

Global Economy in the Second Quarter of 2005

Entering the second quarter of 2005, the world economy showed signs of steady growth following a relatively slow expansion in the first quarter. With the inflationary pressure easing off, the US economy remained stable, which continued to be the main driving force behind the world economic growth. Growth in the Euro Zone continued to slow down, whereas the Japanese economy showed signs of recovery again. The East Asian (excluding Japan) and South East Asian economy sustained momentum for further expansion. Negative factors that may impede economic growth lingered on; countries around the globe were affected by surging oil prices, causing violent fluctuations in import values. High oil prices are expected to pose potential threats to the world economic growth.

As indicated in the *OECD Economic Outlook* published in May 2005 by the Organization for Economic Cooperation and Development, global economic growth amidst a steady recovery did not sustain, while developmental imbalance amongst its member states and regions persisted. The organization, therefore, adjusted the 2005 forecasts for economic growth of its member states downward by 0.3% to 2.6% and revised the forecasts for the Euro Zone and Japan downward to 1.2% and 1.5% respectively, from 1.9% and 2.1% projected in December. However, it revised the forecast for the US upward from 3.3% to 3.6%. Moreover, the world trade volume (goods and services) is expected to grow 7.4% instead of the previously predicted 9.0%.

Since the beginning of 2005, economic growth in the US has been robust despite surging oil prices and rising inflationary pressure. Overall, the US economy is expected to grow steadily in 2005, with optimistic outlook in the second half of the year. Although GDP grew 3.6%^a in the second quarter of 2005, down from 4.6% in the second quarter of 2004, quarter-to-quarter^b variation recorded an increase of 3.4%. Private consumption expenditure grew at the same strong pace as in the second quarter of 2004, up 3.9%, whereas private domestic investment expanded 3.6%, down from 15.1% in the second quarter of 2004. As regards external trade, dampened by rising energy prices coupled with a weak composite exchange rate for the US dollar, growth rate in the total value of imports of goods fell from 14.7% in the first quarter of 2005 to 13.1% in the second quarter, whilst growth in the total value of exports of goods accelerated from 8.7% in the first quarter to 11.7% in the second quarter. Inflation has been brought under certain control as a result of the Federal Reserve's tight monetary policy implemented since the middle of last year. The growth in consumer price index (CPI) has been around 3.0% since the second quarter of 2004. Meanwhile, the employment market flourished, with an unemployment rate of 5.1%, down 0.2 percentage point from the first quarter of 2005. Fiscal deficit, record-breaking trade deficit and property market bubble are the main problems faced by the US economy.

^a Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the second quarter of 2005 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.

In the Euro Zone, consumption and investment remained weak and growth in exports was also sluggish. Economic growth in the Euro Zone was further slowed down by soaring oil prices. GDP of the Euro Zone registered growth of 1.1% in the second quarter, down 0.2 percentage point from the first quarter, and low consumer confidence under a high unemployment rate of 8.7%, failed to provide a solid foundation for economic growth. Exports, which had fuelled growth in the Euro Zone, were adversely affected by the high exchange rates of the Euro. The exchange rate of the Euro against the US dollar had slid but not enough to fuel growth in exports. Exports of goods expanded 6.3% in the second quarter. Driven by expansion in fixed asset investment by enterprises, changes in inventory investment and the government's final consumption expenditure, Germany's GDP grew 1.5% in the second quarter. As regards the driving force behind growth in the first quarter, namely external trade, a significant increase in imports offset growth in exports, which went up 6.2% and 5.4% respectively. Unemployment rate remained high, with 9.7% in the second quarter. Private consumption expanded 0.5%.

