

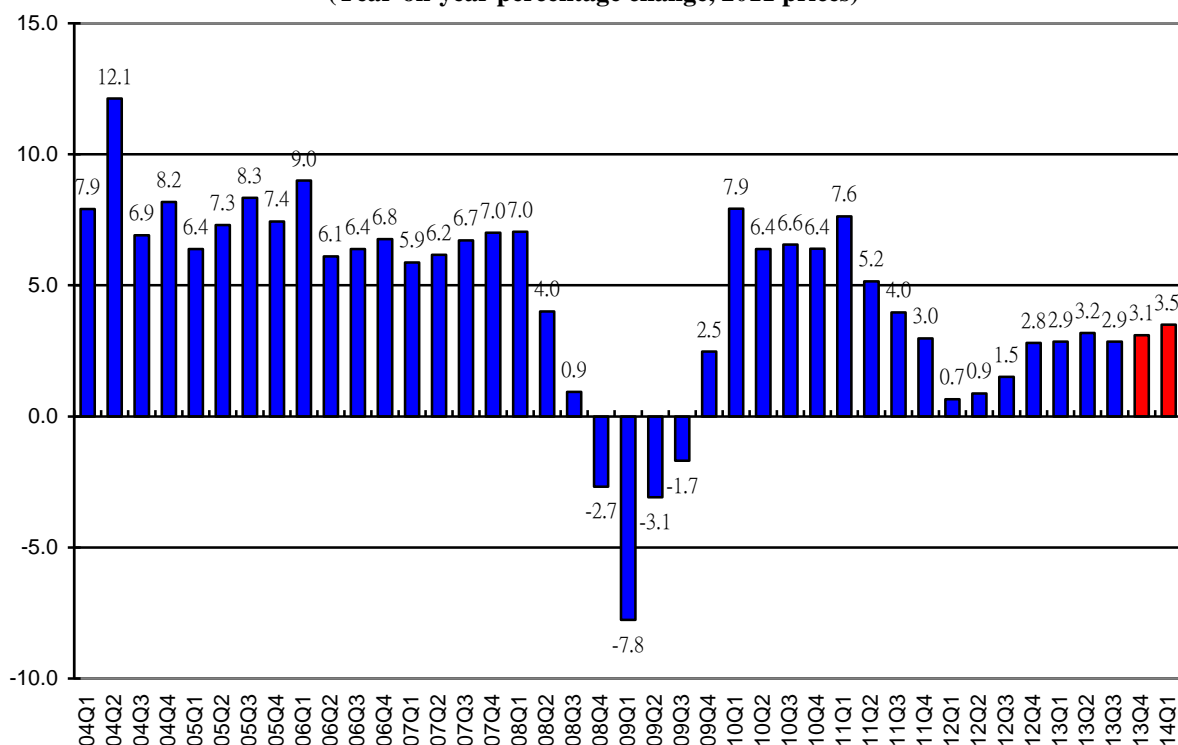


HKU Announces 2014 Q1 HK Macroeconomic Forecast

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 (January 9). According to the High Frequency Macroeconomic Forecast, real GDP is estimated to increase by 3.1% in the 13Q4 when compared with the same period in 2012. This estimate is a downward revision from the previous forecast of 3.7% growth released on October 8, 2013, reflecting a weaker-than-expected domestic demand.

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



Professor Richard Wong Yue-Chim, Professor of Economics at HKU, said that, "In the third quarter of 2013, stabilization has been confirmed in the EU countries along with steady recovery in the US. Real GDP is estimated to grow by 3.0% in the second half of 2013, same as the first half. Therefore, real GDP is forecast to increase also by 3.0% for the year 2013 as a whole. The growth in real GDP continues to be driven primarily by domestic demand. The increase in domestic demand is estimated to account for 3.5 percentage points of the overall increase in real GDP in 2013, with external demand making a mild negative contribution of 0.5 percentage point. In the current quarter, real GDP growth is forecast to speed up and grow by 3.5% when compared to the same period in 2013, reflecting an improvement in external demand."

