

## Global Economy in the Fourth Quarter of 2005

Entering the fourth quarter of 2005, the world economic growth continued to expand. Although the high oil prices slowed down the economic recovery of the Euro Zone, the effect to the world economy was mild. The rising US interest rate resulted in the US dollar appreciation against other foreign currencies, which coupled with the strong US domestic consumption to boost exports of Japan, several Asian countries and the Euro Zone. In general, the world economy was stable. In fact, persistent world economic growth is based on a stable price level and a more open trading system. However, the worsening imbalances in the world current accounts and high oil prices would induce worldwide rises in prices and long-term interest rates, hindering the world economic development.

In the December 2005 edition of the *World Economic Outlook*, the Organization for Economic Cooperation and Development (OECD) pointed out that although the market prices of oil and commodities surged, the world economy continued to grow. The OECD, therefore, adjusted upwards the economic growth forecast for 2005 for its member states to 2.7%, up 0.1 percentage point, and revised upwards the forecasts for Euro Zone and Japan to 1.4% and 2.4% respectively, up from 1.2% and 1.5% predicted in May of 2005. However, for the US, the forecast for 2005 remained at 3.6%. Moreover, the growth projection for the world trade volume (of goods and services) was updated to 7.3%, down 0.1 percentage point than the original.

In the fourth quarter of 2005, the US economy slowed down. Although domestic investment from private sector increased substantially by 14.8% over the third quarter, Gross Domestic Product (GDP) growth lowered from 3.6% in the third quarter to 3.2%<sup>1</sup> and the quarter-to-quarter<sup>2</sup> variation was 1.6% under a 12.8% increase in imports and a 2.6% fall in the expenditure of the Federal Government over the third quarter. Concerning external trade, the export and import values maintained the growth trend, with rises of 10.8% and 13.5% respectively. Meanwhile the employment market continued to improve and unemployment rate dropped further, from 5.0% in the third quarter to 4.9%. The rise in Consumer Price Index (CPI) climbed to 3.7% due to the rising energy prices. With favourable conditions such as the strong growth in enterprise profits, better employment market and huge private and business expenditure, the foundations for economic development were solid. On the other hand, large fiscal and current account deficits and possible downward price adjustments in assets were considered the main factors that could eventually hinder the continued economic growth of the US.

In the Euro Zone, GDP recorded a growth of 1.7% in the fourth quarter and its quarter-to-quarter variation was only 0.3% under a weak private consumption, the slow-down in gross fixed capital formation as well as in exports. In terms of external trade, exports and imports

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<sup>1</sup> Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the fourth quarter of 2005 with the corresponding quarter of the previous year.

<sup>2</sup> 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.

maintained an upward trend, with increases of 8.9% and 14.2% respectively. CPI increased 2.3%, while unemployment rate dropped slightly to 8.3%, down 0.1 percentage point from the third quarter. The high energy prices not only slowed down the industrial growth in Euro Zone, but also brought about inflationary pressure that impeded the economic recovery of the region. In Germany, the economy grew 1.0% in the fourth quarter of 2005, lower than the growth of the second (1.7%) and the third (1.4%) quarters, mainly due to decreases in private consumption and government expenditure, as well as the slow-down in exports. Imports and exports of goods grew 11.8% and 9.9% respectively. Unemployment rate remained high, at 9.0%. CPI increased 2.2%.

In the UK, the economic growth in the fourth quarter, which was mainly driven by the service sector, slowed down apparently to 1.7% in comparison with the previous quarters when real estate market was flourishing. Service sector grew by 2.9%, within which distribution, hotels and restaurants grew by 1.4%, transport, storage and communications by 3.2% and business and financial services by 3.5%. In contrast, industrial production decreased by 2.2%, within which mining and petroleum extracting decreased by 7.1%, electricity, water and gas supply and manufacturing by 1.8% and 1.6% respectively. Total values of imports and exports of goods grew 9.5% and 10.7% respectively. The overall employment situation remained stable, though unemployment rate rose 0.4 percentage points from the third quarter to 5.1%. CPI increased 2.1%. In France, upon feeble increase in household expenditure as well as in exports, the economy in the fourth quarter grew 1.2% and the quarter-to-quarter variation was only 0.2%. Although the employment market improved slightly, unemployment rate still stood at a high level of 9.6%, down by 0.3 percentage points from the third quarter. CPI rose 1.6%. As regards external trade, imports and exports of goods grew 10.2% and 7.9% respectively. On the other hand, trade deficit amounted to EUR 26.46 billion, up 219.4% compared with 2004.

