

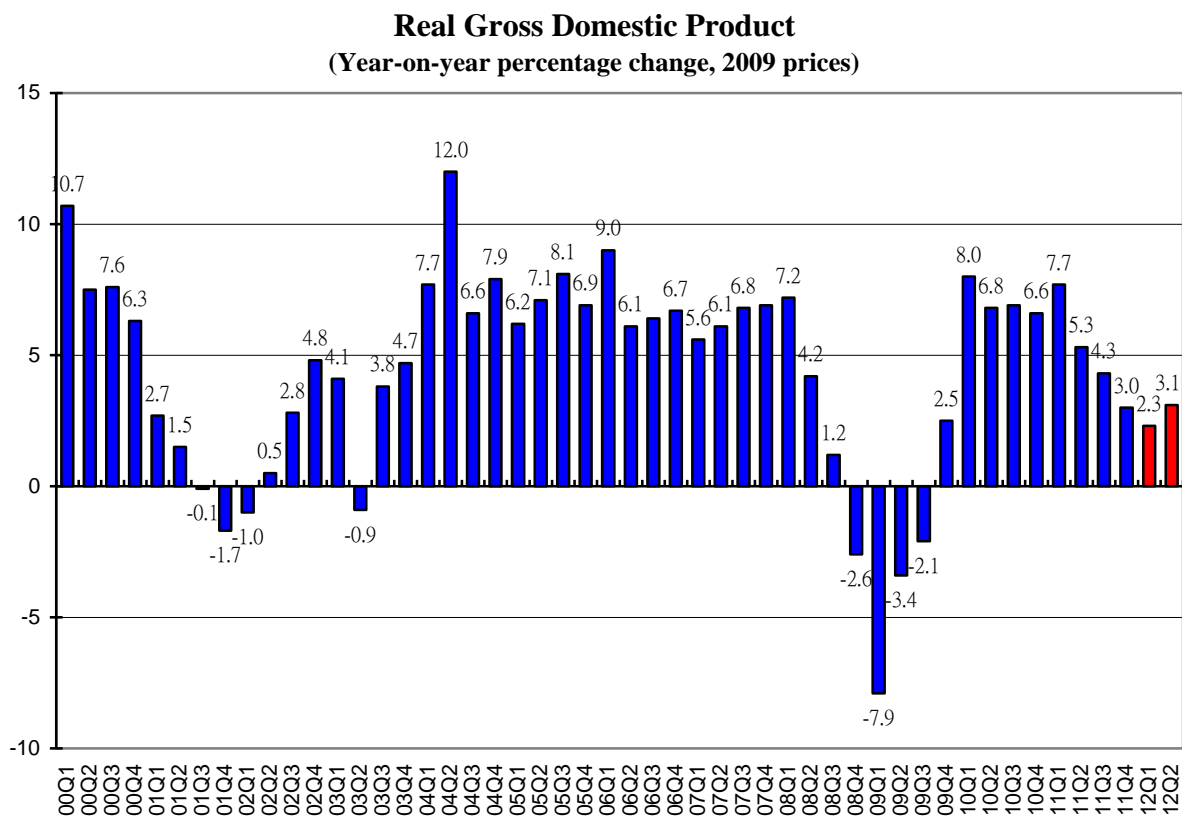


For Immediate Release

HKU Announced 2012 Q2 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 (Apr 2). According to its High Frequency Macroeconomic Forecast, real GDP in 12Q1 is estimated to increase by 2.3% when compared with the same period last year. This is a slight upward revision of our previous forecast of 2.2% growth released on January 4, 2012, reflecting an improvement in external demand. In 12Q2, real GDP growth is forecast to rise by 3.1% when compared with the same period last year.



"Picking up from the estimated growth of 2.3% in 12Q1, Hong Kong's real GDP growth is forecast to accelerate to 3.1% in 12Q2, due to the projected rebound in external demand. For the first half of this year, Hong Kong's real GDP is projected to grow by 2.7%, as compared with the 6.5% growth recorded in the first half of last year. This distinct slowdown can be attributed to the contraction in external demand due to the European sovereign debt crisis. But the resolution of sovereign debt in Greece, continued economic recovery in the United States, robust growth in the Mainland, on-going infrastructural projects and the low interest rates environment will provide support for continued economic growth in the current year in Hong Kong.

