



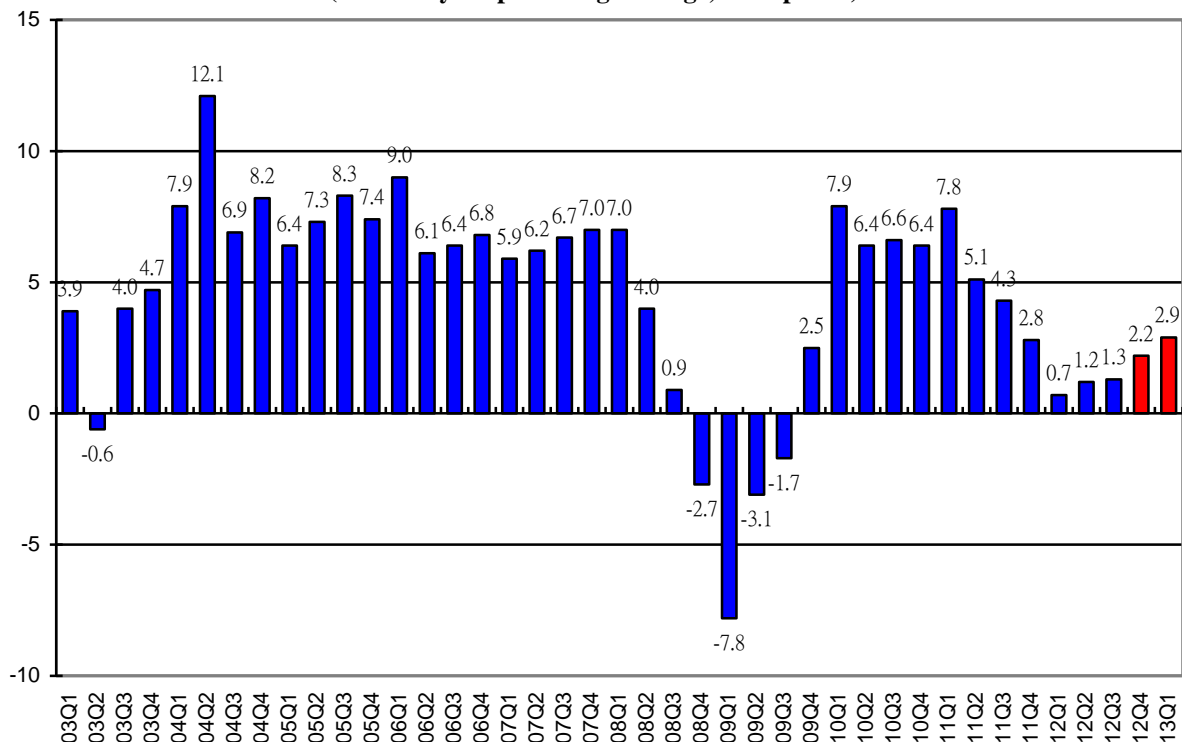
For Immediate Release

HKU Announced 2013 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 3). According to its High Frequency Macroeconomic Forecast, real GDP is estimated to increase by 2.2% in the 12Q4. This estimate is a slight upward revision from the previous forecast of a 1.9% growth released on October 10, 2012, reflecting a strengthening in external demand.

Real Gross Domestic Product
(Year-on-year percentage change, 2010 prices)



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "In the third quarter of 2012, some stabilization has been seen from the European sovereign debt crisis along with mild recovery in the US economy. Real GDP is estimated to grow by 1.7% in the second half of 2012, accelerating from the 0.9% increase in the first half. For the year as a whole, real GDP is forecast to increase by 1.3% in 2012. The growth in real GDP is driven primarily by domestic demand. The increase in domestic demand is estimated to account for 3.4 percentage points of the overall increase in real GDP in the 2012, with external demand making a negative contribution of 2.1 percentage points. In the current quarter, real GDP growth is forecast to speed up and grow by 2.9% when compared to the same period last year, reflecting the improvement in external demand."

