



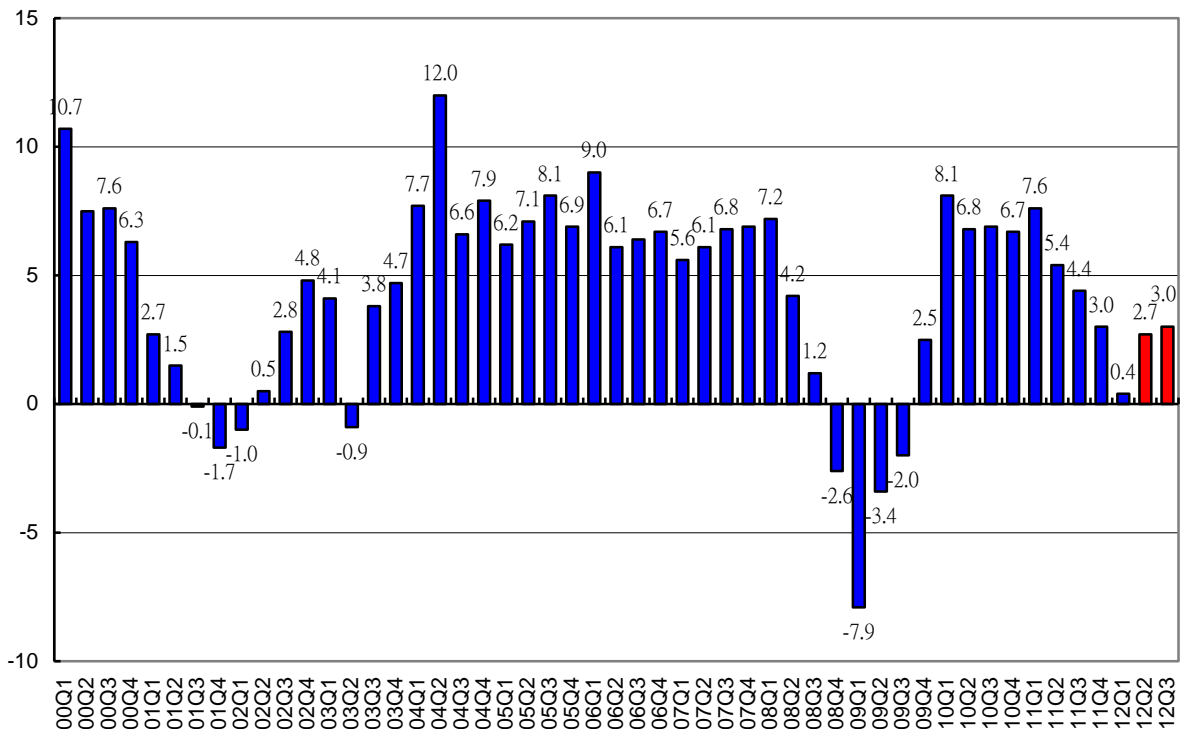
For Immediate Release

HKU Announced 2012 Q3 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 (July 11). According to its High Frequency Macroeconomic Forecast, real GDP in 12Q2 is estimated to increase by 2.7% when compared with the same period last year. This is a downward revision of the previous forecast of 3.1% growth released on April 2, 2012, reflecting a weaker external demand. In 12Q3, real GDP growth is forecast to rise by 3.0% when compared with 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, "Weighed down by the crises in the Euro zone, slow economic recovery in the United States and deceleration of economic growth in the Mainland, Hong Kong's external demand has begun to slowdown since the second quarter of last year. The trade sector contracted in the first quarter, dragging real GDP growth to be only 0.4% in 12Q1. More accommodative monetary policies by central banks in the developed world, as well as in the Mainland, will provide support for continued expansion of the global economy. The GDP growth in the current quarter is roughly equally driven by domestic and external demand, with net external demand accounting for 1.4 percentage points of the overall 3.0% GDP growth, and domestic demand accounting for the rest."