The job market is projected to be stable with the unemployment rate forecast to be 3.4% in both 12Q1 and 12Q2. Inflation pressure is expected to ease further, and the headline consumer inflation rate is forecast to moderate to 4.2% in the current quarter, down from the estimated 5.1% in the last quarter," according to Dr. Alan Siu, Executive Director of the Hong Kong Institute of Economics and Business Strategy at HKU.

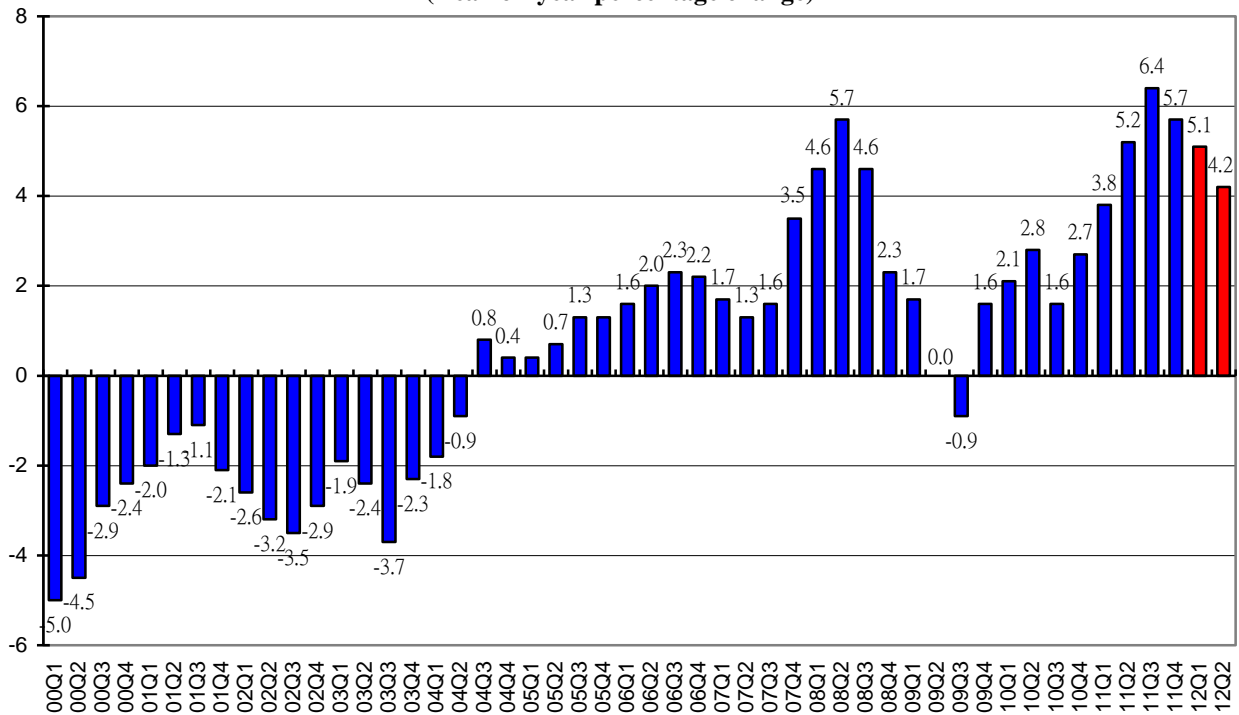
The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3. All growth rates reported are on a year-on-year basis.

Forecast Highlights

- Private consumption spending grew by 7.1% in 11Q4, decelerating from the 9.8% growth in 11Q3. For the whole of last year, it grew by an unsustainable high level of 8.6%. The deceleration in growth in consumption spending will continue to bring it back in line with income growth. Private consumption spending is projected to continue to grow, but at a slower pace, with a growth rate forecast to be 4.7% in 12Q1 and decelerate to 3.7% in 12Q2, due to a slowing economy.
- The volume of retail sales grew by 10.1% in January 2012, and is projected to continue to grow 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 8.9% in 12Q1 and by 7.9% in 12Q2.
- Total exports of goods contracted by 2.4% in 12Q1. The resolution of sovereign debt in Greece and the continued economic recovery in the United States underpin a rebound in external demand. The total exports of goods in real terms is estimated to turn around and grow by 4.3% in 12Q2.