"Amid the global economy recovery, the job market in Hong Kong will be stable with the unemployment rate projected to stay at 3.3% in 13Q4 and improve slightly to 3.2% in 14Q1. The number of employment is projected to increase by 50,000 compared to the previous quarter. The headline inflation is forecast to be 4.0% in the current quarter, down from the estimated 4.2% in 13Q4. Inflationary pressure is expected to be mild reflecting a lower price expectation in the upcoming quarters," according to Dr. Wong Ka-fu, 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.

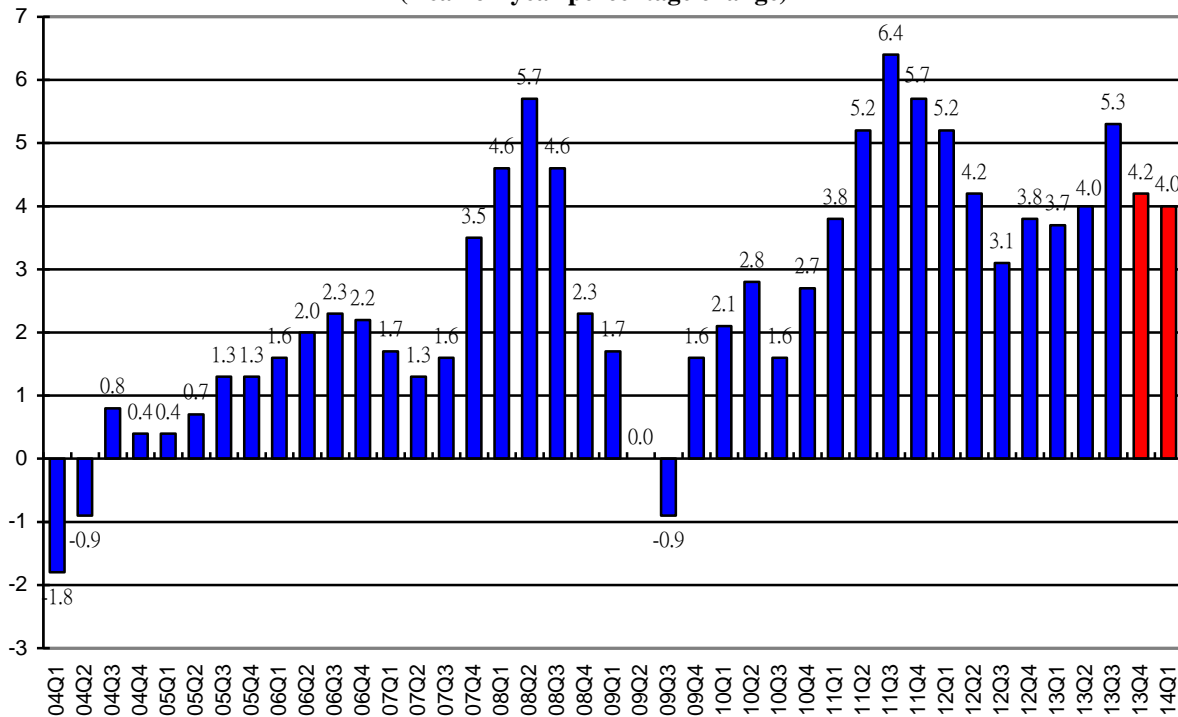
Forecast Highlights

- Private consumption spending grew by 2.8% in 13Q3, decelerating from the 4.2% growth in 13Q2. This consumption growth is expected to accelerate given the optimistic global economic outlook and high consumer sentiment. The growth in private consumption expenditure is estimated to grow by 3.5% in 13Q4. For the last year as a whole, private consumption spending is projected to grow by 4.2%. In the current quarter, private consumption spending is forecast to grow by 3.7%.