"The labour market is projected to remain relatively stable with the unemployment rate projected to increase to 3.4% in 12Q3, up from 3.3% in 12Q2. The number of unemployed workers is forecast to rise by 5,000, and the number of employed workers is estimated to go up by 19,000 in the current quarter. Inflation pressure is ease further, with the price level, as measured by the composite CPI, estimated to increase by 4.7% in 12Q3," 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.

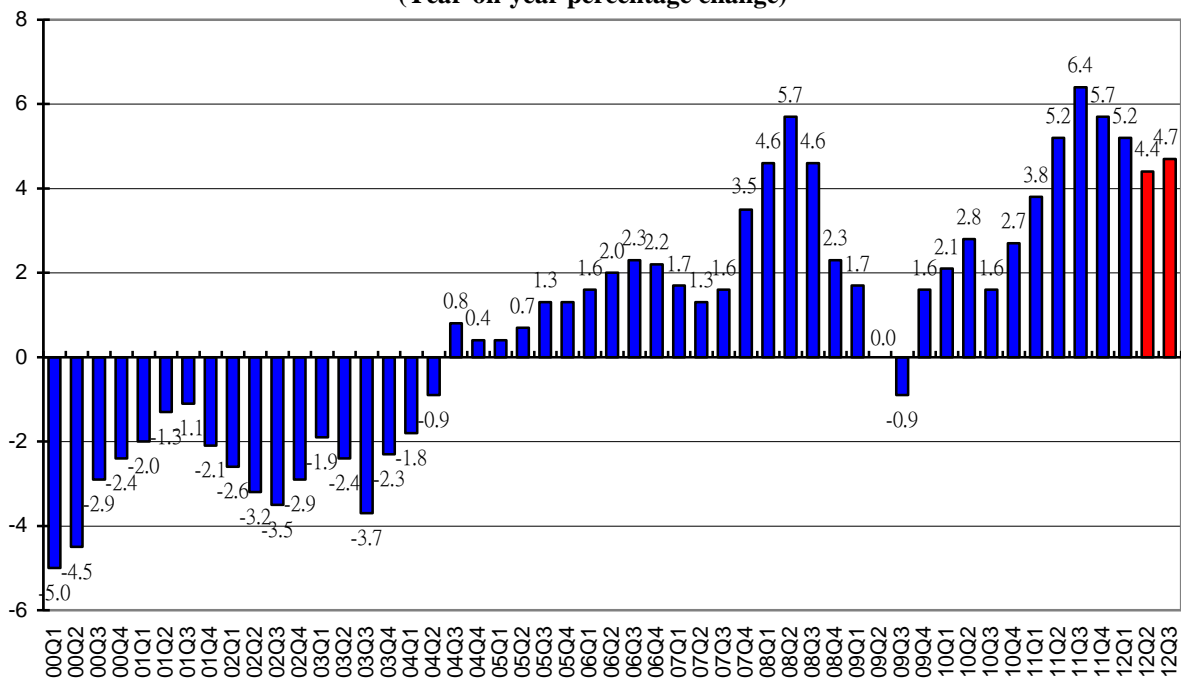
Forecast Highlights

- Given a more uncertain economic outlook, private consumption spending grew by 5.6% in 12Q1, decelerating from the 6.6% growth in 11Q4. The deceleration in the growth of consumption spending will continue. Private consumption spending is projected to grow, but at a slower pace, with a growth rate forecast to be 3.8% in 12Q2 and decelerate to 3.3% in 12Q3.
- The volume of retail sales grew by 5.8% in May 2012, slower than the 7.6% in April 2012. The slowdown in visitor arrivals, as well as the sharp fall in spending on expensive items by visitors from the Mainland, will continue to put a drag on the growth of retail sales. The growth of the volume of retail sales is expected to moderate to 6.6% in 12Q2 and 5.6% in 12Q3.

