

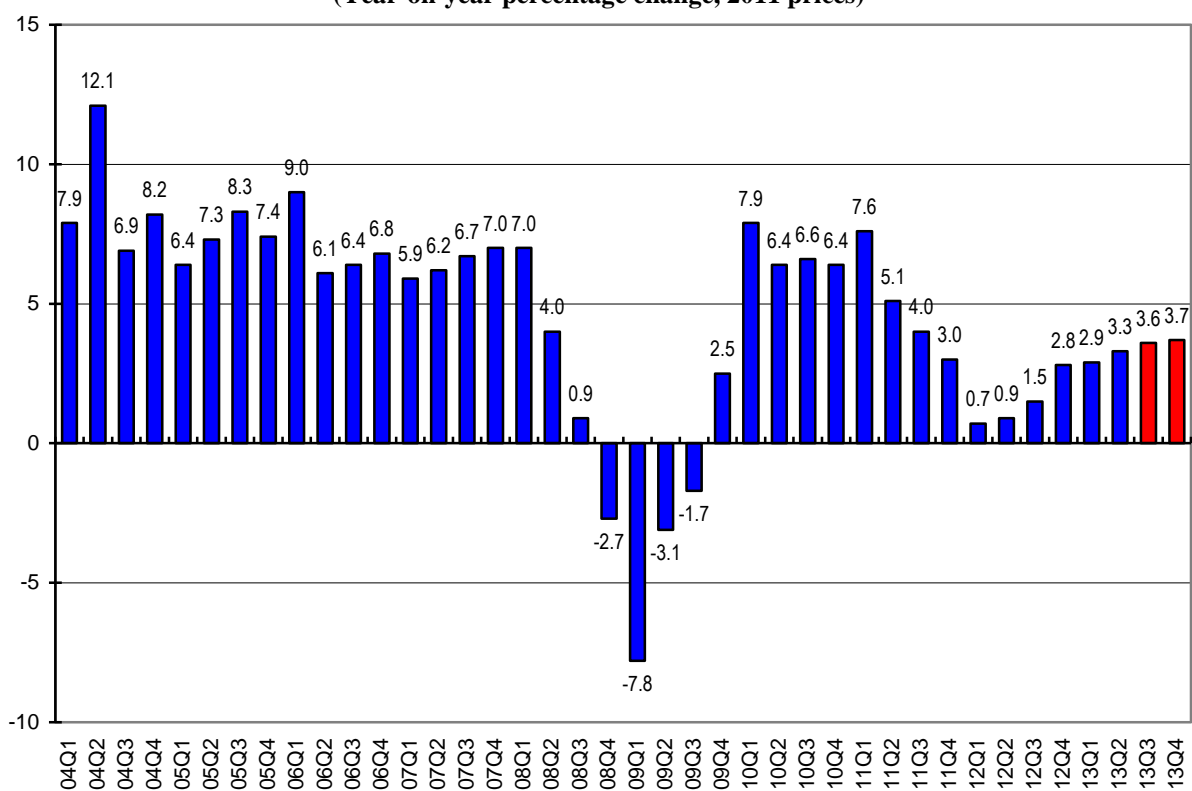


HKU Announced 2013 Q4 HK Macroeconomic Forecast

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 (Oct 8). According to its High Frequency Macroeconomic Forecast, real GDP is estimated to increase by 3.6% in 13Q3 when compared with the same period last year. This estimate is the same as our previous forecast released on July 4, 2013. In 13Q4, real GDP growth is forecast to accelerate slightly to 3.7% when compared to the same period last year.

Real Gross Domestic Product
(Year-on-year percentage change, 2011 prices)



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "Given the mild recovery in the US, low interest rate environment and sustained economic growth in China, Hong Kong regained the economic growth impetus in 2013. Its real GDP is estimated to grow by 3.7% in the second half of this year, picking up from the 3.1% increase in the first half. For the year 2013 as a whole, real GDP is forecast to increase by 3.4%. The growth in real GDP continues to be driven primarily by domestic demand. The increase in domestic demand is estimated to account for 3.8 percentage point of the overall increase in real GDP in the current year, while the external demand contributed a negative 0.4%."