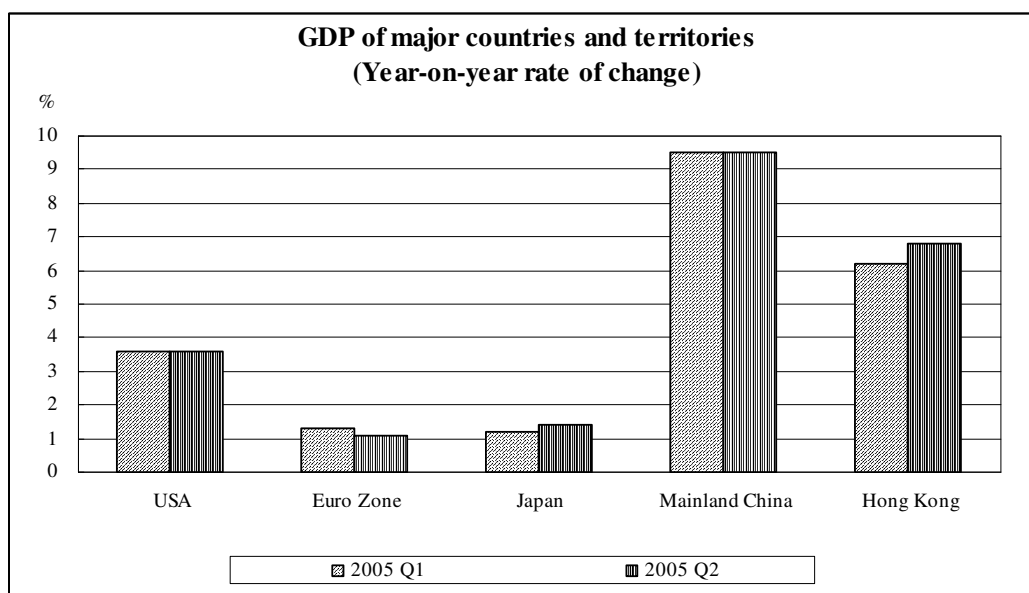
The UK economy continued to be steady, up 1.8% in the second quarter, driven mainly by the service sector, which rose 0.6% from the previous quarter, of which, financial services, business services, government, hotels and restaurants expanded markedly. Industrial production fell slightly by 0.3% from the previous quarter, of which, paper pulp, printing, coke, oil refinery and nuclear fuels fell considerably. The values of total imports and total exports went up 3.0% and 5.6% respectively compared with the previous quarter. The overall employment situation was stable, with an unemployment rate of 4.7%. In France, growth rate slumped further to 1.3% and private consumption dropped 0.3% from the previous quarter. Fixed asset investment by enterprises declined 0.4%, of which, fixed asset investment by non-financial enterprises tumbled down 1.2%. The values of total imports and total exports grew 1.3% and 1.0% respectively from the previous quarter. The quarter-to-quarter variation of industrial production was 0.5%. The consumer price index (CPI) rose 1.6% in June, whereas the employment market did not improve, with a high unemployment rate of 9.8%.

In the export-oriented Asian region, total exports grew steadily. However, rising production costs caused by high oil prices and a weak demand for electronic products worldwide led to slower growth in exports compared with last year. As exports play a major role in the Asian economy, a slower growth rate in exports will certainly affect the overall economic growth. The Japanese economy showed signs of slow recovery, up 1.4% in the second quarter of 2005. Equipment investment by enterprises climbed 5.6% and private consumption inched up 1.8%. Imports and exports of goods went up 14.1% and 4.3% respectively from the previous quarter. Employment market improved further, with unemployment rate falling to 4.3%. In the Republic of Korea, the economy expanded 3.3% in the second quarter. Fuelled by growth in semi-conductors, automobiles and communication equipment, the industrial production index jumped 4.0%. The consumer price index (CPI) rose 3.0% and unemployment rate was 3.7%. The values of total imports and total exports went up 15.0% and 9.0% respectively.

In Singapore, following a sharp downfall to 2.7% in the first quarter, economic growth in the second quarter rebounded markedly to 5.2%. Except for transport and communication sector, which registered low growth, all other sectors recorded considerable growth. Manufacturing rose 5.9%, 2.5 percentage points more than the growth rate recorded in the previous quarter; wholesale and retail grew 1.4 percentage points more than that in last quarter, by 8.3%; financial services and business services grew 6.8% and 3.1% respectively. Moreover, unemployment rate rose slightly to 3.4% and the consumer price index (CPI) inched up 0.1%. In Taiwan China, as global economic growth slowed down and manufacturing continued to relocate elsewhere, growth in exports slowed. GDP recorded an increase of 3.0% in the second quarter. Growth rates in imports and exports of goods recorded 10.6% and 6.0% respectively. Unemployment remained at 4.1% as in the previous quarter and the consumer price index (CPI) went up 2.1%.

In Hong Kong, the economy kept up the momentum for rapid growth, with GDP up 6.8% in the second quarter, higher than the 6.2% growth rate recorded in the first quarter. Employment situation continued to improve and rising property prices boosted consumer confidence -- private consumption rose 2.7%. As external trade rebounded, growth in imports and exports of goods rose 7.0% and 11.1% respectively. Unemployment rate dropped further to 5.7%, whereas the consumer price index (CPI) rose 0.8%.

In Mainland China, the economy maintained rapid and steady growth and GDP growth remained at 9.5% in the second quarter of 2005. Actual foreign investment reached USD 15.2 billion, down 12.2% compared with the same quarter of previous year. Growth rate in fixed asset investment moderated in the first half of 2005, up 25.4%, 3.2 percentage points less than that in the same period of last year, indicating effective government macroeconomic controls. Growth in exports slowed down slightly whereas imports expanded. Growth in the values of imports and exports of goods recorded 15.5% and 30.9% respectively, with a trade surplus of USD 23.0 billion. At the end of June 2005, Mainland China's foreign exchange reserve amounted to USD 711.0 billion, an increase of USD 51.9 billion compared with the end of March.