In Asia, the overall economy maintained a strong growth under the expanding exports and foreign direct investment. However, a relatively lower increase in the domestic demand worsened further the problems such as imbalances in the world current accounts and frictions in international trade, which were believed to posed uncertainties for the economic growth of the export-oriented Asian economies. In addition, the high oil prices and the rising US interest rate would cause inflationary pressure in the region. In Japan, the economy in the fourth quarter recorded a quarterly growth of 1.4% and an annual growth of 4.2%, both higher than the respective growth in the previous quarter (0.3% and 2.8%) by over 1.0%. The accelerated economic recovery was mainly led by increases in non-residents' private investment (+10.3%), exports (+9.6%), gross fixed assets formation (+6.0%) and private consumption (+3.3%). Imports and exports of goods went up by 20.6% and 13.4% respectively, while CPI inched down by 0.5%. The overall employment market was improving, although the unemployment rate increased slightly by 0.2 percentage points from the third quarter to 4.5%. In the Republic of Korea, the economy expanded 5.2% in the fourth quarter under the growing exports, further increase in private and household expenditure, as well as sharp rebound in gross fixed capital formation. Values of total imports and exports of goods recorded

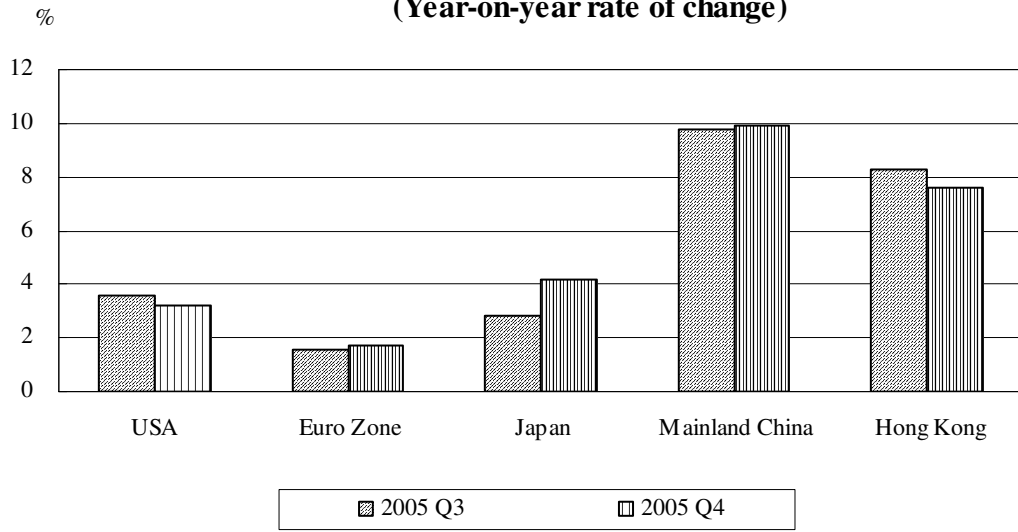
increases of 14.6% and 11.4% respectively. The employment market remained stable, with unemployment rate slightly down by 0.1 percentage point to 3.5%. On the other hand, CPI rose 2.5%.

In Singapore, the economy in the fourth quarter was strong, up 8.7%. Except for construction sector, all the other sectors recorded growth, among which manufacturing rose 14.2% with stimulations from electronics, biomedicine and chemistry sectors; wholesale and retail grew 12.1%; financial services and business services increased 7.4% and 6.3% respectively; and hotels and restaurants increased 6.2% upon an increasing number of visitors. Imports and exports of goods rose 19.7% and 20.7% respectively. Employment market kept improving and unemployment rate dropped from 3.3% in September to 2.5% in December, while CPI rose 1.1%. In Taiwan, China, the economy continued to recover, which was driven by exports and manufacturing. As a consequence, GDP grew 6.4% in the fourth quarter. Imports of goods went up slightly by 0.9% and exports of goods expanded rapidly by 14.2%. Employment situation improved somewhat, with an unemployment rate that went down slightly by 0.1 percentage point to 4.0%. CPI rose 2.5%.