"The labour market is projected to remain relatively stable with the unemployment rate projected to be flat at 3.3% in 13Q4, with the number of unemployed workers forecast to drop by 11,000, and the number of employed workers estimated to go up by 24,000. The headline inflation is forecast to be 4.7% in the second half of this year, up from the 3.9% in the first half. Stripping out fiscal measures, the underlying inflation rate is estimated to be 4.2% in the second half of 2013", according to Dr. Ka-fu Wong, Principal Lecturer of Economics at HKU.

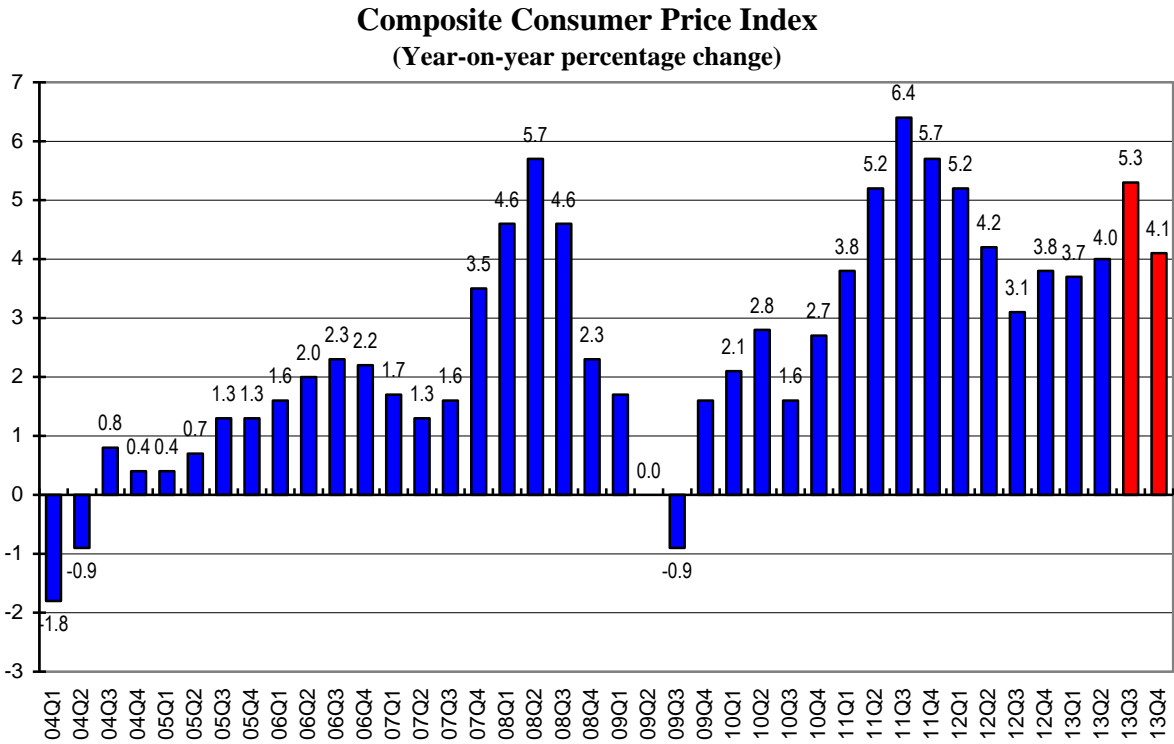
The forecast details are in Table 1 and Table 2, and the forecasts of selected monthly indicators are in Table 3. All growth rates reported are on a year-on-year basis.

Forecast Highlights

- Spurred by buoyancy in the job markets, low interest rate environment and high consumer sentiment, private consumption spending is projected to continue to grow in the current quarter at 4.1%, which is a slight improvement of the 4.0% increase in the third quarter. For the year as a whole, private consumption spending is forecast to grow by 4.6%.
- The volume of retail sales grew by 7.2% in August 2013, slightly lower than the 8.7% growth in July. Given strong domestic demand and the influx of Mainland visitors, the growth momentum in retail sales is projected to continue, but at a slower rate in the current quarter. The growth in the volume of retail sales is estimated to be 8.0% in 13Q3 and a moderate 6.7% in 13Q4. For the year of 2013 as a whole, it is projected to grow by 10.8%.