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 (%)							
	2002	2003	2004	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2
USA								
Gross Domestic Product	1.9	3.0	4.4	4.6 ^r	3.8 ^r	3.8 ^r	3.6 ^r	3.6
Exports of goods	-4.9	4.5	13.0	13.6	14.4	11.0	8.7	11.7
Imports of goods	2.0	8.5	17.0	17.7	18.6	19.6	14.7	13.1
Consumer Price Index	1.6	2.3	2.7	2.9	2.7	3.3	3.0	2.9
Unemployment rate	5.8	6.0	5.5	5.6	5.5	5.4	5.3	5.1
Japan								
Gross Domestic Product	-0.3	1.4	2.6	4.2	2.6	0.6	1.2	1.4
Exports of goods	6.4	4.7	12.2	13.4	12.5	11.2	3.8	4.3
Imports of goods	-0.6	5.0	10.9	9.0	13.0	17.0	10.0	14.1
Consumer Price Index	-0.9	-0.3	-0.1	-0.3	-0.1	0.5	-0.2	-0.1
Unemployment rate	5.4	5.3	4.7	4.6	4.8	4.5	4.6	4.3
Euro area								
Gross Domestic Product	0.9	0.5	2.0	2.1	1.8	1.5	1.3	1.1
Exports of goods	1.0	-2.9	8.4	11.4	8.6	8.5	3.4	6.3
Imports of goods	-4.0	-0.5	8.5	8.3	13.5	11.6	8.8	10.8
Consumer Price Index	2.2	2.1	2.2	2.3	2.2	2.3	2.0	2.0
Unemployment rate	8.3	8.8	8.9	9.0	8.9	8.8	8.8	8.7
Mainland China								
Gross Domestic Product	8.0	9.1	9.5	9.6	9.1	9.6	9.5	9.5
Exports of goods	22.3	34.6	35.4	37.2	34.7	35.6	34.9	30.9
Imports of goods	21.2	39.9	36.0	42.9	30.1	30.5	12.2	15.5
Consumer Price Index ^a	-0.8	1.2	3.9	4.4	5.3	3.2	2.8	1.8
Hong Kong								
Gross Domestic Product	1.8 ^r	3.1 ^r	8.2 ^r	12.0	6.7 ^r	7.2 ^r	6.2 ^r	6.8
Exports of goods	5.4	11.7	15.3	18.7	15.3	12.6	8.9	11.1
Imports of goods	3.3	11.5	14.1	20.3	14.2	7.0	3.8	7.0
Consumer Price Index	-3.0	-2.6	-0.4	-0.9	0.8	0.2	0.4	0.8
Unemployment rate	7.3	7.9	6.8	6.9	6.8	6.5	6.1	5.7

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) (%)							
	2002	2003	2004	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2
USA								
Gross Domestic Product	1.6 ^r	2.7 ^r	4.2 ^r	3.5 ^r	4.0	3.3 ^r	3.8 ^r	3.4
Exports of goods	-4.9	4.5	13.0	2.4	2.5	1.8	2.6	4.7
Imports of goods	2.0	8.5	17.0	5.5	2.4	5.6	2.2	2.6
Consumer Price Index	1.6	2.3	2.7	1.2	0.5	0.8	0.6	1.0
Unemployment rate	5.8	6.0	5.5	5.6	5.5	5.4	5.3	5.1
Japan								
Gross Domestic Product	-0.3	1.4	2.6	-0.3 ^r	-0.2 ^r	0.1 ^r	1.3	0.3
Exports of goods	6.4	4.7	12.2	4.9	1.5	1.0	-1.2	2.2
Imports of goods	-0.6	5.0	10.9	6.5	5.0	1.6	-0.6	7.4
Consumer Price Index	-0.9	-0.3	-0.1	-0.2	0.1	0.4	-0.5	-0.1
Unemployment rate	5.4	5.3	4.7	4.6	4.8	4.5	4.6	4.3
Hong Kong								
Gross Domestic Product	1.9	3.2	8.1	2.2 ^r	1.7	0.6	1.4 ^r	3.0
Exports of goods	5.4	11.7	15.9	5.8	0.6	2.9	-0.3	6.7
Imports of goods	3.3	11.5	16.9	3.6	-1.1	0.6	2.5	5.6
Consumer Price Index	-3.0	-2.6	-0.4	-0.1	-0.2	0.3	0.4	0.5
Unemployment rate	7.3	7.9	6.8	6.9	6.8	6.5	6.1	5.7

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