
GFCF in Land & Construction	41,758	42,460	162,832	41,959	39,741	38,690	39,142	159,532	41,018
GFCF in Mach., Equip. & Comp. Soft.	45,513	47,287	185,107	39,513	55,642	57,519	49,724	202,398	42,556
Changes in Inventories	-5,295	7,690	38,029	9,199	6,752	-1,271	3,764	18,444	-2,701

Date of Forecast: December 30, 2011

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

	2010			2011					2012
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (Forecast)	Annual (Forecast)	Q1 (Forecast)
Gross Domestic Product	6.9	6.4	7.0	7.5	5.3	4.3	3.0	4.9	2.2
Private Consumption Expenditure	5.3	8.1	6.2	8.0	9.7	8.8	5.9	8.1	4.7
Government Consumption Expenditure	3.2	1.6	2.7	2.6	1.2	1.7	3.0	2.2	3.0
Exports of Goods	20.8	8.2	17.3	16.8	0.3	-2.2	1.4	3.4	-4.5
Imports of Goods	16.7	7.5	18.1	12.6	2.6	1.4	2.4	4.5	-4.0
Exports of Services	15.8	9.3	15.0	9.3	7.7	6.6	5.0	7.0	3.5
Imports of Services	10.8	7.7	10.4	5.8	3.2	2.1	1.3	3.0	0.8
Gross Fixed Capital Formation	-0.3	8.6	7.8	-0.3	8.1	10.2	-1.0	4.3	2.6
GFCF in Land & Construction	9.0	11.2	10.0	14.1	-5.0	-7.3	-7.8	-2.0	-2.2
GFCF in Machinery, Equip. & Computer Software	-7.3	6.4	5.9	-12.1	17.5	26.4	5.2	9.3	7.7
GDP Deflator Growth Rate	1.7	1.0	0.5	1.2	4.9	5.0	4.6	3.4	4.0
CPI (Composite) Inflation Rate	1.6	2.7	2.3	3.8	5.2	6.4	5.7	5.3	4.8
Unemployment Rate	4.2	4.0	4.3	3.4	3.5	3.2	3.3	3.3	3.5
Date of Forecast: December 30, 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									2012		
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
Unit Value Trade Index (Domestic Exports)	6.6	6.2	6.5	8.0	7.1	7.8	6.8	6.3	5.5	4.9	4.2	3.8
Unit Value Trade Index (Imports of Foodstuffs)	8.8	10.4	11.4	11.6	11.1	11.7	11.0	9.8	8.3	8.7	7.3	6.9
Unit Value Trade Index (Imports of Consumer Goods)	9.0	9.4	10.6	10.2	10.5	10.4	10.3	9.8	9.9	10.4	8.6	9.3
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	6.9	5.8	5.5	5.7	6.3	4.8	4.9	4.7	6.3	5.9	3.5	3.7
Unit Value Trade Index (Imports of Fuels)	43.0	36.7	42.9	48.0	40.4	40.5	34.0	26.4	22.3	14.2	9.3	1.8
Unit Value Trade Index (Imports of Capital Goods)	4.6	6.5	5.1	6.1	7.7	6.1	5.3	4.8	3.9	5.3	3.2	4.4
Real Retained Imports of Foodstuffs	12.4	14.1	-7.6	1.3	33.8	29.0	9.8	3.2	0.0	19.1	22.7	6.9
Real Retained Imports of Consumer Goods	31.5	47.6	41.5	25.6	60.5	36.3	34.1	28.4	25.2	7.0	24.0	24.2
Real Retained Imports of Raw Materials & Semi-Manufactures	-2.5	4.9	-4.1	-11.3	4.8	-2.3	4.6	3.7	-18.8	-18.3	-7.0	-10.5
Real Retained Imports of Fuels	-21.4	-19.9	-19.2	-11.6	-5.9	-20.9	-3.0	-4.6	-13.1	4.5	-0.8	5.4
Real Retained Imports of Capital Goods	7.7	25.0	27.9	9.6	61.7	7.7	36.2	18.4	15.2	27.1	57.9	16.3
Total Motor Vehicles Newly Registered	8.1	11.3	-5.2	3.4	5.5	7.1	3.6	0.0	-8.5	-5.1	11.5	-9.5
Private Cars Newly Registered	4.2	1.5	-5.6	-2.3	3.5	1.8	2.1	-0.3	-7.5	-3.1	13.0	-11.4
Volume Index of Retail Sales	21.9	21.0	22.1	22.4	20.6	15.2	15.0	13.3	10.8	9.7	10.2	7.2
Money Supply (M2)	12.1	17.7	15.9	16.3	15.4	11.2	8.4	12.5	13.3	12.7	14.8	13.7
Loans and Advances	27.5	32.4	27.7	27.6	26.6	21.9	20.4	23.2	22.4	20.1	19.5	17.7
Visitors Arrivals	20.1	14.7	15.9	22.4	17.7	16.8	16.4	17.3	14.8	9.1	17.8	13.8
Hong Kong Resident Departures	3.6	-2.6	1.5	1.7	-4.2	0.1	-0.1	1.2	1.3	2.8	2.3	2.7
Electricity Consumption	-5.5	0.5	13.1	-1.5	9.0	1.5	2.0	11.0	-0.2	2.0	6.1	6.5
Gas Consumption	4.4	0.1	0.3	1.1	0.4	0.5	4.8	1.1	2.0	0.6	1.3	2.4
Date of Forecast: December 30, 2011												