In Hong Kong, the economy could keep the relatively fast pace of growth upon expansions in exports, private consumption expenditure and gross fixed capital formation. In the fourth quarter, GDP went up 7.6%. As regards external trade, imports and exports of goods increased 11.3% and 10.0% respectively under the growing domestic and world economies. The employment market continued to improve and unemployment rate fell from 5.5% in the third quarter to 5.3%. CPI rose 1.8%. The Government of the Hong Kong Special Administrative Region foreseen a fiscal balance in its Operating and Consolidated Accounts for the economic year 2005/2006, which signified that the fiscal deficit starting from 1997 was brought to an end three years earlier than expected.

In Mainland China, the overall economy grew at a fast pace, which was the result of the larger increases in fixed asset investment and industrial production, as well as the continued expansion in domestic demand. In the fourth quarter, although GDP went up 9.9%, the high level of energy consumption and the relatively slow development in high value added industries and farming might present obstacles to the economic development. In terms of external trade, imports and exports increased 22.1% and 21.7% respectively, with a trade surplus of USD 33.53 billion, up 16.6% over the third quarter. The accumulated actual foreign investment in 2005 reached USD 60.3 billion, slightly down by 0.5%. At the end of 2005, Mainland China's foreign exchange reserve amounted to USD 818.9 billion, an increase of USD 208.9 billion compared with the beginning of the year. The results of the first national economic census were recently published, in which GDP was revised upwards by 16.8% to RMB 15,987.8 billion. Moreover, the shares of the primary and secondary sectors were revised downwards by 2.1% to 13.1% and by 6.7% to 46.2% respectively, while that of the tertiary sector rose from 31.9% to 40.7%.

**GDP of major countries and territories  
(Year-on-year rate of change)**



## **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	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4
<b>USA</b>								
Gross Domestic Product	2.7 <sup>r</sup>	4.2 <sup>r</sup>	3.5	3.8	3.6	3.6	3.6 <sup>r</sup>	3.2
Exports of goods	4.5	13.0	10.4	10.7 <sup>r</sup>	8.9 <sup>r</sup>	11.8 <sup>r</sup>	10.2	10.8
Imports of goods	8.5	17.0	13.7	19.2 <sup>r</sup>	14.5 <sup>r</sup>	13.1	13.8	13.5
Consumer Price Index	2.3	2.7	3.4	3.3	3.0	2.9	3.8	3.7
Unemployment rate	6.0	5.5	5.1	5.4	5.2 <sup>r</sup>	5.1	5.0	4.9
<b>Japan</b>								
Gross Domestic Product	1.3 <sup>r</sup>	2.6	2.8	0.4 <sup>r</sup>	1.4 <sup>r</sup>	2.6 <sup>r</sup>	2.8 <sup>r</sup>	4.2
Exports of goods	4.7	12.1 <sup>r</sup>	7.3	11.2	3.8	4.3	7.4	13.4
Imports of goods	5.1 <sup>r</sup>	10.9	15.6	17.0	10.0	14.1	16.8	20.6
Consumer Price Index	-0.3	-0.1	-0.3	0.5	-0.2	-0.1	-0.3	-0.5
Unemployment rate	5.3	4.7	4.4	4.6 <sup>r</sup>	4.6	4.3	4.3	4.5
<b>Euro area</b>								
Gross Domestic Product	0.7 <sup>r</sup>	2.1 <sup>r</sup>	1.3	1.6	1.2	1.2	1.6	1.7
Exports of goods	-2.9	8.4	7.0	8.8 <sup>r</sup>	3.4	6.1 <sup>r</sup>	9.6	8.9
Imports of goods	-0.5	8.5	12.0	12.6 <sup>r</sup>	8.6 <sup>r</sup>	10.7 <sup>r</sup>	14.2 <sup>r</sup>	14.2
Consumer Price Index	2.1	2.1 <sup>r</sup>	2.1	2.3	2.0	2.0	2.3	2.3
Unemployment rate	8.7 <sup>r</sup>	8.9	8.6	8.8	8.8	8.6 <sup>r</sup>	8.4 <sup>r</sup>	8.3
<b>Mainland China</b>								
Gross Domestic Product	9.1	10.1 <sup>r</sup>	9.9	9.6	9.9 <sup>r</sup>	10.1 <sup>r</sup>	9.8 <sup>r</sup>	9.9
Exports of goods	34.6	35.4	28.4	35.6	34.8 <sup>r</sup>	30.9	29.1 <sup>r</sup>	21.7
Imports of goods	39.9	36.0	17.6	30.5	12.2	15.5	19.6 <sup>r</sup>	22.1
Consumer Price Index <sup>a</sup>	1.2	3.9	1.8	3.2	2.8	1.8	1.4	1.8
<b>Hong Kong</b>								
Gross Domestic Product	3.2 <sup>r</sup>	8.6 <sup>r</sup>	7.3	7.5 <sup>r</sup>	6.0 <sup>r</sup>	7.3	8.3 <sup>r</sup>	7.6
Exports of goods	11.7	15.9 <sup>r</sup>	11.4	15.3 <sup>r</sup>	10.6 <sup>r</sup>	12.5 <sup>r</sup>	12.5 <sup>r</sup>	10.0
Imports of goods	11.5	16.9 <sup>r</sup>	10.3	11.9 <sup>r</sup>	8.1 <sup>r</sup>	10.1 <sup>r</sup>	11.5 <sup>r</sup>	11.3
Consumer Price Index	-2.6	-0.4	1.1	0.2	0.4	0.8	1.4	1.8
Unemployment rate	7.9	6.8	5.6	6.6 <sup>r</sup>	6.1	5.7	5.5	5.3

