



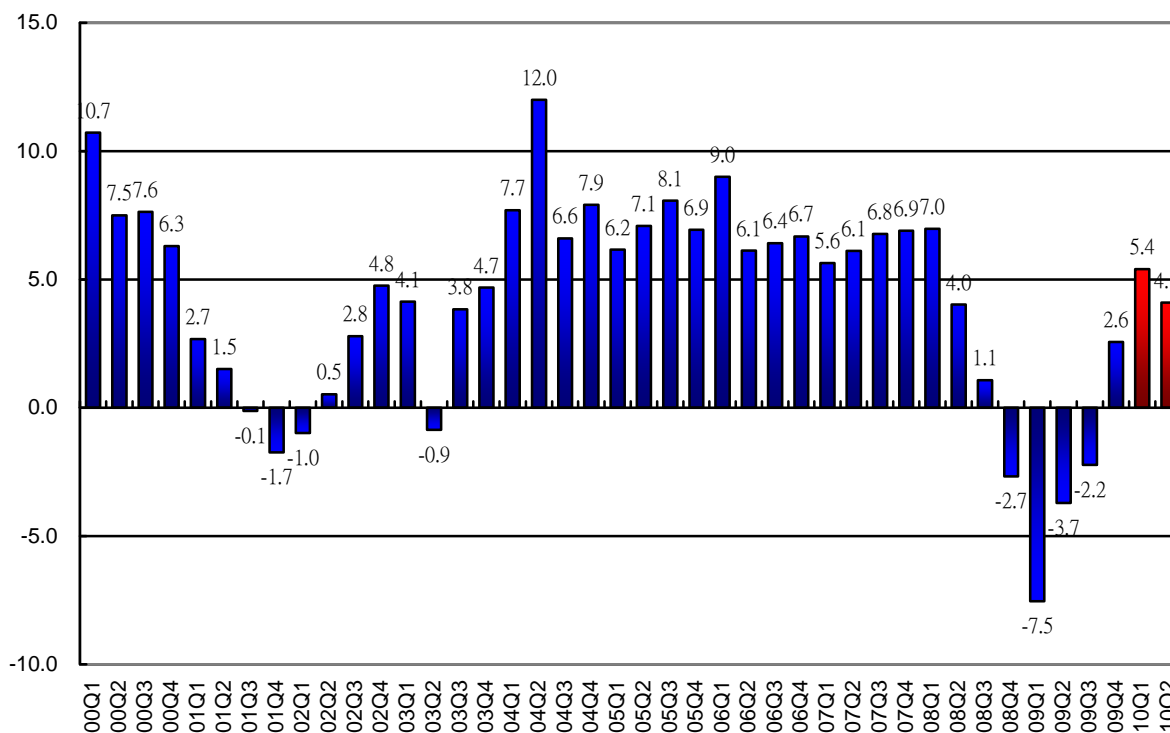
For Immediate Release

HKU Announced 2010 Q2 HK Macroeconomic Forecast

Slowly on the Mend

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 (Mar 31). According to its High Frequency Macroeconomic Forecast, real GDP in 10Q1 is estimated to increase by 5.4% when compared with the same period last year. This estimate is an upward revision from the previous forecast of a 5.0% growth released on January 11, 2010, reflecting a stronger pickup in domestic demand. In 10Q2, real GDP growth is forecast to rise only by 4.1% when compared with the same period 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 at a tepid pace in the second half of 2009, with real GDP growing by only 0.2% when compared with the second half of 2008. The growth momentum is picking up. Hong Kong's real GDP is estimated to grow by 4.8% in the first half of 2010. The primary driver is domestic demand, with consumption and investment spending providing the growth impetus. Consumption spending is estimated to account for 2.8 percentage points to the overall 4.1% GDP growth in the 10Q2. The strong domestic demand is a reflection of the steady global economic recovery, the strong growth in the Mainland, as well as the low interest rate environment.”

“The job market is projected to improve further with the unemployment rate forecast to drop to 4.5% in 10Q2 from the estimated 4.6% in 10Q1. Inflationary pressure is building up because of the weak US dollar and the booming property market leading to higher rental rates. The upward pressure is forecast to be mild in the first half of this year, with the composite CPI projected to increase by 1.5% in 10Q2,” 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.