- Dropping from the anemic 2.0% growth in 11Q4, total exports of goods dropped by 5.7% in 12Q1, reflecting the debt crisis in the Euro zone. External demand is projected to grow in the 2nd and 3rd quarters, supported by more accommodative policies of the major central banks. In May 2012, the exports of goods from Hong Kong grew by 5.6%, with electrical machinery, telecommunication equipment and office machinery rose by 0.9%, 32.0% and 26.2% respectively. The total exports of goods is estimated to grow by 1.8% in 12Q2, and is forecast to pick up to grow by 3.0% in the 12Q3.
- Imports of goods decreased by 2.7% in 12Q1, reverted from the 3.9% growth in 11Q4. In tandem with the rebound in the exports of goods, imports of goods also rose by 4.6% in May 2012, with telecommunication equipment and office machinery growing by 24.4% and 36.1% respectively. The growth of imports of goods is forecast to growth by 1.6 in 12Q2 and 2.6% in 12Q3.
- Service exports grew by 3.6% in 12Q1, decelerating from the 5.3% growth in 11Q4. Visitor arrivals moderated from 14.4% growth in April 2012 to 12.7% growth in May 2012. The pickup in visible trade will increase the demand for trade related services in 12Q3, offsetting the slowdown in visitor arrivals. The increase in service exports is forecast to be 2.9% in 12Q2 and picking up to 3.3% in 12Q3.
- Service imports went up by 2.5% in 12Q1, decelerating from the 2.8% growth in 11Q4. Service imports is forecast to grow by 0.3% and 1.5% in 12Q2 and 12Q3 respectively.
- Gross fixed capital formation surged by 12.2% in 12Q1, accelerated from the 9.8% growth in 11Q4. Infrastructural projects will continue to provide impetus for investment spending. The gross fixed capital formation is projected to grow by 3.2% in 12Q2 and 1.8% in 12Q3.

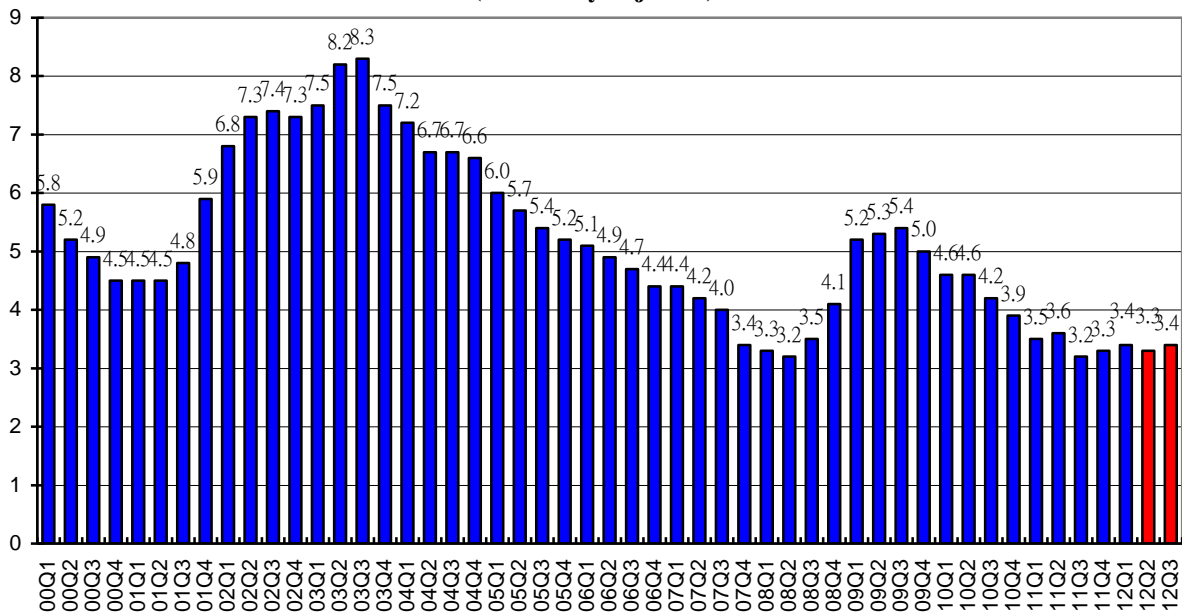
- Investment in land and construction went up by 2.0% in 12Q1. The infrastructural projects will continually provide growth momentum, with the growth rate projected to be 2.7% in 12Q2 and to 1.6% in 12Q3.
- Investment spending in machinery, equipment and computer software surged by 23.1% in the 12Q1. Underpinned by the low interest environment, investment in machinery, equipment and computer software is projected to increase by 3.6% in 12Q2 and 1.9% in 12Q3 when compared with the same period last year. The lower year-on-year growth rates are mainly due to a higher base of comparison.