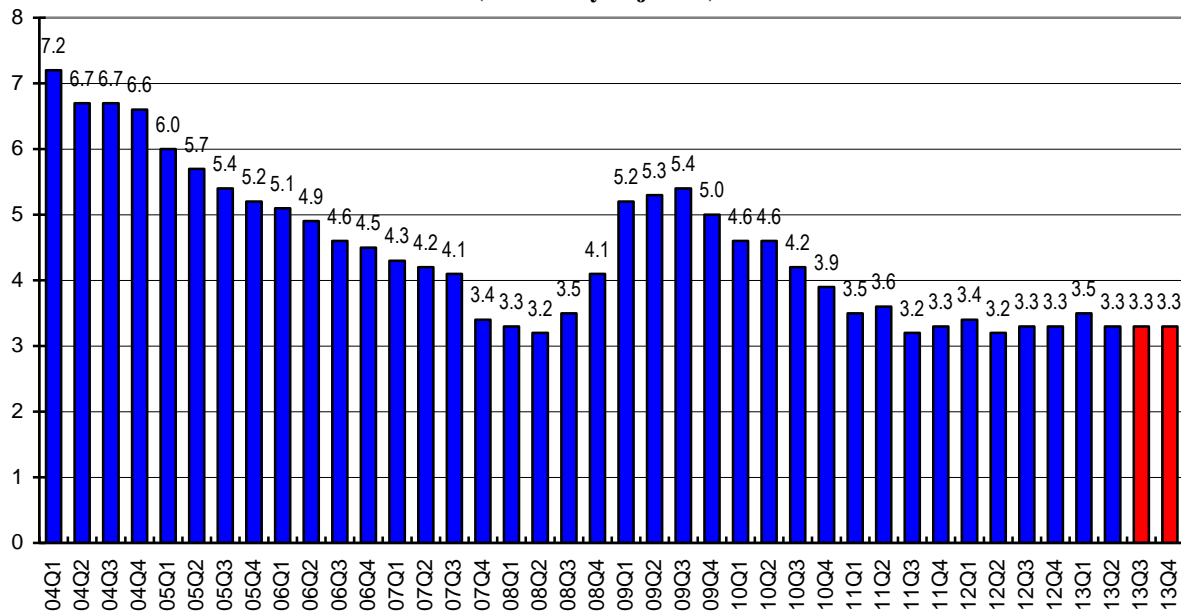
- Total exports of goods increased by 6.2% in 13Q2, lower than the 8.8% growth in 13Q1. In August 2013, the exports of goods from Hong Kong dropped by 1.3% in nominal terms. Given the uncertainty in external demand, the growth of exports of goods is estimated to be 6.1% in the third quarter of 2013, and the growth rate is forecast to moderate further to 5.4% in the current quarter, reflecting weaker demand from the developed economies. For year 2013 as a whole, total exports of goods is forecast to increase by 6.5%.
- Imports of goods increased by 7.6% in 13Q2, decelerating from the 9.6% growth in 13Q1. In tandem with the slowdown in exports of goods, imports of goods dropped by 0.2% in August 2013 in nominal terms. The growth of imports of goods is forecast to moderate to 7.2% in 13Q3 and the growth further decelerates to 6.2% in 13Q4. For the year as a whole, it is projected to grow by 7.6%.
- Service exports grew by 8.1% in 13Q2, accelerating from the 5.3% growth in 13Q1. Vibrant inbound tourism led to a pickup in the exports of the travel related services. The visitor arrivals rose by 9.4% in August 2013. The influx of Mainland visitors was the main contributor to the growth of visitor arrivals. The increase in service exports is forecast to be 7.4% in 13Q3 and a moderate 6.7% in 13Q4. The annual growth is estimated to be 6.9%.
- Service imports dropped by 1.4% in 13Q2, reverted from the 0.5% growth in 13Q1. Service imports is forecast to decrease by 0.3% in 13Q3. A rebound to 1.7% growth is expected in 13Q4. It is estimated to grow by 0.1% in the whole year of 2013.
- Gross fixed capital formation grew by 6.9% in 13Q2, reverting from the 3.3% drop in 13Q1. Due to lack of commencement of infrastructural projects, slowdown in investment spending is expected. The gross fixed capital formation is projected to grow by 0.9% in 13Q3 and to revert to a 1.4% drop in 13Q4. The annual growth is estimated to be 0.8%.
- Investment in land and construction shrank by 7.9% in 13Q2, worsen from the 2.6% drop in 13Q1. In conjunct with lack of new infrastructural projects and slowdown in private construction, investment in land and construction is expected to remain subdued for the rest of this year, with the decline projected to be 6.2% and 7.9% in 13Q3 and in the current quarter respectively. For the year of 2013 as a whole, it is estimated to decrease by 6.2%.

