



*For Immediate Release*

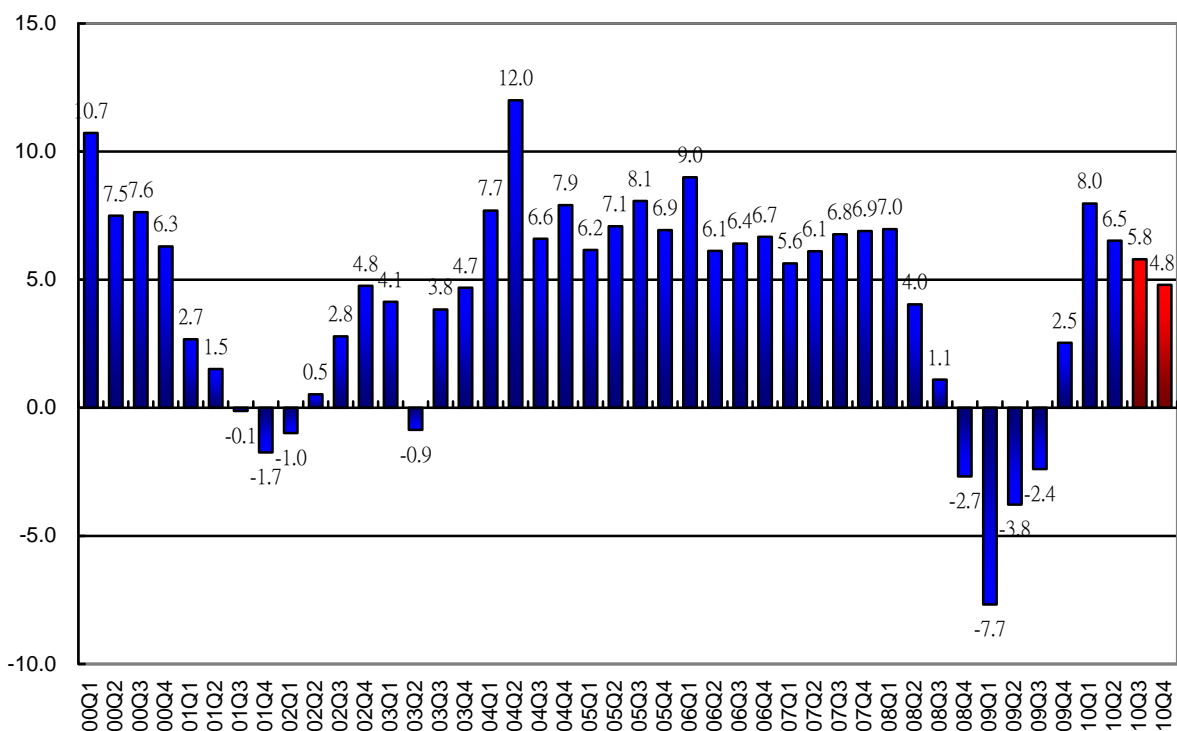
## HKU Announced 2010 Q4 HK Macroeconomic Forecast

### Broad-based 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 (Oct 6). Following the robust performance in the first half of 2010, with GDP growing by 8.0% in 10Q1 and 6.5% in 10Q2, output growth is expected to continue in the second half of this year but at a more moderate pace.

According to its High Frequency Macroeconomic Forecast, real GDP is estimated to increase by 5.8% in 10Q3 when compared with the same period last year. This estimate is an upward revision from the previous forecast of a 5.3% growth released on July 7, 2010, reflecting a stronger pickup in external demand. In 10Q4, real GDP growth is forecast to moderate to 4.8% when compared to the same period last year.

**Real Gross Domestic Product**  
(Year-on-year percentage change, 2008 prices)



Professor Richard Wong Yue-Chim, Professor of Economics at HKU said that, "In sharp contrast to the anemic recovery from the Great Recession in the developed economies, Hong Kong's economy has rebounded strongly from the contraction last year. Its real GDP is estimated to grow by 5.3% in the second half of this year, moderating from the 7.2% increase in the first half. This deceleration in output growth reflects a slowdown in the developed economies. For the year as a whole, real GDP is forecast to increase by 6.2%. The growth in real GDP is driven primarily by domestic demand. The increase in domestic demand is estimated to account for 5.5 percentage point of the 6.2% overall increase in real GDP in the current year, with external demand accounting for the rest of the growth."

"The job market will continue to improve with the unemployment rate projected to fall from 4.2% in 10Q3 to 4.0% in 10Q4, with the number of unemployed workers forecasted to drop by 7,000, and the number of employed workers estimated to go up by 16,000. The headline inflation is forecast to increase by 2.6% in the second half of this year, up from the 2.2% increase in the first half. Stripping out fiscal measures, the underlying inflation rate is estimated to be 2.1% in the second half of 2010, up from the 1.1% in the first half of 2010", 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.

