

Global Economy in the First Quarter of 2008

In the first quarter of 2008, the world's major economies were able to maintain steady growth amid the protracted economic slowdown in the United States. Yet, the persisting sub-prime mortgage crisis and weakening consumer sentiment in the United States posed challenges to growth in the global economy. In the June 2008 issue of the *OECD Economic Outlook*, the Organization for Economic Cooperation and Development (OECD) cut its forecast for expansion in its member countries from 2.7% in 2007 to 1.8% in 2008 and 1.7% in 2009. In particular, the US economy is projected to grow by 1.2% this year and 1.1% next year, down from last year's 2.2%; the growth of the Euro area is predicted to decelerate to 1.7% in 2008 and 1.4% in 2009, both lower than the 2.6% rise in 2007; the economy of Japan is anticipated to slow from a 2.1% growth in 2007 to 1.7% in 2008 and 1.5% in 2009. Moreover, the growth forecast for the world trade volume is 6.3% and 6.6% for the years 2008 and 2009.

In the *World Economic Outlook* released in April 2008, the International Monetary Fund (IMF) has revised downward the global growth forecast for years 2008 and 2009 in the face of a major financial crisis, and suggested for the first time that the US economy may tip into a mild recession in 2008 as a result of mutually reinforcing cycles in the housing and financial market. Global growth is projected to slow to 3.7% in 2008, 0.5 percentage point lower than at the time of the January *World Economic Outlook Update* (hereinafter referred to as "the *Update*") and 1.2 percentage points lower than the growth recorded in 2007. Moreover, growth is projected to rise mildly to 3.8% in 2009. In the Euro area, growth is forecast to decelerate to 1.4% in 2008 and 1.2% in 2009, a markdown of 0.2 and 0.7 percentage point respectively relative to the *Update*. The US economy is predicted to experience a 17-year low growth rate, at 0.5% in 2008, before rising modestly to 0.6% in 2009, down by 1.0 and 1.2 percentage points from the projections made in the *Update*. In Japan, growth will slow to 1.4% this year, and gradually pick up to 1.5% in 2009, representing a downward revision of 0.1 and 0.2 percentage point. Growth in Mainland China, which registered at 11.4% in 2007, is also expected to experience a moderate slowdown to 9.3% in 2008 and a slight recovery to 9.5% in 2009, 0.7 and 0.5 percentage point lower than the projections from the *Update*. In addition, the growth forecast for the world trade volume (goods and services) was marked down by 0.8 percentage point from the time of the *Update* to 5.6% in 2008 and by 1.1 percentage points to 5.8% in 2009.

Despite numerous challenges in the fourth quarter of 2007 such as tightening credit and sluggish housing market triggered by the sub-prime mortgage problem, as well as high oil prices, the US economy maintained steady growth in the first quarter of 2008 underpinned by a surge in exports, and growth in both private consumption expenditure, as well as government consumption expenditure and gross investment. Gross Domestic Product (GDP) grew by 2.5%^a year-on-year in the first quarter, with quarter-to-quarter growth¹ rising by 0.3 percentage point from 0.6% in the preceding quarter to 0.9%, of which private consumption expenditure in the first quarter rose by just 1.0% over the preceding quarter; meanwhile, government consumption expenditure and investment both registered an increase of 2.0%. Owing to the continued decline in residential fixed investment, private domestic investment dropped by 6.5% over the preceding quarter. As regards external merchandise trade, value of imports and exports grew robustly by 11.5% and 17.0% respectively. The Consumer Price Index (CPI) rose by 4.1% and the unemployment rate soared markedly by 0.7 percentage point over the preceding quarter to 5.3%.

Growth in the Euro area in the first quarter of 2008 matched the preceding quarter's pace, at 2.2% year-on-year, with a quarter-to-quarter growth of 0.7%. Imports and exports of goods rose by 9.8% and

^a Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the first quarter of 2008 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.

6.8% respectively; the improving labour market conditions eased off the unemployment rate to 7.1%; the inflationary pressure accelerated, with CPI rising by 0.5 percentage point from 2.9% in the fourth quarter of 2007 to 3.4%. Germany registered robust growth in the first quarter of 2008, benefited from the extraordinary warm weather underpinning the resilience of the construction sector; investment in construction grew by 4.5% over the previous quarter; in addition, the rise in fixed capital investment and external trade surplus drove the German GDP up by 1.8% year-on-year or 1.5% quarter-to-quarter, the largest quarterly growth in the past 12 years. The employment situation continued to improve, with the unemployment rate declining notably by 0.6 percentage point over the preceding quarter to 7.4%. CPI registered an increase of 2.9%, down by 0.1 percentage point from the previous quarter.

In France, GDP grew by 2.2% year-on-year or 0.6% quarter-to-quarter in the first quarter of 2008, boosted by an increase in gross fixed capital formation and a surge in exports. Value of imports and exports of goods rose by 4.4% and 5.7% respectively. Unemployment rate dropped from 7.8% in the previous quarter to 7.5%, while CPI went up by 2.9%.