"Clouded by the uncertainties in the global economy, the job market in Hong Kong will be worsened with the unemployment rate projected to rise from 3.4% in 12Q4 to 3.5% in 13Q1. The number of unemployed workers is projected to increase by 3,000 as a result of the faster growth of labour force than the employment growth. The headline inflation is forecast to be 3.2% in the current quarter, down from the estimated 3.7% in 12Q4. Inflationary pressure is expected to ease further reflecting a lowered price expectation in the upcoming quarters," according to Dr. Ka-fu Wong, Assistant Professor of Economics 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.

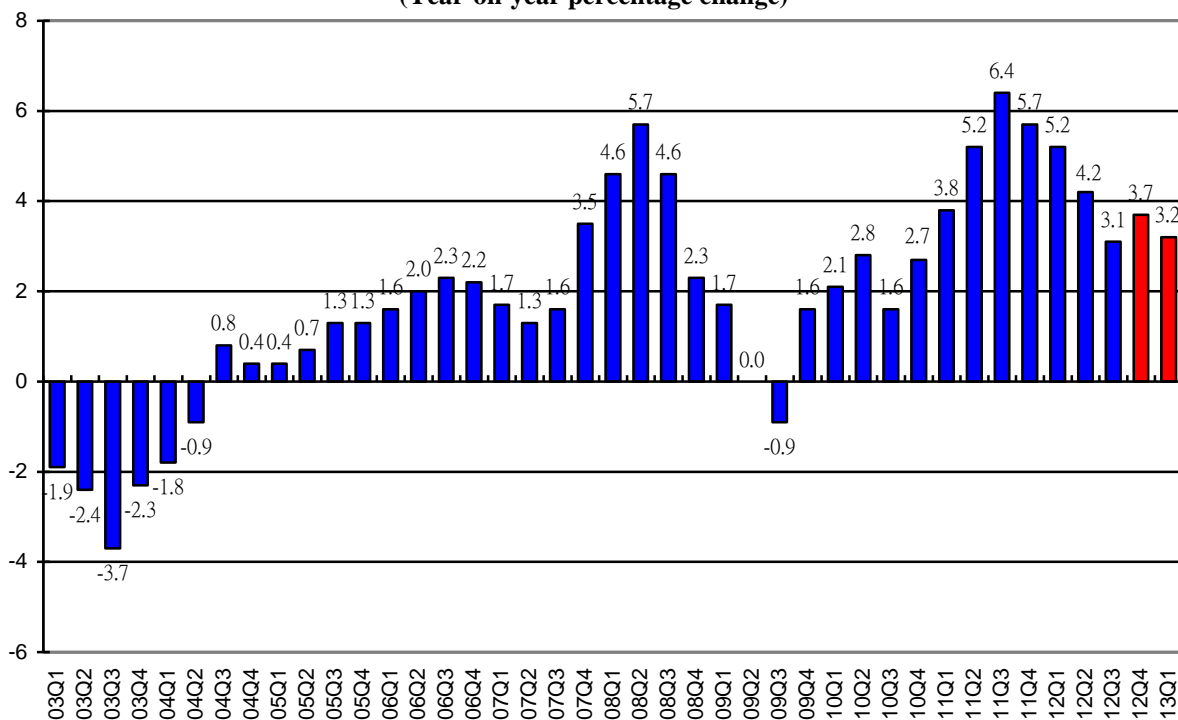
Forecast Highlights

- Private consumption spending grew by 2.8% in 12Q3, decelerating from the 3.1% growth in 12Q2. 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 2.6% in 12Q4. For the last year as a whole, private consumption spending is projected to grow by 3.7%. In the current quarter, the growth rate is forecast to slow down to 2.5%.