<sup>a</sup> Accumulated year-on-year comparison

<sup>r</sup> 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	2004	2005	2005	2005	2005
				Q4	Q1	Q2	Q3	Q4
<b>USA</b>								
Gross Domestic Product	2.7	4.2	3.5	3.3	3.8	3.3	4.1 <sup>r</sup>	1.6
Exports of goods	4.5	13.0	10.4	2.0 <sup>r</sup>	2.0 <sup>r</sup>	4.8 <sup>r</sup>	0.8	2.8
Imports of goods	8.5	17.0	13.7	5.0 <sup>r</sup>	2.0 <sup>r</sup>	2.6	3.1	5.2
Consumer Price Index	2.3	2.7	3.4	0.9 <sup>r</sup>	0.6	1.0	1.3	0.8
Unemployment rate	6.0	5.5	5.1	5.4	5.2 <sup>r</sup>	5.1	5.0	4.9
<b>Japan</b>								
Gross Domestic Product	1.3 <sup>r</sup>	2.6	2.8	-0.3 <sup>r</sup>	1.5	1.3 <sup>r</sup>	0.3 <sup>r</sup>	1.4
Exports of goods	4.7	11.7 <sup>r</sup>	7.5	0.5 <sup>r</sup>	-1.0 <sup>r</sup>	3.0 <sup>r</sup>	4.2 <sup>r</sup>	6.8
Imports of goods	5.2 <sup>r</sup>	10.3 <sup>r</sup>	16.2	2.1 <sup>r</sup>	-0.5 <sup>r</sup>	7.8 <sup>r</sup>	6.6 <sup>r</sup>	6.4
Consumer Price Index	-0.3	-0.1	-0.3	0.4	-0.4 <sup>r</sup>	-0.1	-0.1	0.1
Unemployment rate	5.3	4.7	4.4	4.6 <sup>r</sup>	4.6	4.3	4.3	4.5
<b>Hong Kong</b>								
Gross Domestic Product	3.2	8.6 <sup>r</sup>	7.3	1.3 <sup>r</sup>	1.7 <sup>r</sup>	2.9 <sup>r</sup>	2.3 <sup>r</sup>	0.6
Exports of goods	11.7	15.9	11.4	3.1 <sup>r</sup>	0.2 <sup>r</sup>	6.0 <sup>r</sup>	3.0 <sup>r</sup>	2.2
Imports of goods	11.5	16.9	10.3	1.4 <sup>r</sup>	1.6 <sup>r</sup>	5.2 <sup>r</sup>	1.6 <sup>r</sup>	2.6
Consumer Price Index	-2.6	-0.4	1.1	0.3	0.3 <sup>r</sup>	0.5	0.4	0.6
Unemployment rate	7.9	6.8	5.6	6.6 <sup>r</sup>	6.1	5.7	5.5	5.3

*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*