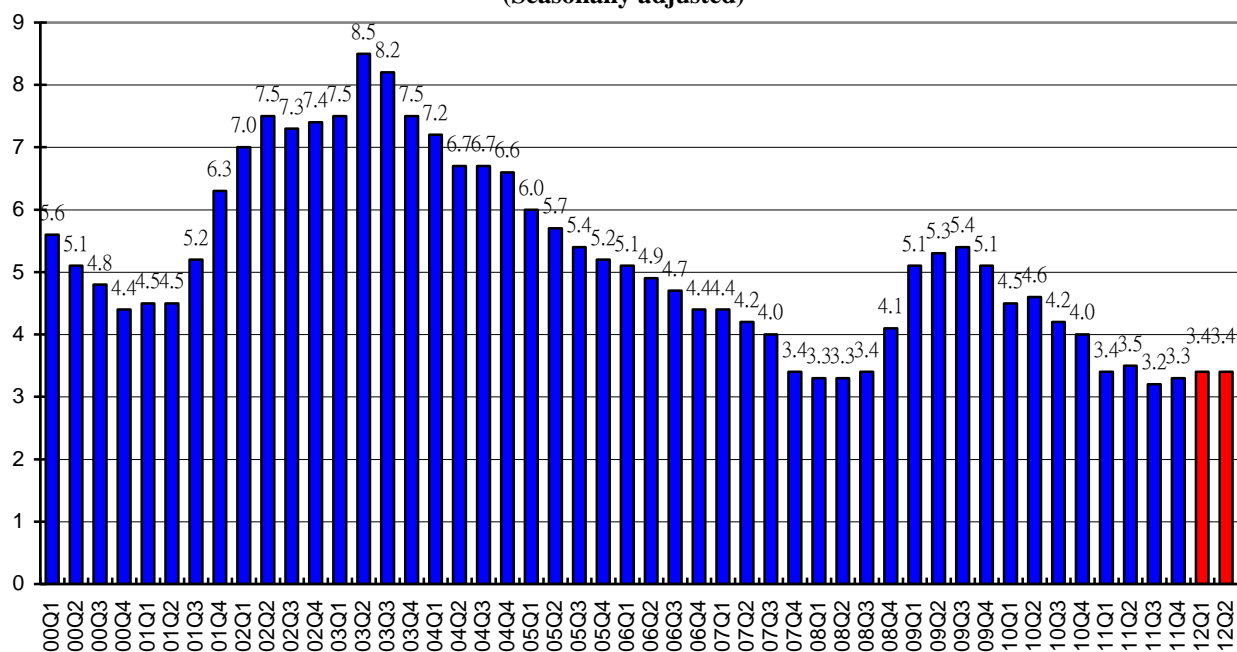
- Given the continuous growth in private consumption spending, the demand for imports for local use will be sustained. In tandem with the recovered export growth, the imports of goods is forecast to grow by 4.1% in 12Q2, reverting from the estimated 0.7% drop in 12Q1.
- The pickup in visible trade in the current quarter will provide a boost for the demand for trade-related services. The strong growth in visitor arrivals also provided further impetus for the growth of service exports, as the share of visitors from the Mainland increasing to 75% in January 2012, up from the last year average of 67%. The increase in service exports is estimated to be 2.4% in 12Q1 and forecast to accelerate to 4.4% in 12Q2.
- Service imports went up by 3.0% in 11Q4, picking up from the 1.5% growth in 11Q3. It is forecast to grow by 2.2% and 2.5% in 12Q1 and 12Q2 respectively.
- Gross fixed capital formation rose by 8.8% in 11Q4, moderating from the 11.2% growth in 11Q3. Projected Economic growth and infrastructural projects will continue to provide impetus for investment spending. Gross fixed capital formation is forecast to grow by 8.1% in 12Q1 and 3.2% in 12Q2.
- Investment in land and construction went down by 4.4% in 11Q4, due to a fall in the costs of ownership transfer following the fall in property sales volume in the second half of last year. The commencement of infrastructural projects will provide support throughout 2012. The investment in land and construction is projected to revert to grow by 0.1% in 12Q1 and 0.4% in 12Q2.
- Investment spending in machinery, equipment and computer software surged by 20.5% in the 11Q4. Underpinned by the continued economic growth, investment in machinery, equipment and computer software is projected to increase by 16.6% in 12Q1 and 5.1% in 12Q2 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 4.7% in February 2012, with food and housing contributed 1.9 and 2.6 percentage points respectively to the overall increase. These two items alone accounted for 96% of the total increase in the general price level. Inflationary pressure coming from rising food and rental rates is expected to ease back along with a moderation in price inflation across the border and slower economic growth. The headline consumer inflation rate is forecast to be 5.1% in 12Q1 and 4.2% in 12Q2. For the first half of this year, it is estimated to be 4.7%, when compared with the same period last year. The electricity charge subsidy provided around 0.7% easing in the measured CPI inflation rate in the first half of this year.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate rose to 3.4% in the 3 months ending in February 2012 from 3.2% in the 3 months ending in January 2012. The real wage rose by 3.9% in 11Q4, reflecting the tightness in the labour market. As a result of the increase in real wage, more people are attracted to join the labour force. Compared with the previous quarter, in 12Q1 the labour force went up by 33,100 persons but employment only expanded by 21,100 persons. Job market is expected to be relatively stable. In the current quarter, the number of unemployed workers is projected to increase by 1,000 persons from the previous quarter to 129,000 persons. The unemployment rate is forecast to be stood at 3.4% in both 12Q1 and 12Q2.