- The volume of retail sales increased by 4.2 % in 12Q3, slower than the 7.3% in 12Q2. With slower growth of visitor arrivals and more cautious spending of visitors, the volume of retail sales is expected to moderate further. In October 2012, the volume grew by 3.6%. The growth in the volume of retail sales is estimated to be 3.6% in 12Q4, and 6.4% for the whole of last year. In the current quarter, it is forecast to grow by 3.2%.
- Reflecting the improvement in the external demand, the exports of goods grew by 4.0% in 12Q3, reverted the 0.2% drop in 12Q2. In 12Q4, it is estimated to grow by 5.0%, supported by the economic recovery in the United States. Taking into account of the 2.6% slowdown in the first half of 2012, the exports of goods is estimated to grow by 1.0% for 2012 as a whole. In the current quarter, it is projected to grow by 5.7%.
- Imports of goods increased by 4.3% in 12Q3, accelerating from the 0.9% growth in 12Q2. In tandem with stronger growth in exports, this pickup is projected to continue due to the better global demand. Imports of goods is estimated to grow by 5.6% in 12Q4, and by 2.3% for the whole of last year. In the current quarter, it is forecast to rise by 6.7%.
- Service exports grew by 0.1% in 12Q3, slowing down from the 2.9% growth in 12Q2. The weakening in tourism related activities, as well as other business service exports, dragged down the demand for Hong Kong service exports. Despite the visitor arrivals rose by 18.7% in November 2012, tourism related services were not benefited as a result of their cautious spending. The increase in service exports is forecast to be 2.6% in 12Q4, and 2.0% for the whole of last year. In the current quarter, the growth of service exports is forecast to accelerate to 4.1%.
- Service imports went up by 0.9% in 12Q3, decelerating from the 1.6% growth in 12Q2. Service imports is forecast to grow by 2.6% in 12Q4 and 2.2% for the whole of last year. It is estimated to grow by 3.3% in the current quarter.
- Gross fixed capital formation grew by 8.7% in 12Q3, accelerating from the 5.7% growth in 12Q2. It is projected to grow by 6.7% in 12Q4, and to grow by 8.3% for the whole of last year. In the current quarter, gross fixed capital formation is forecast to increase by 6.7%.

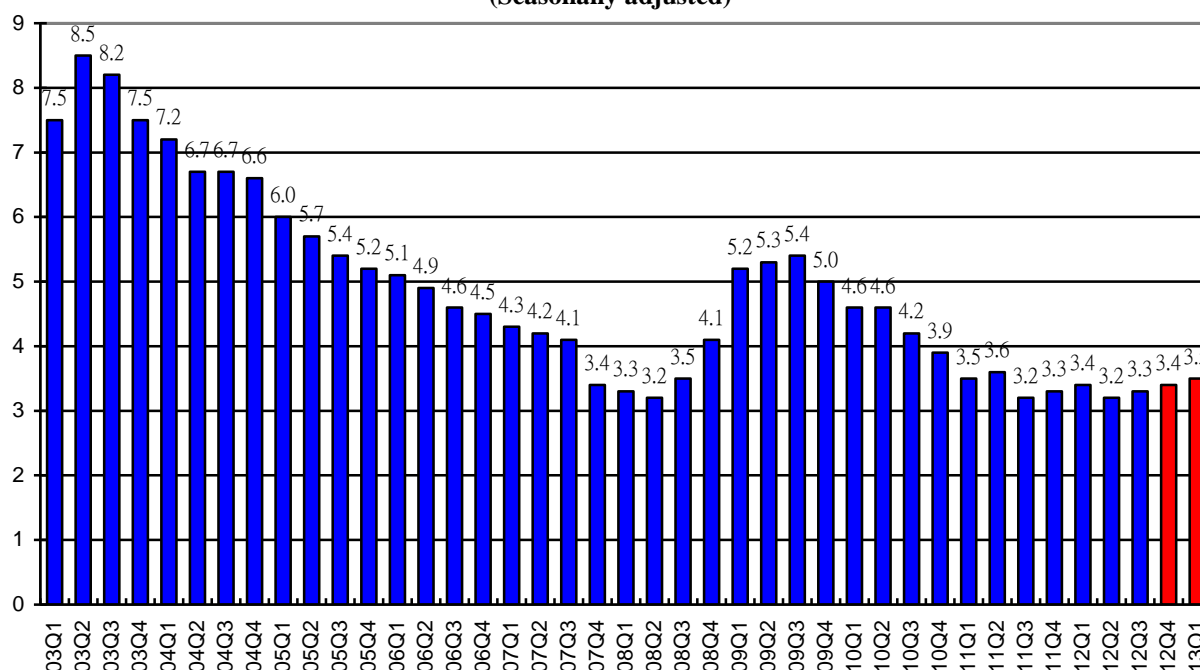
- Investment in land and construction increased by 7.0% in 12Q3, and is estimated to moderate to 1.9% growth in 12Q4, as a result of the new buyer's stamp duty. For the year of 2012 as a whole, it is estimated to grow by 4.7%. With the continued support of ongoing major infrastructural projects, the growth in land and construction investment is expected to grow by 1.3% in the current quarter.
- Investment spending in machinery, equipment and computer software rose by 9.8% in 12Q3, and is projected to increase by 10.1% in 12Q4, and by 11.0% for the year of 2012 as a whole. In the current quarter, it is forecast to grow by 11.4%.

