



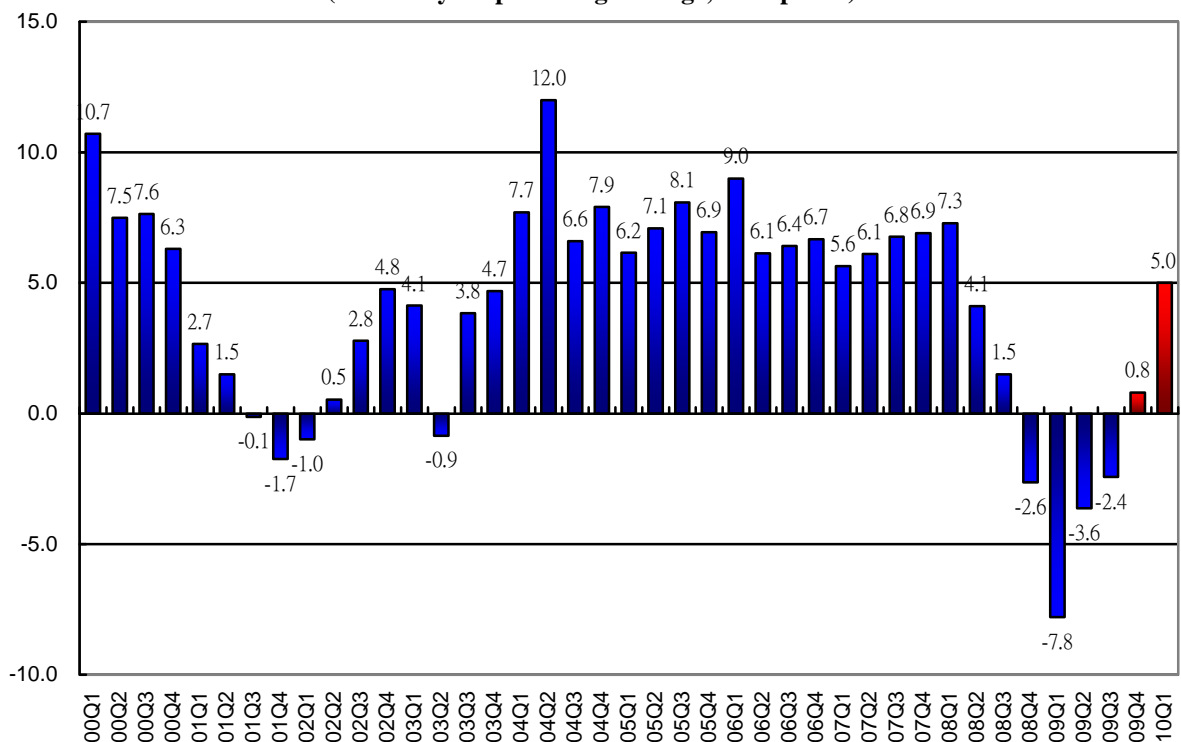
*For Immediate Release*

## HKU Announced 2010 Q1 HK Macroeconomic Forecast

### Tepid Economic Recovery

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 11). According to its High Frequency Macroeconomic Forecast, real GDP in 09Q4 is estimated to increase by 0.8% when compared with the same period last year. This estimate is a slight downward adjustment from the previous forecast of a 1.0% growth released on October 7, 2009 mainly reflecting a slowdown in inventory restocking. In the current quarter, real GDP growth is forecast to rise by 5.0% when compared with the same period last year. This strong rebound is from a very weak first quarter last year, and should not be interpreted as a sign of robust growth, but rather as further evidence for the tepid economic recovery started in the second half of last year.

**Real Gross Domestic Product**  
(Year-on-year percentage change, 2007 prices)



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "The Hong Kong economy has started to recover and reverted to annual growth in the fourth quarter of 2009. The recovery is expected to continue. Hong Kong's real GDP is estimated to contract by 0.8% in the second half of 2009, which is a marked improvement from the 5.7% drop in the first half of 2009. For the year as a whole, real GDP is estimated to decrease by 3.2% in 2009. This drop in our real GDP is primarily accounted for by a sharp fall in the external demand of goods and services. The external sector accounted for 3.1 percentage point of the 3.2% drop in real GDP last year, with domestic demand accounting for the rest of the decrease."