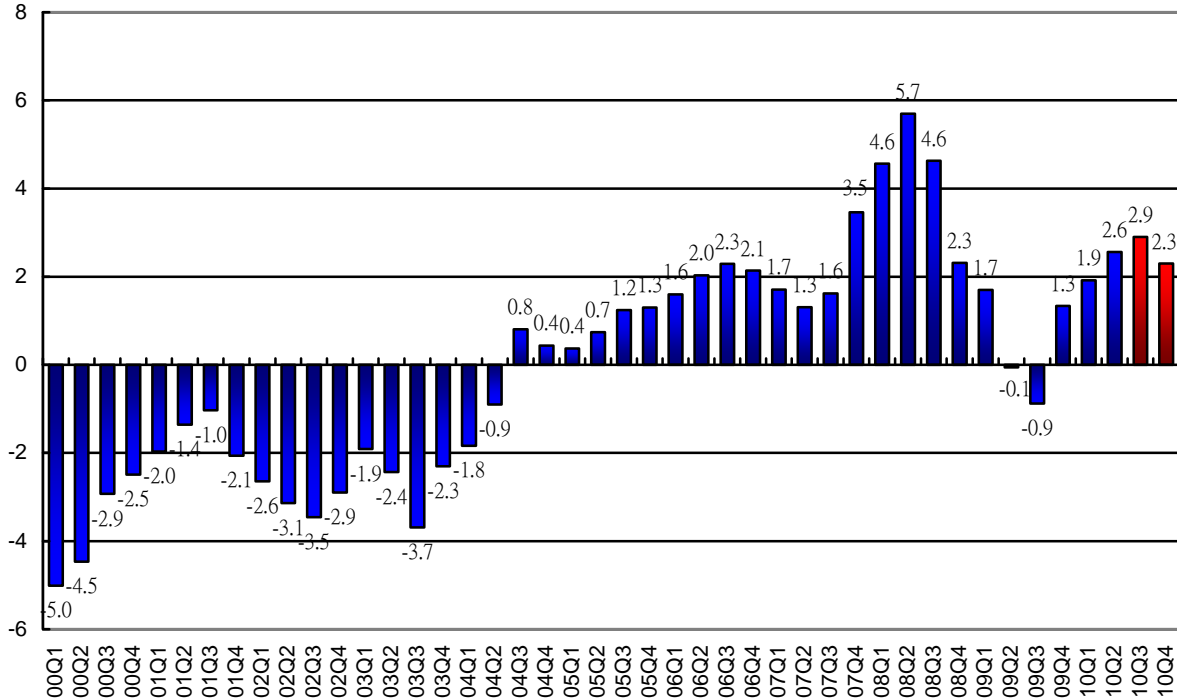
## **Forecast Highlights**

- Spurred by buoyancy in the stock and property markets, a low interest rate environment and continuous improvement in the job market, private consumption spending is projected to continue to grow in the current quarter at 3.8%, which is a slight deceleration of the 4.1% increase in the third quarter. For the year as a whole, private consumption spending is forecast to grow by 4.8%.

- The volume of retail sales increased by 17.0% in August 2010, doing slightly better than the 16.0% in July. It has risen consecutively for 12 months without a break. 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 due to a higher base of comparison. The growth in the volume of retail sales is estimated to be 13.8% in 10Q3 and moderate to 8.0% in 10Q4. For the 2010 as a whole, it is projected to grow by 13.2%.
- Total exports of goods surged by 20.1% in 10Q2, following the 21.6% growth in 10Q1. In August 2010, the exports of goods from Hong Kong enjoyed a robust growth of 36.0% in nominal terms. Double-digit growth was recorded in all major destination countries, especially the 44.7% nominal growth to the Mainland. Given the strong rebound in the Asian emerging economies, the growth of exports of goods is estimated to be 24.7% in the third quarter, and the growth rate is forecast to moderate to 19.4% in the current quarter, reflecting weaker demand in the developed economies. For the year as a whole, total exports of goods is forecast to increase by 21.4% in 2010.
- Imports of goods increased by 23.6% in 10Q2, decelerating from the 28.0% growth in 10Q1. In tandem with the strong exports of goods, imports of goods also grew rapidly at 28.4% in August 2010 in nominal terms, with the top three importing categories of electrical machinery, telecommunication equipment and office machinery growing by 39.4%, 26.4% and 42.5% respectively. The growth of imports of goods is forecast to moderate to 22.3% in 10Q3 and the growth further decelerates to 16.6% in 10Q4. For the year as a whole, it is projected to grow by 22.2%.
- Service exports grew by 16.9% in 10Q2, decelerating from the 17.9% growth in 10Q1. The surge in visible trade led to a pickup in the trade related services. Inbound tourism is vibrant. The visitor arrivals rose by 21.9% in August 2010, as comparing to a lower base when the Swine Flu was affecting our region in same period last year. The influx of Mainland visitors was the main driver in the growth of visitor arrivals, accounting for 18.1 percentage points of the 21.9% overall growth in August 2010. The increase in service exports is forecast to be 17.9% in 10Q3 and moderate to 14.4% 10Q4. The annual growth is estimated to be 16.7%.