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



- The general price level, as measured by the Composite CPI, rose by 3.7% in November 2012, with food prices and private rental rates accounting for 1.2 and 1.7 percentage points respectively of the overall increase. The headline consumer inflation rate is estimated to be 3.7% in 12Q4, and 4.1% for the whole of last year. Given the easing in food prices, relative stabilized asset prices and lower price expectation, inflationary pressure is expected to ease. In the current quarter, the headline consumer inflation rate is projected to increase by 3.2%.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate stood at 3.4% in the three months ending in November 2012 from the three months ending in October 2012. The unemployment rate is estimated to be 3.4% in 12Q4, and 3.3% on average 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 3,000 to 132,000 in total.

Concluding Remarks

Despite various adverse factors including the uncertainties over the European debt crisis, the weak economic recovery of the United States and the slightly slower growth of the Chinese economy, Hong Kong's GDP growth still managed to grow by 1.3% in 2012, down from the 4.9% growth in 2011.

The worst time of European debt crisis might have been over. The recovery of the US economy seems gathering steam. The low interest rate environment will likely continue through 2015. China's economy is expected to rebound a bit. Under these conditions, real GDP is forecast to increase by 3.5 to 4.3 percent for 2013. Consumer inflation is expected to be mild and the labour market stable in the upcoming quarters.

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 3, 2013.

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 2010 HK Dollar)

	2011			2012					2013
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (Estimate)	Annual (Estimate)	Q1 (forecast)
Gross Domestic Product	474,082	491,710	1,864,669	456,285	450,835	480,231	502,335	1,889,686	469,599
Private Consumption Expenditure	294,734	315,784	1,189,820	297,744	308,750	303,063	324,085	1,233,642	305,254
Government Consumption Expenditure	39,817	40,428	160,745	43,700	39,194	41,272	41,641	165,807	45,011
Exports of Goods	814,210	804,285	3,165,715	724,314	782,076	846,646	844,238	3,197,274	765,907
Imports of Goods	908,559	908,756	3,555,829	828,352	899,990	947,951	959,939	3,636,232	884,177
Exports of Services	234,219	235,634	884,777	218,159	208,251	234,365	241,793	902,568	227,033
Imports of Services	107,404	106,285	413,036	104,281	100,342	108,346	109,067	422,036	107,694
Gross Fixed Capital Formation	108,894	108,909	416,306	103,794	112,444	118,359	116,210	450,807	110,757
GFCF in Land & Construction	43,736	45,081	179,148	48,520	46,313	46,809	45,936	187,578	49,156
GFCF in Mach., Equip. & Comp. Soft.	65,158	63,828	237,158	55,274	66,131	71,550	70,273	263,228	61,601
Changes in Inventories	-1,829	1,711	16,171	1,207	452	-7,177	3,375	-2,143	7,508

Date of Forecast: December 31, 2012

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

	2011			2012					2013
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (Estimate)	Annual (Estimate)	Q1 (Forecast)
Gross Domestic Product	4.3	2.8	4.9	0.7	1.2	1.3	2.2	1.3	2.9
Private Consumption Expenditure	9.5	5.9	8.2	6.4	3.1	2.8	2.6	3.7	2.5
Government Consumption Expenditure	1.6	2.5	2.2	2.5	3.5	3.7	3.0	3.1	3.0
Exports of Goods	-2.2	2.3	3.4	-5.2	-0.2	4.0	5.0	1.0	5.7
Imports of Goods	1.6	4.2	4.7	-2.1	0.9	4.3	5.6	2.3	6.7
Exports of Services	5.5	5.0	6.7	2.7	2.9	0.1	2.6	2.0	4.1
Imports of Services	2.0	2.7	3.5	3.7	1.6	0.9	2.6	2.2	3.3
Gross Fixed Capital Formation	11.6	9.3	7.5	12.6	5.7	8.7	6.7	8.3	6.7
GFCF in Land & Construction	-3.8	-2.2	1.1	3.9	6.1	7.0	1.9	4.7	1.3
GFCF in Machinery, Equip. & Computer Software	24.6	19.2	13.0	21.6	5.5	9.8	10.1	11.0	11.4
GDP Deflator Growth Rate	4.4	3.9	3.8	3.5	2.4	3.8	2.1	2.9	2.7
CPI (Composite) Inflation Rate	6.4	5.7	5.3	5.2	4.2	3.1	3.7	4.1	3.2
Unemployment Rate	3.2	3.3	3.4	3.4	3.2	3.3	3.4	3.3	3.5
Date of Forecast: December 31, 2012									