"The unemployment rate is forecast to improve slightly in the current quarter, with the rate projected to drop to 5.0% from the estimated 5.1% in the last quarter. Improving job markets and vibrant asset markets underpin strong consumer confidence. It is estimated that private consumption spending will contribute 2.6 percentage points to the overall 5.0% GDP growth in the current quarter, thus accounting for more than half of the total growth. Investment is expected to be vibrant because of infrastructure investment. The composite CPI has been falling by 0.3% y-o-y for five consecutive months since July 2009. This mild deflationary trend will be arrested by the economic recovery. Prices of consumer goods are forecast to increase, with the headline inflation estimated to be 0.7% in the current quarter," 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.

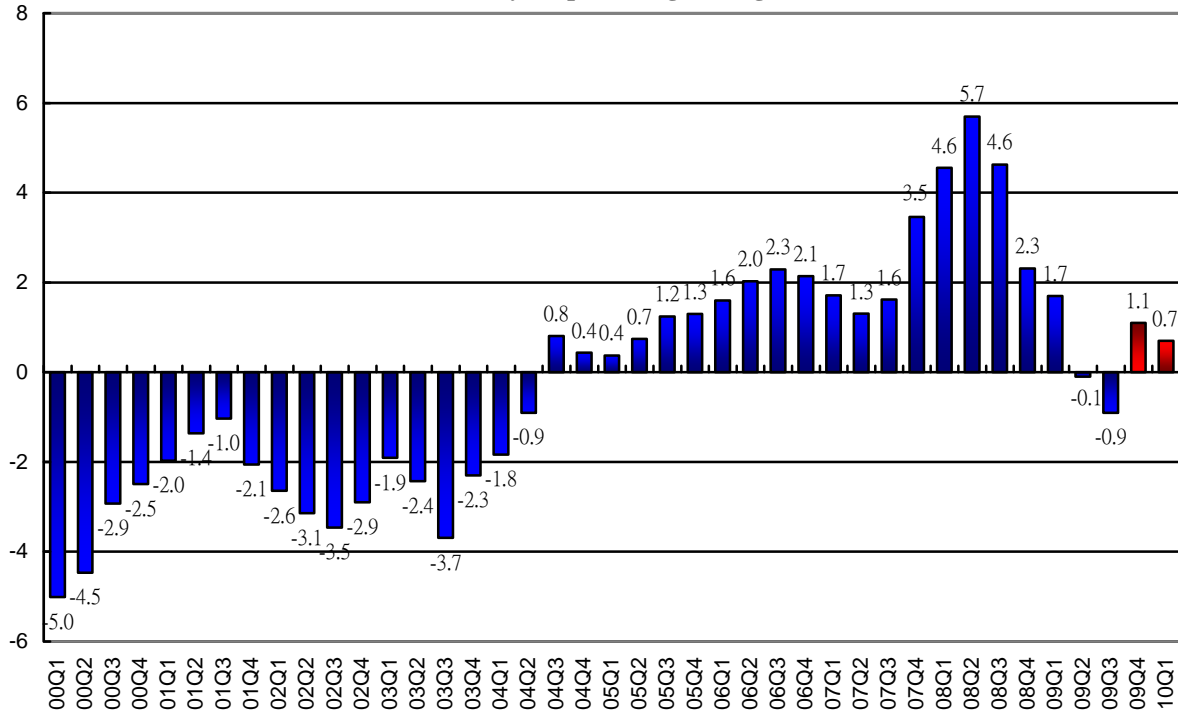
## **Forecast Highlights**

- Private consumption spending rose by 0.2% in 09Q3, improving from the 1.1% drop in 09Q2. The economic recovery stopped the contraction in consumption spending brought on by the financial tsunami since 08Q4. Continuous improvement is expected in the upcoming quarters. Private consumption expenditure is estimated to grow by 3.7% in 09Q4. Taking into account of the drop in the first half of 2009, private consumption still contracted by 0.8% for the whole of last year. Underpinned by improving job markets and vibrant asset markets, private consumption spending is forecast to gain greater momentum with a 4.2% growth in 10Q1.