- Investment spending in machinery, equipment and computer software surged by 19.4% in 13Q2. Underpinned by the continued economic growth, investment in machinery, equipment and computer software is projected to increase, at a relatively moderate rate, by 6.4% in 13Q3 and 4.5% in 13Q4 when compared with the same period last year. It is projected to increase by 6.9% for the year of 2013 as a whole.



- The general price level, as measured by the Composite CPI, rose by 4.5% in August 2013. The headline consumer inflation rate is estimated to be 5.3% in 13Q3 and after stripping out the effect of the public housing waiver implemented last year, the rate would only be 4.3% in the third quarter. Relative stable in food prices and rentals will cause the price level to stand at around 4.0% in the near term. The consumer inflation rate is forecast to be 4.1% in the current quarter. For year 2013 as a whole, it is estimated to be 4.3%, only a slight increase as compared to the 4.1% inflation in 2012.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate stood at 3.3% in the 3 months ending in August 2013, reflecting tight labour market. With steady rise in real wage and stable job market, the number of jobs is estimated to increase by 24,000 and the number of unemployed workers to drop by 11,000 in 13Q4 comparing with previous quarter. The unemployment rate is forecast to remain at 3.3% in both 13Q3 and 13Q4. For the year of 2013 as a whole, the unemployment rate is estimated to average out to be 3.3%.

Concluding Remarks

We revised our real GDP growth forecast for the whole year of 2013 to 3.4%. This growth is driven mainly by the mild improvement of the external sector and the robust internal demand. This forecast growth rate is near the lower bound of our forecast we set out at the beginning of the year, and this is mainly due to the weaker-than-expected recovery of the external sector.

Despite various uncertainties (such as the temporary shutdown of the US government), the US economy has showed moderate recovery, the Eurozone has bottomed out, and the Mainland economy has continued to grow at a reasonable rate in the first three quarters. We expect the improvement of the external sector and the robust internal demand will continue to drive our growth in the near future.

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 marco 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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October 8, 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 2011 HK Dollar)

	2012			2013				
	Q3	Q4	Annual	Q1	Q2	Q3 (Estimate)	Q4 (Forecast)	Annual (Forecast)
Gross Domestic Product	498,333	526,324	1,965,153	486,681	482,563	516,225	545,904	2,031,374
Private Consumption Expenditure	307,466	333,426	1,261,151	323,441	329,241	319,825	347,223	1,319,730
Government Consumption Expenditure	43,445	43,868	174,645	46,848	42,748	44,748	45,184	179,528
Exports of Goods	919,875	927,222	3,482,180	855,447	901,416	975,655	976,950	3,709,468
Imports of Goods	1,029,803	1,058,115	3,964,957	986,293	1,051,676	1,104,328	1,123,289	4,265,587
Exports of Services	249,970	258,628	961,406	243,587	239,593	268,415	276,001	1,027,595
Imports of Services	112,151	111,806	440,160	111,096	104,183	111,832	113,668	440,779
Gross Fixed Capital Formation	127,966	133,481	497,881	110,373	130,804	129,067	131,657	501,901
GFCF in Land & Construction	55,997	62,864	232,361	56,106	51,521	52,525	57,882	218,034
GFCF in Mach., Equip. & Comp. Soft.	71,969	70,617	265,520	54,267	79,283	76,542	73,775	283,867
Changes in Inventories	-8,435	-380	-6,993	4,374	-5,380	-5,324	5,847	-483