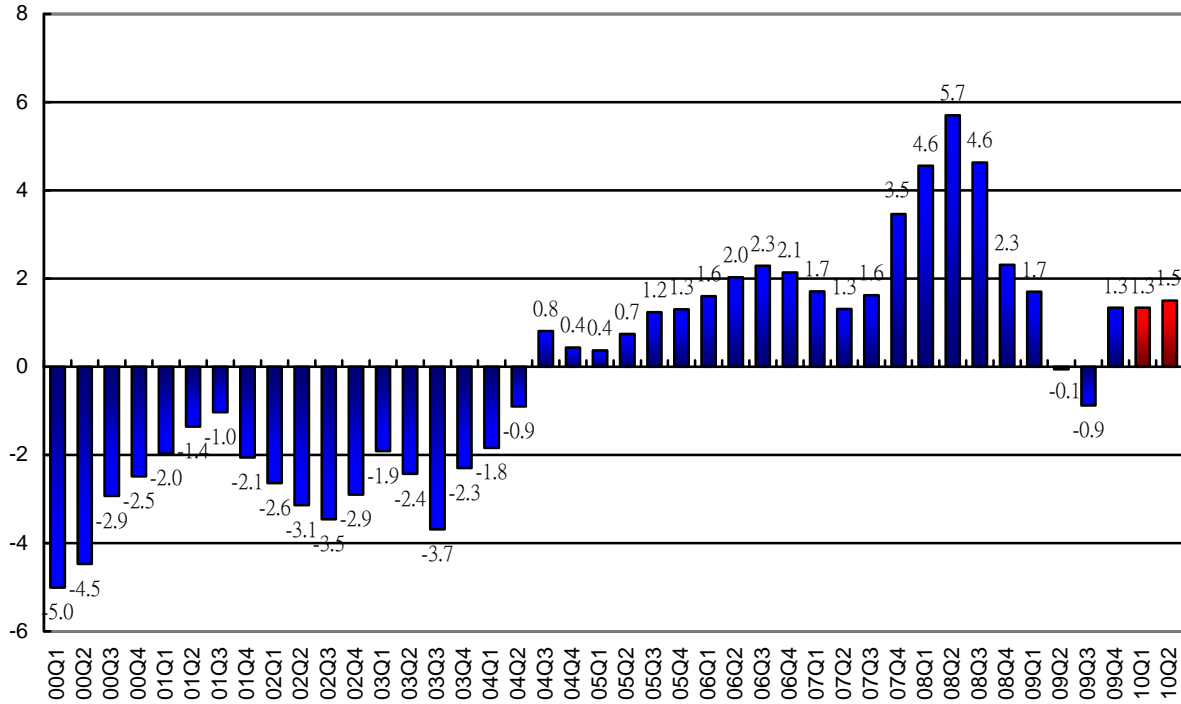
Forecast Highlights

- Given the continued improvement in the job market, strong economic growth in the mainland and vibrant asset markets, the recovery of private consumption spending which started in the second half of last year is projected to continue. The growth of private consumption spending is forecast to be 5.2% in 10Q1 and decelerate to 4.3% in 10Q2. The slowdown in the growth of consumption in the second quarter this year is attributed to a relatively strong base of comparison in 09Q2.