- The volume of retail sales increased by 9.8% in November 2009, keeping up with the strong growth of 8.2% in the October 2009. Given the rebound in private consumption and increase in visitor arrivals, the growth in volume of retail sales is estimated to be 8.0% in 09Q4 and 10.4% in 10Q1. For 2009 as a whole, it is projected to fall by 1.3%.
- Total exports of goods shrank by 13.2% in real terms in 09Q3 which is slightly worse than the 12.4% drop in 09Q2. External demand has been picking up due to global economy recovery and inventory rebuilding. The robust growth in the Mainland has also helped to ease the drop in external trade, with re-exports to the Mainland went up by 9.8% in November 2009. Mainland took in around 50% of Hong Kong's re-exports last year. The total exports of goods in real terms is estimated to fall by 0.8% in 09Q4, and is forecast to revert to growth by 10.8% in the current quarter. For the year of 2009 as a whole, total exports is estimated to drop by 12.1%.
- Imports of goods dropped by 8.3% in 09Q3 which is smaller than the 12.7% fall in 09Q2. In November 2009, food, fuels and chemical related products all registered double digit growth of 12.9%, 13.0% and 11.5% respectively. Machinery and transport contributed the most of the increase, accounting for 5.3 percentage point out of the total 6.5% growth in nominal imports in November 2009. Concomitant with the turnaround increase in the exports of goods, the imports of goods is forecast to increase by 3.0% and 13.4% in 09Q4 and 10Q1 respectively. For the year of 2009 as a whole, it is estimated to decrease by 9.7%.
- Service exports fell by 0.9% in 09Q3. The revival in visible trade led to a pickup in the trade related services. The 7.6% rise in visitor arrivals in November 2009 boosted travel related services. The influx of Mainland visitors was the main driver in the growth of visitor arrivals, accounting for 7.5 percentage points of the 7.6% overall growth. The increase in service exports is forecast to be 3.3% in 09Q4 and accelerate to 6.4% 10Q1. The annual decline of 2009 is estimated to be 2.2%.