- The volume of retail sales increased by 7% in 13Q3, slower than the 15.0% in 13Q2. In November 2013, the volume grew by 9.0%. With the influx of Mainland visitors and noticeable growth of visitors from other Asian countries, the volume of retail sales is expected to keep growing. The growth is expected to be moderate, given a high base of comparison. The growth in the volume of retail sales is estimated to be 6.6% in 13Q4, and 10.5% for the whole of last year. In the current quarter, it is forecast to grow by 4.1%.
- Reflecting the stabilization in the external markets, the exports of goods grew by 6.2% in 13Q3, same as 13Q2. In 13Q4, it is estimated to grow by 6.3%, supported by the economic recovery in the US. The exports of goods is estimated to grow by 6.8% for 2013 as a whole, a noticeable improvement from 1.8% growth in 2012. In the current quarter, exports of goods is projected to grow by 6.1%.
- Imports of goods increased by 6.8% in 13Q3, decelerating from the 7.6% growth in 13Q2. Imports of goods is estimated to grow by 6.1% in 13Q4, and by 7.5% for the whole of last year. In the current quarter, it is forecast to rise by 5.9%.
- Service exports grew by 4.9% in 13Q3, slowing down from the 8.4% growth in 13Q2. The visitor arrivals rose by 8.6% in November 2013, travel related services have been the growth engine supporting Hong Kong service exports during the year of 2013. The increase in service exports is forecast to be 5.3% in 13Q4, and 5.9% for the whole of last year. In the current quarter, the growth of service exports is forecast to accelerate to 5.5%.
- Service imports went up by 2.4% in 13Q3, reverting the 0.8% decrease in 13Q2. Service imports is forecast to grow by 4.6% in 13Q4 and 1.7% for the whole of last year. It is estimated to grow by 3.1% in the current quarter.
- Gross fixed capital formation grew by 2.2% in 13Q3, decelerating from the 6.9% growth in 13Q2. It is projected to grow by 1.0% in 13Q4, and to grow by 1.8% for the whole of last year. In the current quarter, gross fixed capital formation is forecast to increase by 5.9%.

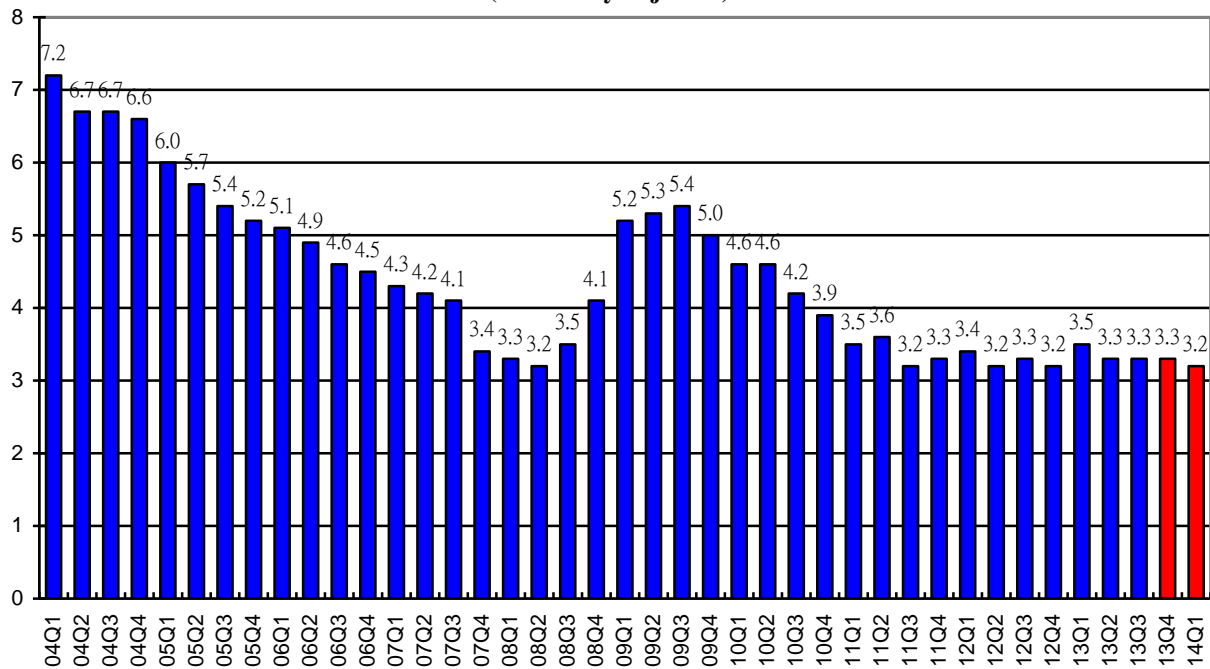
- Given the slowdown in private investment, the investment in land and construction dropped by 3.9% in 13Q3, and is estimated to worsen and drop by 6.9% in 13Q4. For the year of 2013 as a whole, it is estimated to decrease by 5.3%. The growth in land and construction investment is expected to remain subdued and drop by 7.7% in the current quarter.
- Investment spending in machinery, equipment and computer software grew by 7.0% in 13Q3, and is projected to increase by 7.9% in 13Q4, and by 8.0% for the year of 2013 as a whole. In the current quarter, it is forecast to grow by 19.9%, comparing to a lower base in 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 4.3% in November 2013, with food prices and private rental rates accounting for 1.2 and 2.0 percentage points respectively of the overall increase. The headline consumer inflation rate is estimated to be 4.2% in 13Q4, and 4.3% for the whole of last year. Given the relative stable food prices, rental and asset prices, price expectation has been anchored at around 4% level. Inflation is expected to be relatively stable in coming quarters. In the current quarter, the headline consumer inflation rate is projected to be 4.0%.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate stood at 3.3% in the three months ending in November 2013, from the three months ending in October 2013. The unemployment rate is estimated to be 3.3% in 13Q4, and 3.4% on average for the whole of last year. In the current quarter, unemployment rate is forecast to drop to 3.2%. Stable job environment and rising wages will continue to attract individuals to enter labour force. Labour force is expected to reach 4 million in 2014.