- The volume of retail sales increased only by 3.2% in January 2010. This modest growth rate is due to the different timing of Lunar New Year, as the Chinese New Year fell in January 2009 and in February 2010. The growth in retail sales is projected to revert back to double-digit rates in the next couple of months, supported by robust local demand, as well as the continued strong growth in visitor arrivals. The growth in volume of retail sales is estimated to be 13.5% in 10Q1 and pick up to 16.2% in 10Q2.
- Total exports of goods shrank by 2.6% in real terms in 09Q4 which was a marked improvement when compared with the 13.2% drop in 09Q3. Reflecting the global economy recovery, external demand has picked up rapidly. In the first two months of this year, the exports of goods from Hong Kong registered robust growth, with electrical machinery, telecommunication equipment and office machinery rose by 46.9%, 16.9% and 27.9% respectively. The total exports of goods in real terms is estimated to grow by 21.3% in 10Q1, and is forecast to moderate to grow by 15.3% in the 10Q2.
- Imports of goods increased by 3.1% in 09Q4, a turnaround from the 8.3% fall in 09Q3. In tandem with the strong exports of goods, imports of goods also grew rapidly in the first two months of this year, with electrical machinery, telecommunication equipment and office machinery growing by 59.3%, 21.8% and 31.3% respectively. The imports of goods is forecast to increase by 25.7% and 18.9% in 10Q1 and 10Q2 respectively. Imports of goods grew more rapidly than the exports of goods reflecting inventory rebuilding, and results in a very large visible trade deficit estimated to be around 73 billion or 18% of GDP in 10Q2.
- Service exports grew by 7.7% in 09Q4, reverted from the 0.5% fall in 09Q3. The revival in visible trade led to a pickup in the trade related services. Hong Kong continues to benefit from the success of the Mainland individual visitor scheme. In the second half of last year, 61% mainland visitors traveled to Hong Kong by this scheme, as compared to 13% when the scheme was first introduced in the second half of 2003. The influx of Mainland visitors remains the main driver in the growth of visitor arrivals which is the engine for travel related services. The increase in service exports is forecast to be 14.6% in 10Q1 and moderate to 12.2% 10Q2.

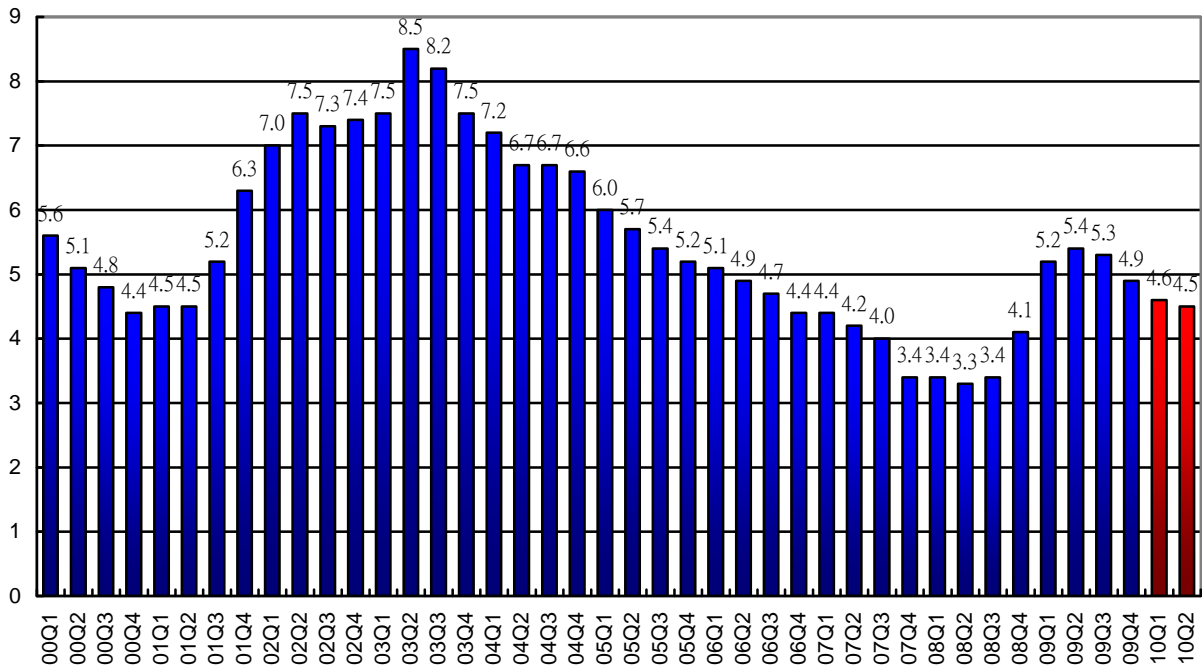
- Service imports went up by 2.4% in 09Q4, turning around from the 3.3% drop in 09Q3. Service imports is forecast to grow by 3.9% and 2.8% in 10Q1 and 10Q2 respectively.
- Gross fixed capital formation surged by 14.7% in 09Q4, picking up from the 2.6% growth in 09Q3. This marked increase in gross investment in 09Q4 is partly due to a lower base of comparison. The global economic recovery and infrastructural projects will continue to provide impetus for investment spending. The gross fixed capital formation is projected to grow by 7.9% in 10Q1 and 12.6% in 10Q2.
- Investment in land and construction went up by 12.8% in 09Q4. The commencement of the HK-Zhuhai-Macao bridge project, as well as other infrastructural projects in the pipeline will provide support for steady growth, with the growth rate projected to be 8.9% in 10Q1 and 11.2% in 10Q2.
- Investment spending in machinery, equipment and computer software surged by 16.2% in the 09Q4. Underpinned by the continued economic recovery, investment in machinery, equipment and computer software is projected to increase by 7.1% in 10Q1 and 13.7% in 10Q2 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 2.8% in February 2010. Inflationary pressure is building up because of the weak US dollar and the booming property market leading to higher rental rates, but the pressure is projected to be mild in the first half of this year. The headline consumer inflation rate is forecast to be 1.3% in 10Q1 and increase slightly to 1.5% in 10Q2.

Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate improved to 4.6% in the 3 months ending in February 2010 from 4.9% in the 3 months ending in January 2010. This improvement is primarily due to an increase of 8,000 employed workers during this period. The unemployment rate is forecast to be 4.6% in 10Q1, and to fall to 4.5% in 10Q2. The number of employed workers is estimated to increase by 20,000 in 10Q2, and the number of unemployed workers is projected to fall by 2,000.

Concluding Remarks

The tepid economic recovery started in the second half of last year will strengthen in the first half of this year with real GDP forecast to grow at close to its trend rate of growth. But the growth is primarily fueled by domestic demand, with external demand still relatively weak given the deep recession engulfing the developed world. The global economy is slowly on the mend. It will need more time to fully recover from the biggest financial crisis since WWII.

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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March 31, 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)

	2009					2010	
	Q1	Q2	Q3	Q4	Annual	Q1 (forecast)	Q2 (forecast)
Gross Domestic Product	376,558	382,720	411,657	435,220	1,606,155	397,078	398,278
Private Consumption Expenditure	232,215	250,595	246,441	262,223	991,474	244,185	261,435
Government Consumption Expenditure	35,810	31,944	33,524	34,254	135,532	36,884	32,902
Total Exports of Goods	496,477	603,241	634,206	671,872	2,405,796	602,164	695,602
Domestic Exports of Goods	16,673	17,216	16,713	18,044	68,646	19,814	19,669
Re-exports of Goods	479,804	586,025	617,493	653,828	2,337,150	582,350	675,933
Imports of Goods	535,271	646,398	700,774	741,744	2,624,187	673,024	768,778
Exports of Services	159,933	152,437	182,717	194,085	689,172	183,234	171,071
Imports of Services	80,779	80,592	89,395	88,198	338,964	83,936	82,878
Gross Fixed Capital Formation	74,807	76,112	86,437	83,317	320,673	80,707	85,700
GFCF in Land & Construction	33,233	33,892	35,791	36,836	139,752	36,198	37,688
GFCF in Mach., Equip. & Comp. Soft.	41,574	42,220	50,646	46,481	180,921	44,509	48,013
Changes in Inventories	-6,634	-4,619	18,501	19,411	26,659	6,865	3,224
Date of Forecast: March 26, 2010							

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Table 2: Current Quarter Model Forecast
Year-on-Year Growth Rate (%)

	2009					2010	
	Q1	Q2	Q3	Q4	Annual	Q1 (Forecast)	Q2 (Forecast)
Gross Domestic Product	-7.5	-3.7	-2.2	2.6	-2.7	5.4	4.1
Private Consumption Expenditure	-6.1	-0.8	0.5	4.9	-0.3	5.2	4.3
Government Consumption Expenditure	1.6	2.1	2.9	1.7	2.0	3.0	3.0
Total Exports of Goods	-22.7	-12.4	-13.2	-2.6	-12.6	21.3	15.3
Domestic Exports of Goods	-29.9	-28.3	-31.7	-19.6	-27.5	18.8	14.2
Re-exports of Goods	-22.4	-11.9	-12.5	-2.0	-12.0	21.4	15.3
Imports of Goods	-21.4	-12.7	-8.3	3.1	-9.7	25.7	18.9
Exports of Services	-5.5	-5.3	-0.5	7.7	-0.7	14.6	12.2
Imports of Services	-9.5	-5.5	-3.3	2.4	-4.0	3.9	2.8
Gross Fixed Capital Formation	-11.1	-12.3	2.6	14.7	-2.2	7.9	12.6
GFCF in Land & Construction	-17.0	-5.3	12.6	12.8	-0.4	8.9	11.2
GFCF in Machinery, Equip. & Computer Software	-5.8	-17.3	-3.5	16.2	-3.6	7.1	13.7
GDP Deflator Growth Rate	-0.1	0.7	-0.2	0.3	0.2	-0.2	0.6
CPI (Composite) Inflation Rate	1.7	-0.1	-0.9	1.3	0.5	1.3	1.5
Unemployment Rate	5.2	5.4	5.3	4.9	5.2	4.6	4.5
Date of Forecast: March 26, 2010							