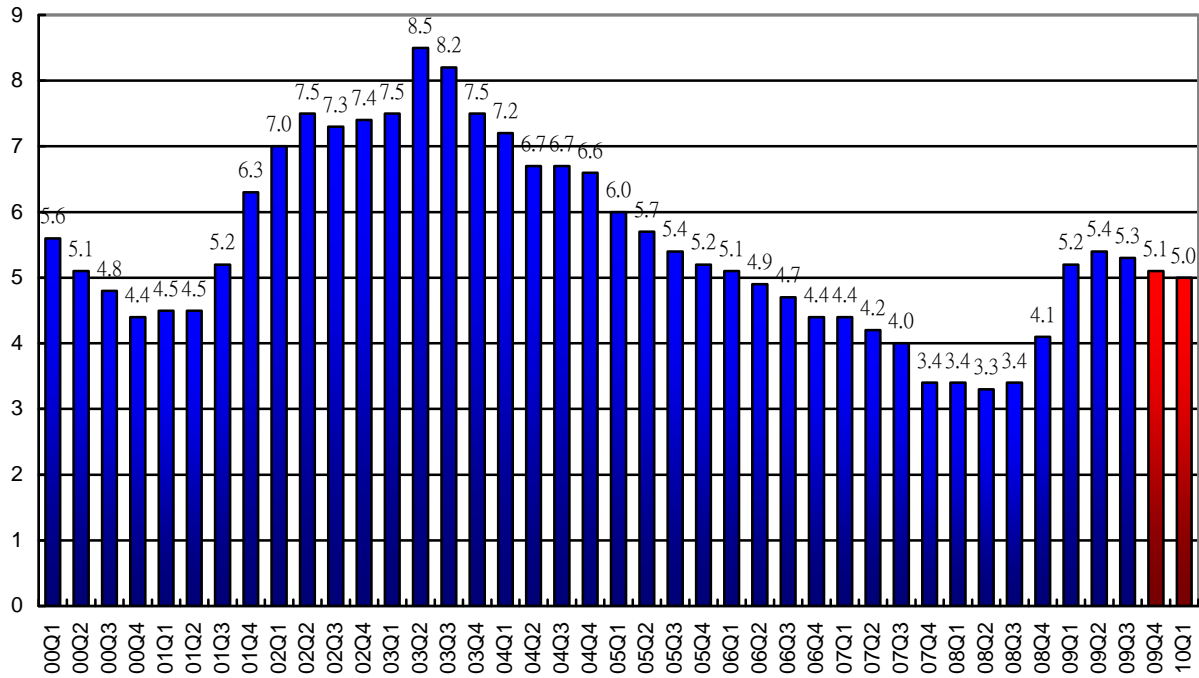
- Service imports contracted by 3.8% in 09Q3. Service imports is forecast to grow by 0.9% and 1.9% in 09Q4 and 10Q1 respectively. It is estimated to fall by 4.5% in the whole year of 2009.
- Gross fixed capital formation increased by 1.4% in 09Q3, turning around from the 13.6% drop in 09Q2. Given the lower base of comparison, gross investment is projected to grow by 11.0% in 09Q4. Given the economic recovery, the pace of investment spending is expected to pick up and forecast to grow by 14.1% in the current quarter when compared to the same period last year. The annual decline of 2009 is estimated to be 4.3%.
- Investment in land and construction went up by 10.7% in 09Q3, reverting from the 7.3% decline in 09Q2. It is projected to increase by 9.7% in 09Q4 and by 15.3% in 10Q1. The growth momentum is expected to be boosted by the commencement of the HK-Zhuhai-Macao bridge project in 2010.
- Investment spending in machinery, equipment and computer software dropped by 4.0% in the 09Q3, and is forecast to surge by 12.0% in 09Q4. Given the continued economic recovery, investment in machinery, equipment and computer software is projected to increase by 13.1% in the current quarter 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 0.5% in November 2009. The pickup in domestic demand turned the mild deflation around with the headline consumer inflation rate forecast to 1.1% in 09Q4, reverting from the fall of 0.9% in 09Q3. For the year of 2009 as a whole, consumer inflation is estimated to 0.5%. Inflationary pressure is building up along with the ongoing economy recovery and the ending of the rates concession in 10Q2. In the current quarter, headline consumer inflation rate is forecast to be 0.7%.

## Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate improved from 5.1% in the 3 months ending in Nov 2009 from 5.2% in the 3 months ending in October 2009. In the second half of 2009, unemployment in the construction sector experienced a significant improvement with the unemployment rate dropping from 11.8% in June 2009 to 7.6% in November 2009. This improvement is expected to continue with the commencement of infrastructural projects. The overall labour market is expected to improve slowly in 2010, with the unemployment rate forecast to be 5.1% in 09Q4 and further improve to 5.0% in the current quarter. The number of jobless workers is estimated to fall by 3,000 to 186,000 persons in 10Q1 when compared with 09Q4. The number of jobs is forecast to increase by 12,000 in the current quarter, bringing the labour force to the all time high of 3.7 million workers. For the year of 2009 as a whole, the unemployment rate is estimated to average out to be 5.3%.