Date of Forecast: October 2, 2013

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

	2012			2013				
	Q3	Q4	Annual	Q1	Q2	Q3 (Estimate)	Q4 (Forecast)	Annual (Forecast)
Gross Domestic Product	1.5	2.8	1.5	2.9	3.3	3.6	3.7	3.4
Private Consumption Expenditure	1.5	2.7	3.0	6.3	4.2	4.0	4.1	4.6
Government Consumption Expenditure	4.0	3.3	3.7	2.1	3.1	3.0	3.0	2.8
Exports of Goods	4.6	6.7	1.8	8.8	6.2	6.1	5.4	6.5
Imports of Goods	4.7	7.6	3.0	9.6	7.6	7.2	6.2	7.6
Exports of Services	0.2	3.0	2.0	5.3	8.1	7.4	6.7	6.9
Imports of Services	-1.5	-0.7	0.4	0.5	-1.4	-0.3	1.7	0.1
Gross Fixed Capital Formation	8.2	11.4	9.4	-3.3	6.9	0.9	-1.4	0.8
GFCF in Land & Construction	6.7	14.8	8.0	-2.6	-7.9	-6.2	-7.9	-6.2
GFCF in Machinery, Equip. & Computer Software	10.1	9.2	10.7	-4.0	19.4	6.4	4.5	6.9
GDP Deflator Growth Rate	4.3	4.3	3.9	1.4	0.7	-0.2	0.4	0.5
CPI (Composite) Inflation Rate	3.1	3.8	4.1	3.7	4.0	5.3	4.1	4.3
Unemployment Rate	3.3	3.3	3.3	3.5	3.3	3.3	3.3	3.3
Date of Forecast: October 2, 2013								

High Frequency Macroeconomic Forecasts

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

	2013											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Unit Value Trade Index (Domestic Exports)	4.5	4.3	4.0	2.3	2.1	2.6	1.8	1.4	1.9	1.0	0.2	0.0
Unit Value Trade Index (Imports of Foodstuffs)	0.9	1.4	2.8	3.1	1.8	3.1	2.1	1.8	2.5	3.0	2.3	0.3
Unit Value Trade Index (Imports of Consumer Goods)	2.0	2.2	2.0	2.4	1.4	0.5	0.6	-0.1	0.3	0.1	0.8	0.9
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	-0.7	0.7	1.2	1.0	0.6	0.5	1.6	1.9	1.7	1.1	1.4	2.1
Unit Value Trade Index (Imports of Fuels)	-3.7	-5.5	-7.1	-8.1	-7.9	0.7	1.2	-3.2	-8.3	-6.4	-3.2	0.2
Unit Value Trade Index (Imports of Capital Goods)	2.5	1.2	2.5	0.9	-1.8	-1.4	-1.9	-2.0	-1.5	-1.8	-2.4	-2.2
Real Retained Imports of Foodstuffs	44.6	-12.9	10.0	-10.6	3.8	13.1	17.4	10.6	3.9	3.4	-0.9	5.7
Real Retained Imports of Consumer Goods	78.7	-34.6	7.5	-1.7	1.9	-5.1	11.1	0.8	7.4	-3.5	-8.1	7.7
Real Retained Imports of Raw Materials & Semi-Manufactures	15.7	-15.3	23.0	-14.6	3.9	13.0	-8.5	7.3	-4.1	0.7	4.6	9.3
Real Retained Imports of Fuels	10.5	0.6	12.1	-26.3	7.0	1.9	26.4	-1.3	-19.1	2.1	6.9	-0.5
Real Retained Imports of Capital Goods	60.2	-34.5	-14.4	61.4	36.8	1.2	5.5	3.2	8.9	-1.7	4.0	-1.0
Total Motor Vehicles Newly Registered	38.3	1.0	32.6	10.9	-16.2	-2.3	1.8	-6.1	0.8	-0.9	-8.9	-6.0
Private Cars Newly Registered	30.9	3.1	11.1	9.8	-21.4	-13.4	-2.5	-9.3	-2.2	-1.0	-9.4	-7.7
Money Supply (M2)	12.4	9.7	9.5	10.3	13.4	10.8	11.6	11.3	10.8	10.0	10.3	10.0
Loans and Advances	11.1	10.1	10.4	10.7	12.3	14.7	15.1	16.9	17.1	18.1	18.4	18.2
Volume Index of Retail Sales	10.5	22.0	10.1	19.3	12.3	13.3	8.7	7.2	8.0	10.2	5.8	4.6
Visitors Arrivals	11.9	19.3	10.2	11.5	13.8	16.0	10.6	9.4	12.8	17.1	12.7	13.6
Hong Kong Resident Departures	-2.3	3.5	13.3	-11.1	0.9	0.5	-3.1	-3.1	-3.4	0.5	-1.3	0.2
Electricity Consumption	4.4	-10.7	-4.6	-6.6	-5.1	0.6	-1.7	2.9	4.3	3.7	4.8	2.0
Gas Consumption	5.4	-2.1	-12.1	-2.9	-1.1	-4.1	-2.3	2.0	-0.9	-0.1	-2.0	-3.7

Date of Forecast: October 2, 2013