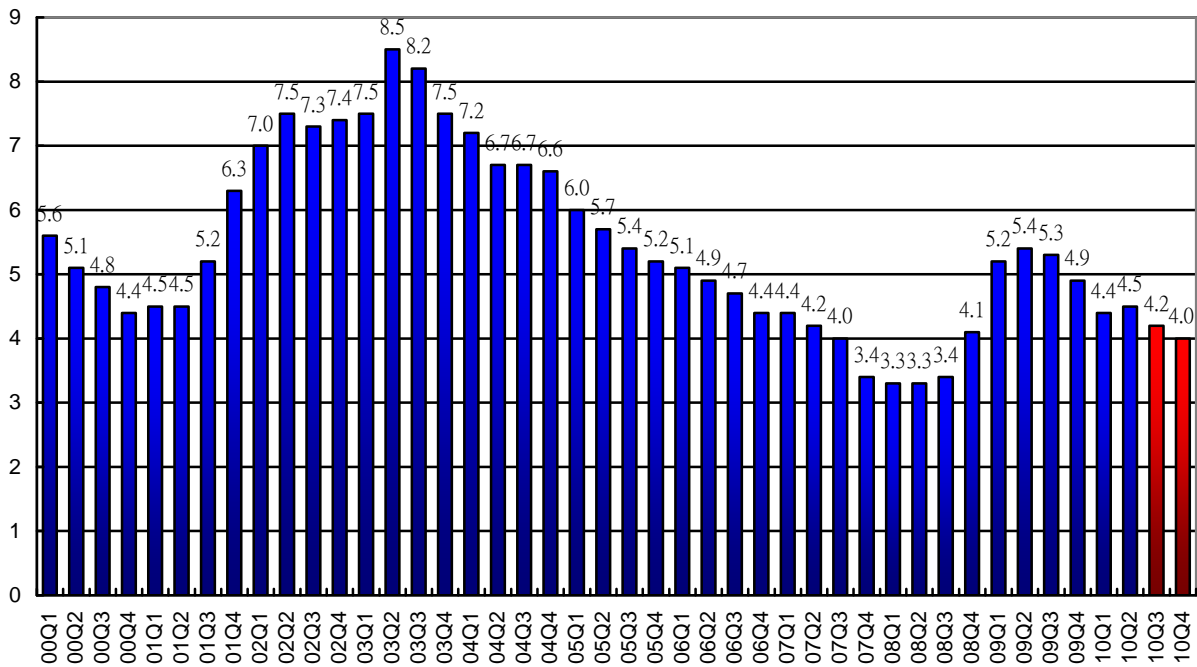
- Service imports went up by 12.3% in 10Q2, accelerating from the 10.9% growth in 10Q1. Service imports is forecast to grow by 10.7 and 4.8% in 10Q3 and 10Q4 respectively. It is estimated to grow by 9.6% in the whole year of 2010.
- Gross fixed capital formation surged by 15.2% in 10Q2, accelerating from the 8.2% growth in 10Q1. Infrastructural projects will continue to provide impetus for investment spending. The gross fixed capital formation is projected to grow by 10.2% in 10Q3 and 7.9% in 10Q4. The annual growth is estimated to be 10.3%.
- Investment in land and construction surged by 14.1% in 10Q2. With the commencement of infrastructural projects, the growth momentum is expected to continue, with the growth rate projected to be 12.1% in 10Q3 and moderate to 8.6% in the current quarter. The annual growth of 2010 is estimated to be 9.7%.
- Investment spending in machinery, equipment and computer software surged by 16.2% in the 10Q2. Underpinned by the continued economic growth, investment in machinery, equipment and computer software is projected to increase by 8.8% in 10Q3 and 7.3% in 10Q4 when compared with the same period last year. It is projected to increase by 10.9% for the year of 2010 as a whole.