## Concluding Remarks

The Hong Kong economy has weathered the Great Recession falling by 3.2% last year. This decrease is much less than the sharp fall of 6.0% in 1998 due to Asian Financial Crisis. The economic recovery started in the second half of last year is expected to continue, though the pace of recovery is quite tepid because the external export demand is still weak. For the current year, conditional on continued recovery of the global economy, real GDP is forecast to increase by 4 to 5 percent, with consumer inflation rate picking up to 2% and unemployment dropping to 4.5% by year-end.

## **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 11<sup>th</sup>, 2010.

**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  
(Million of 2007 Dollar)

	2008			2009					2010
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (forecast)	Annual (forecast)	Q1 (forecast)
Gross Domestic Product	422,809	424,526	1,653,636	376,593	383,417	412,542	427,721	1,600,273	395,568
Private Consumption Expenditure	243,017	247,641	986,317	230,907	247,180	243,388	256,781	978,256	240,680
Government Consumption Expenditure	32,460	33,565	132,669	35,759	31,938	33,527	34,572	135,796	36,832
Total Export of Goods	730,366	689,708	2,751,140	496,477	603,241	634,206	684,398	2,418,322	550,125
Domestic Export of Goods	24,477	22,446	94,698	16,673	17,216	16,713	20,625	71,227	18,784
Re-export of Goods	705,889	667,262	2,656,442	479,804	586,025	617,493	663,774	2,347,096	531,340
Import of Goods	764,196	719,265	2,904,964	535,271	646,398	700,774	740,738	2,623,181	607,233
Export of Services	184,952	180,536	698,141	159,947	153,463	183,268	186,422	683,100	170,105
Import of Services	89,958	83,781	343,060	78,429	77,969	86,538	84,569	327,505	79,885
Gross Fixed Capital Formation	83,276	71,628	323,820	71,629	74,248	84,440	79,502	309,819	81,696
GFCF in Land & Construction	30,616	30,708	135,273	30,448	32,535	33,895	33,687	130,565	35,114
GFCF in Mach., Equip. & Comp. Soft.	52,660	40,920	188,547	41,181	41,713	50,545	45,815	179,254	46,582
Changes in Inventories	2,892	4,494	9,573	-4,426	-2,286	21,025	11,353	25,666	3,248

Date of Forecast: January 4, 2010



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

	2008			2009					2010
	Q3	Q4	Annual	Q1	Q2	Q3	Q4 (Forecast)	Annual (Forecast)	Q1 (Forecast)
Gross Domestic Product	1.5	-2.6	2.4	-7.8	-3.6	-2.4	0.8	-3.2	5.0
Private Consumption Expenditure	-0.2	-4.1	1.5	-6.0	-1.1	0.2	3.7	-0.8	4.2
Government Consumption Expenditure	1.6	1.8	1.7	1.4	1.7	3.3	3.0	2.4	3.0
Total Export of Goods	1.3	-4.9	1.9	-22.7	-12.4	-13.2	-0.8	-12.1	10.8
Domestic Export of Goods	-21.8	-29.1	-19.2	-29.9	-28.3	-31.7	-8.1	-24.8	12.7
Re-export of Goods	2.4	-3.8	2.9	-22.4	-11.9	-12.5	-0.5	-11.6	10.7
Import of Goods	2.0	-6.4	1.8	-21.4	-12.7	-8.3	3.0	-9.7	13.4
Export of Services	4.8	0.4	5.7	-6.3	-5.2	-0.9	3.3	-2.2	6.4
Import of Services	2.2	-3.4	3.3	-9.6	-5.6	-3.8	0.9	-4.5	1.9
Gross Fixed Capital Formation	3.0	-17.7	-0.5	-13.7	-13.6	1.4	11.0	-4.3	14.1
GFCF in Land & Construction	-8.1	-12.8	-0.7	-21.7	-7.3	10.7	9.7	-3.5	15.3
GFCF in Machinery, Equip. & Computer Software	10.7	-21.1	-0.3	-6.6	-18.0	-4.0	12.0	-4.9	13.1
GDP Deflator Growth Rate	2.0	-0.3	1.4	0.4	1.1	0.5	0.7	0.7	0.3
CPI (Composite) Inflation Rate	4.6	2.3	4.3	1.7	-0.1	-0.9	1.1	0.5	0.7
Unemployment Rate	3.4	4.1	3.5	5.2	5.4	5.3	5.1	5.3	5.0
Date of Forecast: January 4, 2010									