High Frequency Macroeconomic Forecasts

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

							2010					
	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
Unit Value Trade Index (Domestic Exports)	-2.7	-1.9	-2.0	-1.9	-1.2	-0.5	1.7	2.5	3.8	4.1	3.8	5.4
Unit Value Trade Index (Imports of Foodstuffs)	-0.5	-1.4	-1.4	-1.8	-1.1	-0.1	1.9	20.6	-0.5	-4.2	1.7	-5.3
Unit Value Trade Index (Imports of Consumer Goods)	-1.9	-2.5	-2.0	-2.2	-2.0	-1.1	-0.5	-33.3	51.9	11.2	23.0	18.3
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	-0.6	-0.3	1.4	1.9	1.5	2.7	2.4	77.6	102.6	67.7	90.8	48.7
Unit Value Trade Index (Imports of Fuels)	-39.3	-39.8	-33.2	-24.8	0.7	26.8	38.3	-21.2	-24.9	-10.5	-2.6	2.5
Unit Value Trade Index (Imports of Capital Goods)	1.9	2.8	1.6	1.8	1.5	1.2	2.2	-14.6	5.3	14.3	16.6	5.2
Real Retained Imports of Foodstuffs	12.8	11.9	9.1	5.2	17.7	23.9	57.1	19.2	15.8	11.2	17.4	10.7
Real Retained Imports of Consumer Goods	-11.4	-10.1	24.1	4.6	31.1	35.7	312.8	6.1	105.4	53.7	76.8	66.7
Real Retained Imports of Raw Materials & Semi-Manufactures	5.6	19.7	22.2	-3.3	31.4	100.0	374.9	125.8	146.9	104.9	132.6	80.2
Real Retained Imports of Fuels	6.2	53.5	10.4	31.1	13.8	26.8	16.4	-6.5	-11.8	5.3	11.8	18.3
Real Retained Imports of Capital Goods	-19.2	-6.9	-2.3	-21.8	2.6	13.2	60.0	-0.8	17.2	29.4	31.5	17.9
Total Motor Vehicles Newly Registered	-32.6	-14.9	4.6	23.4	111.2	78.9	84.9	98.4	96.9	83.8	119.5	52.0
Private Cars Newly Registered	-40.0	-17.9	7.3	7.9	83.5	55.3	44.9	57.7	53.5	42.6	68.7	28.1
Volume Index of Retail Sales	-5.2	-0.9	1.1	8.2	10.0	11.4	3.2	24.3	16.8	13.0	18.1	17.4
Money Supply (M2)	9.6	10.5	9.7	11.3	10.1	5.3	5.5	7.4	6.2	6.8	5.8	5.1
Loans and Advances	-6.8	-7.2	-4.3	-4.4	-1.8	0.1	2.6	4.5	6.7	7.4	7.6	6.5
Visitors Arrivals	-12.2	5.8	2.5	9.0	7.6	10.0	5.9	35.2	11.7	8.2	19.6	25.6
Hong Kong Resident Departures	-3.9	5.0	-3.5	4.8	-1.0	0.9	-4.3	5.3	4.8	-4.6	1.6	3.8
Electricity Consumption	6.2	9.9	4.3	-0.9	-0.1	0.9	9.6	-2.4	-1.2	3.8	2.1	-0.7
Gas Consumption	-2.0	-1.5	0.3	-1.4	-1.2	8.3	0.1	0.3	4.4	1.4	0.0	2.0

Date of Forecast: March 26, 2010