The buoyant service sector in the United Kingdom accelerated the economic expansion by 2.5% year-on-year or 0.4% quarter-to-quarter. The quarterly change of industrial production dropped from a 0.2% rise in the preceding quarter to -0.1% in the first quarter of 2008, in particular, the robust growth in manufacturing output was offset by the plunge in the output of mining and quarrying, and oil and gas extraction, whereas the output of water, electricity and fuel supply registered a decline of 1.2%. Growth in the service sector slowed to 0.6%, down from 0.7% in the preceding quarter, of which all industries saw a slower growth, except that the distribution, hotel and restaurant sector (+0.9%) outperformed the preceding quarter's figure (+0.2%). Value of imports and exports of goods rose by 11.2% and 12.2% respectively. The unemployment rate stayed at the 5.2% level, but CPI climbed up by 2.4%.

The Asian economies maintained solid growth in the first quarter of 2008 notwithstanding the slowing US economy and continuing buoyancy of global food and oil prices. Growth in Japan eased to 1.0%, down by 0.7 percentage point over the previous quarter, owing to a 16.6% plunge in housing investment and a 2.4% contraction in business investment in equipment. Imports and exports of goods rose by 10.2% and 6.0% respectively; the labour market conditions turned weak, with the unemployment rate going up from 3.7% in the previous quarter to 4.0%; meanwhile, CPI rose further by 0.9%.

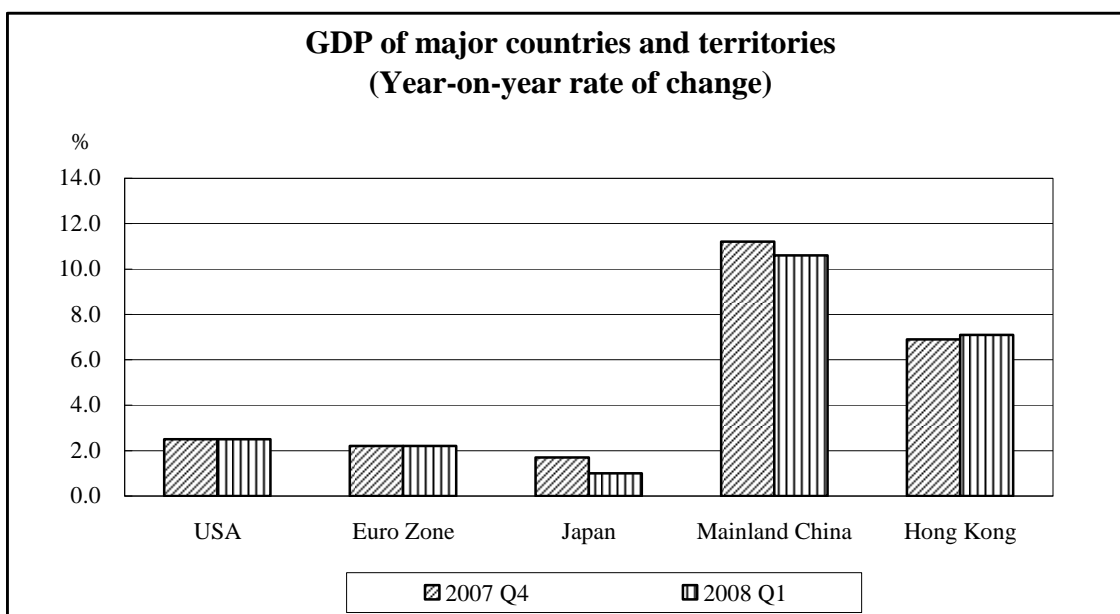
In the Republic of Korea, GDP rose by 5.7% in the first quarter that was fuelled by the strength in exports and manufacturing; imports and exports of goods remained vigorous, up by 28.2% and 17.5% respectively; CPI noted an increase of 3.8%, up by 0.4 percentage point over the previous quarter; the unemployment rate went up from 3.0% in the fourth quarter of 2007 to 3.4%.

The Singapore economy rebounded from last quarter's contraction, with GDP growing by 14.6% quarter-to-quarter as against a 4.8% decline in the preceding quarter; the respective year-on-year growth was 6.7%, up from 5.4% in the fourth quarter of 2007. The economic expansion in the first quarter of 2008 was mainly due to the growth in manufacturing (+12.4%), construction (+14.7%) and financial services (+13.4%). The manufacturing sector showed remarkable progress in the first quarter, especially in biomedical manufacturing, indicating that the manufacturing sector has recovered from the depression in the preceding quarter as a result of a change in product and a major plant shutdown for maintenance. Value of imports and exports of goods rose by 21.5% and 11.5% respectively in the first quarter as high oil prices have driven oil trade up substantially by 68%. The unemployment rate climbed up from 1.7% in December last year to 2.0% in March this year; meanwhile, CPI grew by 6.6% amid rising prices of food and transport services, representing an increase of 2.5 percentage points over the fourth quarter of 2007.