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



- The general price level, as measured by the Composite CPI, rose by 4.2% in May 2012. Inflationary pressure is projected to ease further, given the fall in energy prices and relatively stable residential rental rates. The headline consumer inflation rate was 5.2% in 12Q1. It is forecast to be 4.4% in 12Q2 and increase to 4.7% in 12Q3. The acceleration in 12Q3 is mainly due to the end of electricity charge subsidy. If we took out all the government relief measures, the inflation rate would have been 5.9% in 12Q1, 5.2% in 12Q2 and 4.9% in 12Q3.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate improved slightly to 3.2% in the 3 months ending in May 2012 from 3.3% in the 3 months ending in April 2012, reflecting an increase of 13,300 jobs during this period. The unemployment rate is forecast to be 3.3% in 12Q2, and to rise slightly to 3.4% in 12Q3. The labour force is estimated to increase by 24,000 persons with the number of jobs increased only by 19,000, resulting in the number of unemployed going up by 5,000 persons.

Concluding Remarks

Weighed down by the slow economic recovery in the United States and the Eurozone crises, the global economy has not been too supportive for growth. Hong Kong's external environment could get worse if the Mainland economy slowed down too rapidly. The 3% real GDP growth forecast in the current quarter is conditional on a mildly expansion of the global economy. The risks are predominately on the downside.

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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July 11, 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	Q2 (Estimate)	Q3 (forecast)
Gross Domestic Product	440,489	436,930	464,933	482,645	1,824,997	442,432	448,923	478,865
Private Consumption Expenditure	274,905	295,323	291,299	311,170	1,172,697	290,197	306,548	300,845
Government Consumption Expenditure	39,916	35,104	37,054	37,479	149,553	40,917	35,957	37,966
Exports of Goods	732,363	751,936	777,945	768,786	3,031,030	690,285	765,111	801,363
Imports of Goods	800,560	841,955	852,913	852,765	3,348,193	779,343	855,691	875,440
Exports of Services	197,019	186,558	216,641	218,823	819,041	204,015	192,034	223,694
Imports of Services	94,433	92,485	100,622	100,348	387,888	96,816	92,798	102,085
Gross Fixed Capital Formation	82,261	95,945	97,396	98,456	374,058	92,319	99,029	99,113
GFCF in Land & Construction	42,299	39,840	39,243	41,093	162,475	43,132	40,902	39,866
GFCF in Mach., Equip. & Comp. Soft.	39,962	56,105	58,153	57,363	211,583	49,187	58,127	59,246
Changes in Inventories	9,018	6,504	-1,867	1,044	14,699	858	-1,267	-6,591

Date of Forecast: July 9, 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	Q2 (Estimate)	Q3 (Forecast)
Gross Domestic Product	7.6	5.4	4.4	3.0	5.0	0.4	2.7	3.0
Private Consumption Expenditure	8.0	9.9	9.5	6.6	8.5	5.6	3.8	3.3
Government Consumption Expenditure	2.5	1.0	1.3	2.2	1.8	2.5	2.4	2.5
Exports of Goods	16.8	0.3	-2.2	2.0	3.6	-5.7	1.8	3.0
Imports of Goods	12.6	2.6	1.4	3.9	4.8	-2.7	1.6	2.6
Exports of Services	9.0	7.4	5.3	5.3	6.7	3.6	2.9	3.3
Imports of Services	5.6	2.9	1.4	2.8	3.1	2.5	0.3	1.5
Gross Fixed Capital Formation	0.7	7.7	11.7	9.8	7.6	12.2	3.2	1.8
GFCF in Land & Construction	15.4	-4.0	-5.0	-2.3	0.6	2.0	2.7	1.6
GFCF in Machinery, Equip. & Computer Software	-11.2	17.8	26.7	20.5	13.7	23.1	3.6	1.9
GDP Deflator Growth Rate	1.4	4.9	4.8	3.8	3.7	2.7	2.0	1.9
CPI (Composite) Inflation Rate	3.8	5.2	6.4	5.7	5.3	5.2	4.4	4.7
Unemployment Rate	3.5	3.6	3.2	3.3	3.4	3.4	3.3	3.4
Date of Forecast: July 9, 2012								