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



- The general price level, as measured by the Composite CPI, rose by 3.0% in August 2010. If there were no fiscal measures, the price index would only increase by 1.9%. The headline consumer inflation rate is estimated to be 2.9% in 10Q3 and after stripping out the effect of the electricity charge subsidy implemented last year, the rate would only be 1.9% in the third quarter. Rising food prices and rentals will push the price level higher, with the consumer inflation rate forecast to be 2.3% in the current quarter. For the year as a whole, the headline consumer inflation is estimated to be 2.4% for the year of 2010, as compared to the 0.5% increase in 2009.

### Unemployment Rate (Seasonally adjusted)



- The provisional seasonally adjusted unemployment rate improved slightly to 4.2% in the 3 months ending in August 2010 from 4.3% in the 3 months ending in July 2010, reflecting an increase of 12,400 jobs during this period. The unemployment rate is forecast to be 4.2% in 10Q3, and improve slightly to 4.0% in 10Q4 with the number of jobs estimated to increase by 16,000 and the number of unemployed workers dropping by 7,000. The numbers of employed and unemployed workers in 10Q4 are estimated to be 3,528,000 and 147,000 respectively. For the year of 2010 as a whole, the unemployment rate is estimated to average out to be 4.3%.

### Concluding Remarks

The global economy is expected to continue to expand in the final quarter of this year, though at a slower rate. The Hong Kong economy is estimated to grow by 4.8% in the current quarter, and by 6.2% for the year as a whole, turning around from the 2.8% contraction last year. The job market will continue to improve further with the unemployment rate dropping to 4.0%. The general price level is rising, with the headline consumer price inflation rate forecast to be 2.3% in the current quarter. Due to heightened economic uncertainties brought on by the global financial crisis, nominal wage growth has been lagging behind inflation, with the real wage estimated to fall by 1% in the second quarter. Further improvement in productivity growth is needed to redress the deterioration in the standard of living of workers in Hong Kong.

## **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>

For media enquiries, please contact Ms Trinni Choy, Assistant Director (Media) (Tel: 2859 2606/Email: [pychoy@hku.hk](mailto:pychoy@hku.hk)), or Ms Melanie Wan, Manager (Media) (Tel: 2859 2600/Email: [melwkwan@hku.hk](mailto:melwkwan@hku.hk)), Communications & Public Affairs Office, HKU.

October 6, 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  
(Millions of 2008 HK Dollar)

	2009			2010				
	Q3	Q4	Annual	Q1	Q2	Q3 (forecast)	Q4 (forecast)	Annual (forecast)
Gross Domestic Product	417,284	441,755	1,629,057	412,147	413,696	441,669	462,782	1,730,294
Private Consumption Expenditure	253,433	269,261	1,019,068	255,280	269,696	263,826	279,472	1,068,273
Government Consumption Expenditure	35,339	36,041	142,650	38,828	34,628	36,399	37,122	146,977
Total Exports of Goods	655,043	692,651	2,482,067	624,241	746,102	816,791	826,994	3,014,128
Domestic Exports of Goods	18,039	19,623	74,664	16,560	20,843	21,073	21,666	80,142
Re-exports of Goods	637,004	673,028	2,407,403	607,681	725,259	795,718	805,328	2,933,986
Imports of Goods	729,695	773,174	2,737,848	718,677	832,930	892,177	901,645	3,345,429
Exports of Services	191,300	202,876	719,398	194,927	186,964	225,592	232,049	839,532
Imports of Services	93,356	91,686	352,753	92,789	94,336	103,312	96,091	386,528
Gross Fixed Capital Formation	88,585	84,470	328,015	83,268	89,871	97,660	91,117	361,916
GFCF in Land & Construction	38,757	39,389	150,753	37,295	41,915	43,434	42,768	165,412
GFCF in Mach., Equip. & Comp. Soft.	49,828	45,081	177,262	45,973	47,956	54,226	48,349	196,504
Changes in Inventories	16,635	21,316	28,460	27,069	13,701	-3,110	-6,237	31,423
Date of Forecast: September 28, 2010								



