

Global Economy in the First Quarter of 2006

Entering the first quarter of 2006, the world economy continued from the robust recovery trend of the second half of 2005. The economic performances of most countries were satisfactory, which was reflected by large increases in business investment and industrial production, as well as dynamic international financial markets. However, there are still uncertain factors that potentially influence the world economic development, such as the recent persistent price rises in major commodities, precious metals and petroleum, the trade imbalances between different countries and the market concern with the raisings in interest rate by the US Federal Reserve. All these will become barriers to the world economic development.

In the April 2006 edition of the *World Economic Outlook*, the International Monetary Fund (IMF) adjusted upwards the world economic growth forecast for 2006 to 4.9%, up 0.6 percentage points upon dynamic international financial market and the adoption of effective macroeconomic policies, though the world economy was under the threats of persistent high oil prices and natural disasters. At the same time, the economic growth forecasts that had been made in September were revised upwards, from 3.2% to 3.4% for US and from 1.8% to 2.0% for the Euro Zone respectively. For Japan, the forecast was even sharply revised upwards, from 2.0% to 2.8%. Moreover, the growth projection for the world trade volume (goods and services) was updated from 7.4% to 8.0%.

In the first quarter of 2006, the US economy remained stable. Gross Domestic Product (GDP) grew 3.6%^a and the quarter-to-quarter variation^b was 5.3%. With profitable businesses and surge in industrial production, private consumption and business investment expanded 3.4% and 6.2% respectively, in particular the investment in equipment and software soared by 10%. Regarding external trade, as the prices of raw materials and energy were rising, the growth in total value of imports quickened from 13.5% in the fourth quarter of 2005 to 14.3%, whilst the growth in total value of exports speeded up to 14.2%. On the other hand, besides the pressure of a weak US dollar over a long period of time, the US also faced the problem of a widening trade imbalance. The trade deficit in the first quarter rose 14.0% to USD 196.2 billion. Meanwhile the employment market worsened slightly, with unemployment rate climbing to 5.0%.

In the Euro Zone, GDP growth quickened from 1.7% in the fourth quarter of 2005 to 1.9% under strong business investment and external trade. With the implementation of low interest rate policy within the zone, the indices of enterprise confidence and new orders rose, which brought about an outlook of a stable economic growth. Imports and exports of goods kept on growing markedly, by 22.1% and 15.5% respectively. Unemployment rate were falling for four consecutive

^a Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the first quarter of 2006 with the corresponding quarter of the previous year.

^b Quarter-to-quarter growth refers to the rate of change of the reference quarter over the previous quarter, i.e. the comparison between two consecutive quarters.

quarters, to 8.0%. CPI remained at 2.3%. The economic development in Germany became optimistic and GDP grew 2.9% in the first quarter. Apart from the slight increase of 1.1% in private consumption under a high unemployment rate, business investment grew strongly by 11.1%. The performances of imports and exports of goods were satisfactory, with the growth in imports quickening from 6.7% in the fourth quarter of 2005 to 9.3% and that in exports from 7.8% to 14.3%. In addition, manufacturing industry expanded 8.9%.

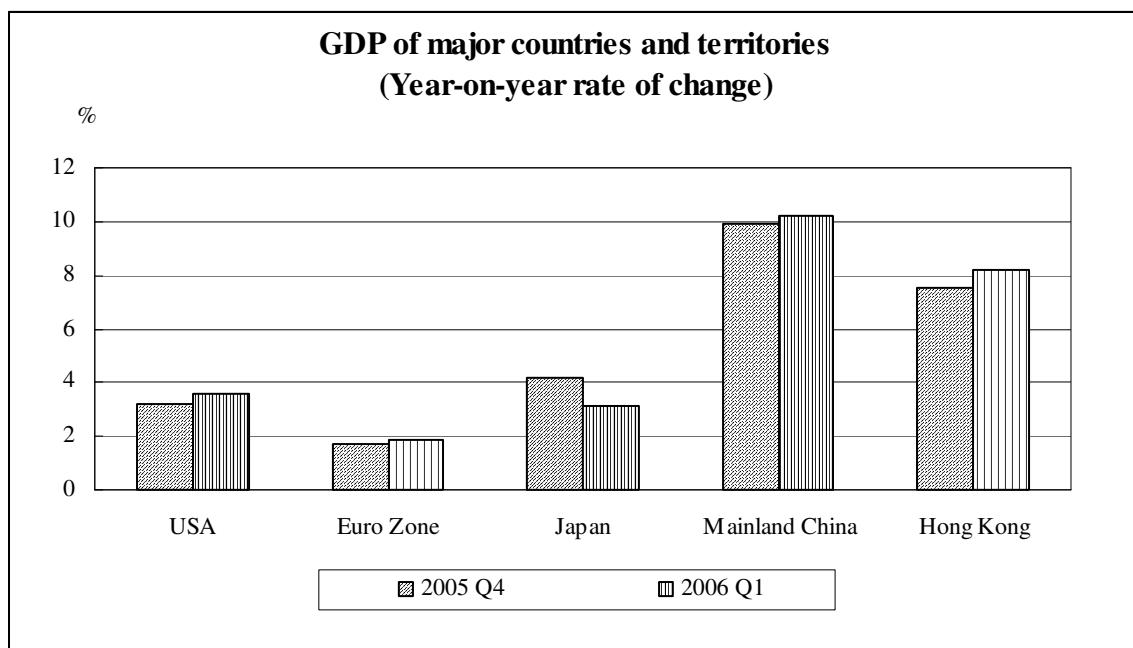
In UK, the economy remained stable. Economic growth in the first quarter of 2006 was 2.2%, driven by industrial production (+7.9%) and manufacturing investment (+12.4%). Services sector diminished slightly by 0.1%, while both the values of imports and exports of goods grew considerably by 20.5%. The overall employment situation worsened, with the unemployment rate rising 0.5 percentage points to 5.2%. In France, although fixed assets investment and government expenditure continued to expand, private consumption remained weak and thus GDP grew slightly, up 1.5%. As regards external trade, the performances of imports and exports of goods performed quite satisfactorily, increasing by 8.3% and 7.7% respectively. Unemployment rate remained high, at the high level of 9.6%; and CPI rose 1.7%.