Concluding Remarks

The economic prospect for Hong Kong has improved in the last quarter, given the resolution of Greek sovereign debt, continued economic recovery in the United States and the still robust growth in the Mainland. Despite the continued austerity measures in Europe, external demand is projected to improve due to the pickup in the United States. For the year as a whole, Hong Kong's real GDP growth is now revised upward to 3% to 4% from our previous forecast released in January.

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/macforecast.htm>

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April 2, 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)

	2011					2012	
	Q1	Q2	Q3	Q4	Annual	Q1 (Estimate)	Q2 (forecast)
Gross Domestic Product	440,324	436,270	464,477	482,058	1,823,129	450,245	449,644
Private Consumption Expenditure	274,741	294,626	291,964	312,501	1,173,832	287,669	305,438
Government Consumption Expenditure	39,920	35,105	37,054	37,552	149,631	40,759	36,018
Exports of Goods	732,363	751,936	777,945	768,786	3,031,030	715,113	784,445
Imports of Goods	800,560	841,955	852,913	852,765	3,348,193	794,774	876,267
Exports of Services	197,086	186,730	216,139	216,013	815,968	201,783	194,882
Imports of Services	94,517	92,633	100,834	100,786	388,770	96,597	94,986
Gross Fixed Capital Formation	82,273	95,957	96,987	97,581	372,798	88,964	98,995
GFCF in Land & Construction	42,311	39,851	38,833	40,217	161,212	42,352	40,002
GFCF in Mach., Equip. & Comp. Soft.	39,962	56,106	58,154	57,364	211,586	46,612	58,993
Changes in Inventories	9,018	6,504	-1,865	3,176	16,833	7,330	1,120
Date of Forecast: March 29, 2012							

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

	2011					2012	
	Q1	Q2	Q3	Q4	Annual	Q1 (Estimate)	Q2 (Forecast)
Gross Domestic Product	7.6	5.3	4.3	3.0	5.0	2.3	3.1
Private Consumption Expenditure	7.9	9.7	9.8	7.1	8.6	4.7	3.7
Government Consumption Expenditure	2.5	1.0	1.3	2.3	1.8	2.1	2.6
Exports of Goods	16.8	0.3	-2.2	2.0	3.6	-2.4	4.3
Imports of Goods	12.6	2.6	1.4	3.9	4.8	-0.7	4.1
Exports of Services	9.1	7.5	5.1	4.0	6.3	2.4	4.4
Imports of Services	5.3	2.9	1.5	3.0	3.1	2.2	2.5
Gross Fixed Capital Formation	0.8	7.7	11.2	8.8	7.2	8.1	3.2
GFCF in Land & Construction	15.4	-4.0	-6.0	-4.4	-0.2	0.1	0.4
GFCF in Machinery, Equip. & Computer Software	-11.2	17.8	26.7	20.5	13.7	16.6	5.1
GDP Deflator Growth Rate	1.4	4.9	5.5	4.8	3.6	3.1	2.6
CPI (Composite) Inflation Rate	3.8	5.2	6.4	5.7	5.3	5.1	4.2
Unemployment Rate	3.4	3.5	3.2	3.3	3.4	3.4	3.4
Date of Forecast: March 29, 2012							