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

	2009			2010				
	Q3	Q4	Annual	Q1	Q2	Q3 (Forecast)	Q4 (Forecast)	Annual (Forecast)
Gross Domestic Product	-2.4	2.5	-2.8	8.0	6.5	5.8	4.8	6.2
Private Consumption Expenditure	0.6	4.8	-0.4	7.1	4.6	4.1	3.8	4.8
Government Consumption Expenditure	3.4	2.0	2.4	3.4	2.7	3.0	3.0	3.0
Total Exports of Goods	-13.2	-2.8	-12.7	21.6	20.1	24.7	19.4	21.4
Domestic Exports of Goods	-31.4	-18.6	-26.6	-9.4	11.3	16.8	10.4	7.3
Re-exports of Goods	-12.6	-2.3	-12.2	22.8	20.4	24.9	19.7	21.9
Imports of Goods	-8.3	3.3	-9.5	28.0	23.6	22.3	16.6	22.2
Exports of Services	0.8	8.9	0.3	17.9	16.9	17.9	14.4	16.7
Imports of Services	-2.7	2.5	-3.7	10.9	12.3	10.7	4.8	9.6
Gross Fixed Capital Formation	3.8	14.1	-1.8	8.2	15.2	10.2	7.9	10.3
GFCF in Land & Construction	12.5	11.7	-0.9	4.0	14.1	12.1	8.6	9.7
GFCF in Machinery, Equip. & Computer Software	-2.1	16.2	-2.6	11.9	16.2	8.8	7.3	10.9
GDP Deflator Growth Rate	-1.0	0.2	0.2	2.0	-0.7	-0.1	-0.8	0.1
CPI (Composite) Inflation Rate	-0.9	1.3	0.5	1.9	2.6	2.9	2.3	2.4
Unemployment Rate	5.4	5.1	5.2	4.4	4.6	4.2	4.0	4.3
Date of Forecast: September 28, 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 (%)

	2010											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Unit Value Trade Index (Domestic Exports)	1.7	3.3	4.6	5.5	6.0	6.6	5.5	5.2	6.8	7.4	6.7	6.6
Unit Value Trade Index (Imports of Foodstuffs)	1.9	3.1	3.7	3.1	4.1	4.5	3.1	3.7	3.7	4.7	4.8	4.5
Unit Value Trade Index (Imports of Consumer Goods)	-0.5	1.4	2.4	3.3	3.4	4.2	3.3	3.3	3.2	3.2	3.8	3.4
Unit Value Trade Index (Imports of Raw Materials & Semi-Manufactures)	2.4	3.1	5.3	8.0	10.1	11.0	8.0	7.9	8.2	7.4	7.1	5.6
Unit Value Trade Index (Imports of Fuels)	38.3	39.2	49.7	40.7	34.3	11.3	40.7	34.0	15.6	15.4	12.4	9.7
Unit Value Trade Index (Imports of Capital Goods)	2.2	2.1	3.1	3.6	3.5	3.5	3.6	3.2	2.1	3.5	2.8	3.6
Real Retained Imports of Foodstuffs	57.1	7.3	11.1	0.6	5.2	8.8	0.6	9.5	2.9	8.6	10.3	11.5
Real Retained Imports of Consumer Goods	296.0	-19.0	86.8	27.4	45.5	53.6	27.4	53.3	44.0	28.2	38.1	10.2
Real Retained Imports of Raw Materials & Semi-Manufactures	366.3	77.4	111.8	44.9	54.8	19.2	44.9	67.6	22.5	-8.3	-25.0	-20.9
Real Retained Imports of Fuels	16.4	-12.2	-19.0	46.5	19.7	43.6	46.5	13.3	21.1	8.3	4.1	28.5
Real Retained Imports of Capital Goods	59.4	-17.2	23.9	39.3	4.1	4.0	39.3	36.2	20.2	17.5	21.8	12.6
Total Motor Vehicles Newly Registered	84.9	99.9	128.1	75.2	118.9	128.1	75.2	50.9	20.9	30.8	16.2	2.1
Private Cars Newly Registered	44.9	67.5	72.9	63.2	93.9	72.9	63.2	74.7	40.5	55.4	40.9	24.7
Volume Index of Retail Sales	3.2	31.5	17.3	12.4	16.3	12.0	16.0	12.7	12.6	10.9	8.4	5.4
Money Supply (M2)	5.5	6.7	5.8	8.1	2.0	1.4	3.1	2.0	0.2	0.4	1.2	4.5
Loans and Advances	2.6	5.6	9.5	15.1	13.8	17.8	21.2	13.8	14.7	15.8	16.3	13.2
Visitors Arrivals	5.9	32.5	14.4	14.6	38.9	43.5	31.9	38.9	36.5	29.4	19.5	19.4
Hong Kong Resident Departures	-4.3	7.3	4.4	0.5	8.2	5.5	5.8	8.3	8.2	10.2	6.8	9.9
Electricity Consumption	9.6	-7.2	7.9	2.0	1.1	-5.0	-1.7	1.1	-0.5	1.4	-2.6	-2.8
Gas Consumption	0.1	0.8	0.3	0.9	2.2	2.2	0.7	2.2	1.6	0.8	0.3	0.0

Date of Forecast: September 28, 2010