High Frequency Macroeconomic Forecasts

APEC Studies Programme

Hong Kong Institute of Economics & Business Strategy

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

	2012									2013		
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
Unit Value Trade Index (Domestic Exports)	3.6	2.7	1.6	1.1	2.1	0.9	2.1	2.1	2.1	3.1	3.0	2.7
Unit Value Trade Index (Imports of Foodstuffs)	7.0	5.6	3.3	2.5	3.1	1.9	0.8	-0.8	-2.2	-1.9	-1.3	0.1
Unit Value Trade Index (Imports of Consumer Goods)	4.9	5.3	3.8	3.3	2.5	2.4	2.8	3.0	3.3	3.5	2.6	3.4
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	1.5	2.7	2.2	1.0	-0.5	0.4	0.3	1.0	2.1	1.9	2.2	3.3
Unit Value Trade Index (Imports of Fuels)	4.9	4.3	-6.4	-8.3	-2.5	1.4	2.1	-2.4	-1.4	-0.4	-4.3	-5.3
Unit Value Trade Index (Imports of Capital Goods)	6.0	5.1	5.1	5.5	4.2	4.0	5.0	3.3	2.3	3.7	3.0	5.0
Real Retained Imports of Foodstuffs	7.6	-3.2	7.0	-4.9	-12.1	3.2	4.8	-7.3	2.9	29.4	-4.0	2.4
Real Retained Imports of Consumer Goods	9.1	-3.6	-4.5	-9.1	-3.8	-4.8	22.6	1.2	22.8	36.8	-22.7	17.6
Real Retained Imports of Raw Materials & Semi-Manufactures	-6.8	-12.2	-3.1	1.6	-9.2	6.7	12.5	10.6	-11.2	30.8	-6.1	14.8
Real Retained Imports of Fuels	-4.4	-4.9	-4.3	-28.5	-8.5	25.5	-17.4	11.7	-10.8	19.9	-8.6	11.2
Real Retained Imports of Capital Goods	-13.8	13.2	21.9	21.4	14.1	31.7	75.5	-18.6	16.4	48.3	1.3	13.6
Total Motor Vehicles Newly Registered	-14.2	32.1	12.4	3.3	8.1	0.4	-0.5	-4.5	-5.0	17.3	-4.7	4.8
Private Cars Newly Registered	-20.0	40.2	17.8	2.4	5.5	1.7	-3.1	-7.7	-8.8	17.6	-4.1	0.2
Money Supply (M2)	10.2	7.2	9.1	7.7	8.9	10.5	10.4	10.4	10.9	10.4	10.4	12.2
Loans and Advances	13.4	10.6	10.4	9.5	7.4	7.7	7.5	6.8	8.3	8.2	8.0	7.7
Volume Index of Retail Sales	7.6	5.7	8.6	1.4	3.2	8.5	3.7	5.0	2.4	4.9	11.9	4.7
Visitors Arrivals	14.4	12.7	19.3	13.8	20.5	18.8	11.9	12.4	11.6	9.8	16.5	13.3
Hong Kong Resident Departures	-3.4	0.0	2.3	-2.6	2.5	5.3	0.1	-0.4	0.5	0.1	3.1	3.4
Electricity Consumption	10.0	9.1	-5.2	1.4	-7.5	-3.4	-1.7	-8.4	-4.1	4.3	-4.7	-1.7
Gas Consumption	-1.3	-2.4	-2.2	-0.7	1.4	2.7	-3.2	-1.8	0.6	-1.1	-1.7	-1.6
Date of Forecast: December 31, 2012												