Concluding Remarks

Various developments will likely benefit Hong Kong economy in 2014. European economies are getting out from the trough, reverting back to growth. Along with the US's steady recovery, US unemployment rate gradually stripped down to 7% in November, 2013. China's output growth is expected to maintain at around 7-8% this year. Japan seems successfully escaping from the negative inflation trap. These developments will likely add to the demand for Hong Kong's exports of goods and services. The major uncertainty remains how fast the central banks around the world will raise their interest rates as their economic growths resume.

On the whole, we expect Hong Kong's economic growth to lie between 3.3 to 4.1%, and inflation to be around 3.8% in 2014.

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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January 9, 2014.

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					2014
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (Estimate)	Annual (Forecast)	Q1 (Forecast)
Gross Domestic Product	498,333	526,324	1,965,153	486,681	482,169	512,600	542,624	2,024,074	503,476
Private Consumption Expenditure	307,466	333,426	1,261,151	323,441	329,181	315,945	345,076	1,313,643	335,273
Government Consumption Expenditure	43,445	43,868	174,645	46,848	42,803	44,597	45,184	179,432	48,253
Exports of Goods	919,875	927,222	3,482,180	855,447	901,441	976,730	985,571	3,719,189	908,027
Imports of Goods	1,029,803	1,058,115	3,964,957	986,293	1,051,676	1,100,289	1,122,501	4,260,759	1,044,912
Exports of Services	249,970	258,628	961,406	243,587	240,205	262,098	272,386	1,018,276	256,863
Imports of Services	112,151	111,806	440,160	111,096	104,823	114,895	116,918	447,732	114,534
Gross Fixed Capital Formation	127,966	133,481	497,881	110,373	130,762	130,843	134,763	506,741	116,868
GFCF in Land & Construction	55,997	62,864	232,361	56,106	51,512	53,832	58,537	219,987	51,799
GFCF in Mach., Equip. & Comp. Soft.	71,969	70,617	265,520	54,267	79,250	77,011	76,227	286,755	65,068
Changes in Inventories	-8,435	-380	-6,993	4,374	-5,724	-2,429	-936	-4,715	-2,362

Date of Forecast: January 3, 2014

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

	2012			2013					2014
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (Estimate)	Annual (Forecast)	Q1 (Forecast)
Gross Domestic Product	1.5	2.8	1.5	2.9	3.2	2.9	3.1	3.0	3.5
Private Consumption Expenditure	1.5	2.7	3.0	6.3	4.2	2.8	3.5	4.2	3.7
Government Consumption Expenditure	4.0	3.3	3.7	2.1	3.2	2.7	3.0	2.7	3.0
Exports of Goods	4.6	6.7	1.8	8.8	6.2	6.2	6.3	6.8	6.1
Imports of Goods	4.7	7.6	3.0	9.6	7.6	6.8	6.1	7.5	5.9
Exports of Services	0.2	3.0	2.0	5.3	8.4	4.9	5.3	5.9	5.5
Imports of Services	-1.5	-0.7	0.4	0.5	-0.8	2.4	4.6	1.7	3.1
Gross Fixed Capital Formation	8.2	11.4	9.4	-3.3	6.9	2.2	1.0	1.8	5.9
GFCF in Land & Construction	6.7	14.8	8.0	-2.6	-7.9	-3.9	-6.9	-5.3	-7.7
GFCF in Machinery, Equip. & Computer Software	10.1	9.2	10.7	-4.0	19.3	7.0	7.9	8.0	19.9
GDP Deflator Growth Rate	4.3	4.3	3.9	1.4	0.8	1.8	1.5	1.4	1.2
CPI (Composite) Inflation Rate	3.1	3.8	4.1	3.7	4.0	5.3	4.2	4.3	4.0
Unemployment Rate	3.3	3.2	3.3	3.5	3.3	3.3	3.3	3.4	3.2
Date of Forecast: January 3, 2014									