High Frequency Macroeconomic Forecasts

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

	2011						2012					
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Unit Value Trade Index (Domestic Exports)	8.0	7.1	7.8	6.2	5.9	5.2	3.2	2.2	1.6	1.2	0.8	0.9
Unit Value Trade Index (Imports of Foodstuffs)	11.6	11.1	11.7	11.3	11.8	11.4	11.4	10.4	10.1	9.6	7.5	6.0
Unit Value Trade Index (Imports of Consumer Goods)	10.2	10.5	10.4	9.7	8.9	8.4	8.2	6.2	6.6	5.8	5.6	3.7
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	5.7	6.3	4.8	5.4	4.3	4.8	4.6	2.2	2.3	2.8	2.5	1.9
Unit Value Trade Index (Imports of Fuels)	48.0	40.4	40.5	34.7	32.7	28.0	19.3	11.8	3.5	-1.8	2.3	1.7
Unit Value Trade Index (Imports of Capital Goods)	6.1	7.7	6.1	4.5	5.2	5.7	5.7	3.3	4.7	5.8	3.5	3.8
Real Retained Imports of Foodstuffs	1.3	34.0	29.3	9.1	13.0	-3.4	-12.3	14.6	-0.8	-0.6	-1.0	10.6
Real Retained Imports of Consumer Goods	27.2	65.5	38.9	13.8	29.9	-3.5	-23.9	4.6	-0.8	-1.3	-9.2	-10.5
Real Retained Imports of Raw Materials & Semi-Manufactures	-11.4	5.0	-1.9	-15.7	-13.6	-5.3	-45.3	-21.0	-26.5	-20.3	-23.3	-16.5
Real Retained Imports of Fuels	-11.6	-5.9	-20.9	8.3	-14.5	-10.3	-15.1	-2.6	0.7	-9.0	18.0	-2.8
Real Retained Imports of Capital Goods	9.5	63.8	8.0	1.4	91.0	24.4	8.4	61.2	19.7	2.1	10.2	1.0
Total Motor Vehicles Newly Registered	3.4	5.5	7.1	8.0	13.8	-0.2	-25.5	5.1	-14.5	-3.4	-4.6	-3.7
Private Cars Newly Registered	-2.3	3.5	1.8	3.7	15.1	6.3	-24.1	4.7	-17.8	-3.8	-0.6	-1.4
Money Supply (M2)	16.3	15.4	11.2	8.4	12.5	12.9	12.8	15.1	14.2	12.6	12.7	14.6
Loans and Advances	27.6	26.6	21.9	20.4	23.5	20.2	17.5	16.9	14.7	13.7	11.4	10.9
Volume Index of Retail Sales	22.4	20.6	15.2	15.0	16.8	17.1	9.0	10.1	7.6	7.3	7.4	9.0
Visitors Arrivals	22.4	17.7	16.8	16.4	16.4	17.1	15.1	15.3	17.5	11.0	8.6	8.1
Hong Kong Resident Departures	1.7	-4.2	0.1	-0.1	3.5	2.6	4.5	0.0	3.6	-2.1	1.9	1.4
Electricity Consumption	-1.5	9.0	1.5	2.0	11.0	4.7	-2.6	14.0	6.3	4.3	-0.2	-7.6
Gas Consumption	1.1	0.4	0.5	4.8	1.1	-0.7	0.8	2.5	2.0	0.2	1.8	2.4

Date of Forecast: March 29, 2012