# High Frequency Macroeconomic Forecasts

## APEC Studies Programme

### Hong Kong Institute of Economics & Business Strategy

### The University of Hong Kong

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

	2009									2010		
	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR
Unit Value Trade Index (Domestic Exports)	0.6	0.8	-1.4	-2.7	-1.9	-2.0	-1.9	-2.0	-2.0	-1.3	-1.0	-0.1
Unit Value Trade Index (Imports of Foodstuffs)	2.6	2.1	1.3	-0.5	-1.4	-1.4	-1.8	-1.0	-0.3	0.8	1.3	2.1
Unit Value Trade Index (Imports of Consumer Goods)	1.6	0.6	-0.4	-1.9	-2.5	-2.0	-2.2	-1.9	-1.4	-1.0	-0.4	0.5
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	0.6	0.2	-1.1	-0.6	-0.3	1.4	1.9	2.9	3.6	3.7	4.5	5.7
Unit Value Trade Index (Imports of Fuels)	-45.0	-43.3	-41.4	-39.3	-39.8	-33.2	-24.8	-2.8	16.4	26.7	26.9	33.9
Unit Value Trade Index (Imports of Capital Goods)	1.8	2.1	3.8	1.9	2.8	1.6	1.8	1.9	1.3	2.3	2.5	3.3
Real Retained Imports of Foodstuffs	6.3	1.5	5.3	11.1	10.3	7.6	3.8	7.4	10.3	24.7	8.8	4.7
Real Retained Imports of Consumer Goods	-14.1	-39.5	-14.7	-10.0	-8.6	25.9	6.4	14.0	21.5	106.0	-8.6	46.9
Real Retained Imports of Raw Materials & Semi-Manufactures	-30.5	-45.5	-24.7	6.8	21.0	23.6	-2.3	17.0	91.4	152.9	62.7	72.1
Real Retained Imports of Fuels	29.0	-1.5	10.8	6.3	53.6	10.5	31.2	-2.3	20.5	4.7	-10.1	-15.6
Real Retained Imports of Capital Goods	-14.6	-26.9	-15.1	-18.3	-5.7	-1.2	-20.6	15.5	9.9	19.5	-7.5	5.4
Total Motor Vehicles Newly Registered	-46.9	-49.0	-10.3	-32.6	-14.9	4.6	23.4	49.6	21.9	46.6	47.9	43.3
Private Cars Newly Registered	-42.6	-44.6	-12.7	-40.0	-17.9	7.3	7.9	35.0	4.2	28.6	29.2	25.8
Volume Index of Retail Sales	-5.4	-6.4	-4.2	-5.2	-0.9	1.1	8.1	9.8	6.4	0.5	20.6	13.6
Money Supply (M2)	4.4	7.4	9.8	9.6	10.5	9.7	11.3	10.1	8.4	10.8	13.2	12.9
Loans and Advances	-2.2	-3.7	-4.3	-6.8	-7.2	-4.3	-4.4	-1.8	-0.5	-0.2	1.5	3.8
Visitors Arrivals	0.8	-13.4	-15.0	-12.2	5.8	2.5	9.0	7.6	7.3	0.7	15.7	8.8
Hong Kong Resident Departures	13.7	-3.2	-0.2	-3.9	5.0	-3.5	4.8	-1.0	2.2	-2.4	6.3	5.8
Electricity Consumption	-2.1	3.9	11.3	6.2	9.9	4.3	-0.9	-0.1	2.1	8.9	3.0	-0.4
Gas Consumption	-2.2	-0.6	-3.4	-2.0	-1.5	0.3	-1.4	-1.2	1.5	0.1	0.8	3.5

Date of Forecast: January 4, 2010