High Frequency Macroeconomic Forecasts

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

	2013									2014		
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
Unit Value Trade Index (Domestic Exports)	2.3	2.1	2.6	1.8	1.7	1.7	1.3	0.5	0.3	0.0	0.0	-0.1
Unit Value Trade Index (Imports of Foodstuffs)	3.1	1.8	3.1	2.1	3.3	4.6	5.7	5.5	3.7	3.7	4.1	4.2
Unit Value Trade Index (Imports of Consumer Goods)	2.4	1.4	0.5	0.6	-0.3	1.5	2.6	3.5	3.9	4.4	3.7	4.9
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	1.0	0.6	0.5	1.6	3.0	3.9	4.1	5.1	6.1	8.1	7.2	7.9
Unit Value Trade Index (Imports of Fuels)	-8.1	-7.9	0.7	1.2	-2.4	-2.6	-3.6	-1.2	2.0	-0.7	-3.1	-1.9
Unit Value Trade Index (Imports of Capital Goods)	0.9	-1.8	-1.4	-1.9	-1.2	-1.2	-1.2	-1.7	-1.3	0.4	1.0	1.6
Real Retained Imports of Foodstuffs	-10.6	3.8	13.1	17.4	16.3	3.7	4.6	0.1	6.8	-2.3	16.4	1.2
Real Retained Imports of Consumer Goods	-1.7	1.9	-5.1	11.1	9.0	-1.5	-4.1	-8.8	5.6	-21.7	23.9	3.4
Real Retained Imports of Raw Materials & Semi-Manufactures	-14.6	3.9	13.0	-8.5	-2.8	-6.8	-15.6	-5.8	-2.9	-2.6	-1.7	-16.9
Real Retained Imports of Fuels	-26.3	7.0	1.9	26.4	-7.5	-22.2	4.2	5.3	-0.7	-0.6	-11.6	-6.8
Real Retained Imports of Capital Goods	61.4	36.8	1.2	5.5	6.2	12.1	16.0	9.9	6.6	3.2	60.2	42.0
Total Motor Vehicles Newly Registered	10.9	-16.2	-2.3	1.8	-10.5	1.9	18.7	-1.9	1.6	2.4	3.1	-4.8
Private Cars Newly Registered	9.8	-21.4	-13.4	-2.5	-16.0	0.2	15.3	-2.3	-0.5	1.4	-2.0	-1.8
Money Supply (M2)	10.3	13.4	10.8	11.6	11.3	13.3	12.3	12.5	12.5	10.6	13.3	15.4
Loans and Advances	10.7	12.3	14.6	15.1	16.9	18.1	17.8	17.7	17.8	16.6	18.1	18.0
Volume Index of Retail Sales	19.3	12.3	13.3	8.7	7.2	4.9	5.8	9.0	5.3	7.7	-3.1	7.4
Visitors Arrivals	11.5	13.8	16.0	10.6	9.4	13.9	9.1	8.6	12.1	12.7	12.2	16.2
Hong Kong Resident Departures	-11.1	0.9	0.5	-3.1	-3.1	-5.1	1.0	0.5	0.2	0.7	-1.3	-7.7
Electricity Consumption	-6.6	-5.1	0.6	-1.7	2.9	2.9	0.3	3.2	0.7	-1.7	3.9	0.9
Gas Consumption	-2.9	-1.1	-4.1	-2.3	2.0	5.8	7.4	2.5	-0.1	-0.7	3.3	9.9

Date of Forecast: January 3, 2014