High Frequency Macroeconomic Forecasts

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

	2011			2012								
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
Unit Value Trade Index (Domestic Exports)	6.2	5.9	5.0	3.2	2.7	2.8	3.6	3.6	4.0	3.4	4.3	4.1
Unit Value Trade Index (Imports of Foodstuffs)	11.2	11.6	11.3	11.5	9.2	7.2	7.0	4.4	2.9	2.4	2.8	2.3
Unit Value Trade Index (Imports of Consumer Goods)	9.4	8.6	8.2	8.2	6.7	6.0	4.9	4.3	2.1	2.0	1.2	1.4
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	5.3	4.1	4.6	4.6	1.8	0.8	1.5	0.6	-0.3	-0.6	-2.2	-1.6
Unit Value Trade Index (Imports of Fuels)	34.6	32.8	28.1	19.3	19.2	10.7	4.9	9.4	8.1	5.4	9.2	10.0
Unit Value Trade Index (Imports of Capital Goods)	4.3	5.0	5.5	5.7	4.5	3.7	6.0	4.1	4.3	4.0	2.7	3.0
Real Retained Imports of Foodstuffs	8.9	12.9	-3.0	-13.0	30.2	4.7	7.6	4.2	15.9	7.5	-4.2	3.9
Real Retained Imports of Consumer Goods	15.6	33.9	-3.1	-25.2	71.7	5.8	9.1	4.5	1.3	13.0	5.3	13.7
Real Retained Imports of Raw Materials & Semi-Manufactures	-10.7	-8.4	-2.9	-38.4	-0.5	-22.5	-6.8	-12.6	-7.1	-8.1	-7.7	-3.5
Real Retained Imports of Fuels	8.1	-14.7	-10.3	-14.9	6.4	-9.2	-4.4	16.0	-2.0	15.5	-6.7	22.7
Real Retained Imports of Capital Goods	1.4	105.6	27.1	12.4	133.9	35.8	-13.8	17.6	5.2	17.0	-4.0	18.3
Total Motor Vehicles Newly Registered	8.0	13.8	-0.2	-25.5	29.9	-15.7	-14.2	-5.3	-5.7	-8.1	-12.1	-8.9
Private Cars Newly Registered	3.7	15.1	6.3	-24.1	28.7	-13.4	-20.0	-6.2	-7.1	-8.7	-13.2	-7.6
Money Supply (M2)	8.4	12.5	12.9	12.8	14.9	12.0	10.2	7.2	8.6	7.5	8.9	10.3
Loans and Advances	20.4	23.5	20.2	17.5	16.7	14.4	13.4	10.6	10.0	9.0	7.9	7.8
Volume Index of Retail Sales	15.0	16.8	17.1	9.0	10.1	13.2	7.6	5.8	6.4	3.2	5.3	8.6
Visitors Arrivals	16.4	16.4	17.1	15.1	15.3	16.4	14.4	12.7	11.1	8.2	10.5	12.0
Hong Kong Resident Departures	-0.1	3.5	2.6	4.5	0.0	0.0	-3.4	0.0	-0.1	0.8	5.1	2.0
Electricity Consumption	2.0	11.0	4.7	-2.6	14.0	10.3	10.0	9.1	-2.7	8.0	-0.8	6.5
Gas Consumption	4.8	1.1	-0.7	0.8	2.5	3.5	-1.3	-2.4	-0.1	0.5	0.6	0.2
Date of Forecast: July 9, 2012												