In Asia, the overall economy maintained a robust growth trend under favourable external economic environment and strong demand for exports. In Japan, GDP in the first quarter recorded a growth of 3.1% with the impetus from a 4.6% increase in business investment. Private consumption rose 3.2%, much higher than expected. The employment situation remained stable, with an unemployment rate of 4.4%. CPI increased slightly by 0.4%. In the Republic of Korea, economic growth was 6.1%, the highest growth rate recorded since the fourth quarter of 2002. The economic growth was driven by continuous rises in private consumption and business investment, as well as increases in imports and exports of goods that were recorded to be 11.8% and 11.6% respectively. Industrial production grew 12.0%. However, employment situation worsened and unemployment rate rose by 0.4 percentage points to 3.9%.

In Singapore, the economy remained prosperous and grew 10.6% in the first quarter, a consequence of strong increases in wholesale and retail (+14.8%) and manufacturing (+20.0%), as well as of a sharp rise in the external demand for electronic and biomedicine products. Imports and exports of goods went up 19.2% and 22.5% respectively. Unemployment rate in March stood at the level of 2.6%, while CPI rose by 1.4%. In Taiwan, China, the economic growth slowed down from 6.4% in the fourth quarter of 2005 to 4.9%. This slowdown was mainly due to the lower personal desire to consume upon a rising number of bad debts for credit card. Besides, there was apparent reduction in enterprise fixed assets investment. For external trade, import and export values of goods went up by 9.3% and 11.8% respectively. Employment situation improved, with the unemployment rate falling slightly by 0.1 percentage point to 3.9%.

In Hong Kong, the economy could keep an upward trend under the fast economic development in Mainland China. GDP recorded a rapid growth of 8.2% in the first quarter. Private consumption and business investment went up 4.5% and 8.5% respectively. In terms of external trade, the depreciation in US dollar supported the competitiveness of the exports of goods. Imports and exports of goods rose by 13.8% and 12.1% respectively. The employment market was stable and unemployment rate was 5.0%. CPI rose by 1.6%. Furthermore, the Government of the Hong Kong Special Administrative Region published that the temporary fiscal surplus figure for the year 2005/2006 was HKD 14 billion, bringing the fiscal deficit that had lasted since 1997 to an end.

In Mainland China, the economy grew at a fast pace. GDP increased by 10.2% in the first quarter of 2006. Domestic consumption was expanding and there was a persistent influx of foreign capital. The actual foreign investment reached USD 14.25 billion, up 6.4%. However, the growth in fixed assets investment in cities and towns slowed down slightly to 29.8%. Imports and exports of goods increased 24.8% and 26.6% respectively, widening the trade surplus to USD 23.3 billion. At the end of March 2006, Mainland China's foreign exchange reserve amounted to USD 875.1 billion, an increase of USD 56.2 billion compared with the end of 2005, thus overtaking Japan to be the top in the world's ranking of the amount of foreign exchange reserve.



I. PRINCIPAL ECONOMIC INDICATORS OF THE WORLD AND MACAO

1. PRINCIPAL ECONOMIC INDICATORS OF THE WORLD (YEAR-ON-YEAR COMPARISON)

	Year-on-year rate of change (%)							
	2003	2004	2005	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1
USA								
Gross Domestic Product	2.7	4.2	3.5	3.6	3.6	3.6	3.2	3.6
Exports of goods	4.5	13.0	10.4	8.9	11.8	10.2	10.8	14.2
Imports of goods	8.5	17.0	13.7	14.5	13.1	13.8	13.5	14.3
Consumer Price Index	2.3	2.7	3.4	3.0	2.9	3.8	3.7	3.6
Unemployment rate	6.0	5.5	5.1	5.6 ^r	5.0 ^r	5.0	4.7 ^r	5.0
Japan								
Gross Domestic Product	1.8 ^r	2.3 ^r	2.6 ^r	1.4	2.6	2.8	4.2	3.1
Exports of goods	4.7	12.1	7.3	3.8	4.3	7.4	13.4	5.3
Imports of goods	5.1	10.9	15.6	10.0	14.1	16.8	20.6	14.1
Consumer Price Index	-0.3	-0.1	-0.3	-0.2	-0.1	-0.3	-0.5	0.4
Unemployment rate	5.3	4.7	4.4	4.6	4.5 ^r	4.2 ^r	4.3 ^r	4.4
Euro area								
Gross Domestic Product	0.7	2.1	1.3	1.2	1.1 ^r	1.6	1.7	1.9
Exports of goods	-2.9	8.4	7.0	3.4	6.1	9.6	8.9	15.5
Imports of goods	-0.5	8.5	12.0	8.6	10.7	14.2	14.2	22.1
Consumer Price Index	2.1	2.1	2.1	2.0	2.0	2.3	2.3	2.3
Unemployment rate	8.7	8.9	8.6	8.8	8.6	8.4	8.3	8.0
Mainland China								
Gross Domestic Product	9.1	10.1	9.9	9.9	10.1	9.8	9.9	10.2
Exports of goods	34.6	35.4	28.4	34.8	30.9	29.1	21.7	26.6
Imports of goods	39.9	36.0	17.6	12.2	15.5	19.6	22.1	24.8
Consumer Price Index ^a	1.2	3.9	1.8	2.8	1.8	1.4	1.8	1.2
Hong Kong								
Gross Domestic Product	3.2	8.6	7.3	6.0	7.2 ^r	8.2 ^r	7.5 ^r	8.2
Exports of goods	11.7	15.9	11.4	10.6	12.5	12.5	10.0	12.1
Imports of goods	11.5	16.9	10.3	8.1	10.1	11.5	11.3	13.8
Consumer Price Index	-2.6	-0.4	1.0 ^r	0.4	0.8	1.4	1.8	1.6
Unemployment rate	7.9	6.8	5.6	5.9 ^r	5.7	5.7 ^r	5.0 ^r	5.0

a Accumulated year-on-year comparison

r Rectified data

Source: U.S. Bureau of Economic Analysis

U.S. Census Bureau

U.S. Bureau of Labor Statistics

Japan Economic and Social Research Institute

Japan Ministry of Finance

Japan Bureau of Statistics

Eurostat

China National Bureau of Statistics

Hong Kong SAR Census and Statistics Department

I. PRINCIPAL ECONOMIC INDICATORS OF THE WORLD AND MACAO

2. PRINCIPAL ECONOMIC INDICATORS OF THE WORLD (COMPARISON WITH PRECEDING PERIOD)

	Change from preceding period (seasonally adjusted) (%)							
	2003	2004	2005	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1
USA								
Gross Domestic Product	2.7	4.2	3.5	3.8	3.3	4.1	1.7 ^r	5.3
Exports of goods	4.5	13.0	10.4	2.0	4.8	0.8	2.8	5.3
Imports of goods	8.5	17.0	13.7	2.0	2.6	3.1	5.2	2.3
Consumer Price Index	2.3	2.7	3.4	0.6	1.0	1.3	0.8	0.6
Unemployment rate	6.0	5.5	5.1	5.2	5.1	5.0	4.9	4.7
Japan								
Gross Domestic Product	1.8 ^r	2.3 ^r	2.6 ^r	1.4 ^r	1.3	0.1 ^r	1.1 ^r	0.5
Exports of goods	4.7	11.7	7.5	-1.0	3.0	4.2	6.8	-4.1
Imports of goods	5.2	10.3	16.2	-0.5	7.8	6.6	6.4	1.1
Consumer Price Index	-0.3	-0.1	-0.3	-0.4	-0.1	-0.1	0.1	0.5
Unemployment rate	5.3	4.7	4.4	4.6	4.3	4.3	4.5	4.2
Hong Kong								
Gross Domestic Product	3.2	8.6	7.3	1.6 ^r	2.8 ^r	2.2 ^r	0.6	2.4
Exports of goods	11.7	15.9	11.4	0.2	6.0	3.0	2.2	2.0
Imports of goods	11.5	16.9	10.3	1.6	5.2	1.6	2.6	3.9
Consumer Price Index	-2.6	-0.4	1.0 ^r	0.3	0.5	0.4	0.6	0.2
Unemployment rate	7.9	6.8	5.6	6.1	5.7	5.5	5.3	5.2

r Rectified data

Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. Bureau of Labor Statistics

Japan Economic and Social Research Institute, Japan Ministry of Finance, Japan Bureau of Statistics

Hong Kong SAR Census and Statistics Department