In Taiwan, China, GDP registered a 6.1% rise on the back of strong export trade; value of imports and exports of goods rose by 26.0% and 17.5% respectively; the unemployment rate stayed at 3.9%, but CPI went up by 3.6%.

The Hong Kong economy continued to expand in the first quarter of 2008, with GDP rising notably by 7.1%, up from 6.9% in the fourth quarter of 2007, attributable to the vibrant growth in gross fixed capital formation and private consumption in the domestic market (up by 8.9% and 7.9% respectively in real terms), and the further expansion in exports of goods and services (up by 8.3% and 10.8% respectively in real terms). Imports and exports of goods grew by 11.6% and 10.5% respectively. Labour market conditions remained firm and the unemployment rate was 3.3%, slightly higher than the 3.2% in the preceding quarter. CPI advanced further to 4.6%, up by 1.1 percentage points from the previous quarter, on account of surging prices of imported food.

Mainland China has softened its pace of growth since the fourth quarter of 2007. Despite the impacts from the snow storm in the beginning of the year, the economy maintained its strong momentum, with GDP growing by 10.6% in the first quarter, down by 1.1 percentage points year-on-year; fixed asset investment expanded by 24.6%, up by 0.9 percentage point over the first quarter of 2007. The actually utilized foreign investment grew by 61.3% year-on-year to USD 27.4 billion. External merchandise trade remained robust in the first quarter, but exports of goods decelerated, with the value of imports and exports of goods rising by 28.6% and 21.4% respectively, narrowing the trade surplus by 10.6% (or USD 4.91 billion) to USD 41.42 billion. The foreign exchange reserve of Mainland China reached USD 1,682.2 billion at the end of March this year, up by USD 153.9 billion from a year earlier. Domestic consumption rose faster in the first quarter as the value of retail sales of consumer goods increased by 20.6%, up by 5.7 percentage points year-on-year. Nonetheless, level of consumer prices continued to rise by 8.0% on the back of soaring food prices, a significant increase of 5.3 percentage points over the first quarter of 2007.



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 (%)							
	2005	2006	2007	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1
USA								
Gross Domestic Product	3.1	2.9	2.2	1.5	1.9	2.8	2.5	2.5
Exports of goods	10.7	14.5	12.2	11.0	10.6	12.9	14.3	17.0
Imports of goods	13.9	10.9	5.4	4.1	3.6	3.2	10.4	11.5
Consumer Price Index	3.4	3.2	2.8	2.4	2.7	2.4	4.0	4.1
Unemployment rate	5.1	4.6	4.6	4.8	4.4	4.7	4.6	5.3
Japan								
Gross Domestic Product	1.9	2.4	2.1	3.2 ^r	1.8 ^r	1.7	1.7 ^r	1.0
Exports of goods	7.3	14.6	11.5 ^r	12.5	13.2 ^r	10.7	10.0	6.0
Imports of goods	15.7	18.3	8.6	6.8 ^r	9.8 ^r	6.3	11.4 ^r	10.2
Consumer Price Index	-0.3	0.3	0	-0.1	-0.1	-0.2 ^r	0.5	0.9
Unemployment rate	4.4	4.1	3.8	4.1	3.8	3.7	3.7	4.0
Euro area								
Gross Domestic Product	1.5	2.8	2.7	3.2	2.5	2.7	2.2 ^r	2.2
Exports of goods	7.8	12.1	8.3	9.5 ^r	8.8	8.8	6.5	6.8
Imports of goods	13.5	14.5	5.6	5.7 ^r	3.6	4.1	9.1	9.8
Consumer Price Index	2.2	2.2	2.2	1.9	1.9	1.9	2.9	3.4
Unemployment rate	8.9	8.3	7.5	7.7	7.5	7.4	7.2	7.1
Mainland China								
Gross Domestic Product	10.4	11.6 ^r	11.9 ^r	11.7 ^r	11.9	11.5	11.2	10.6
Exports of goods	28.4	27.2	25.7	27.8	27.5	26.2	22.2	21.4
Imports of goods	17.6	20.0	20.8	18.2	18.3	20.5	25.4	28.6
Consumer Price Index ^a	1.8	1.5	4.8	2.7	3.2	4.1	4.8	8.0
Hong Kong								
Gross Domestic Product	7.1	7.0	6.4 ^r	5.5	6.2 ^r	6.8 ^r	6.9 ^r	7.1
Exports of goods	11.4	9.4	9.2	9.0	11.7	8.2	8.2	10.5
Imports of goods	10.3	11.6	10.3	9.0	12.6	9.4	10.5	11.6
Consumer Price Index	1.0	2.0	2.0	1.7	1.3	1.6	3.5	4.6
Unemployment rate	5.6	4.8	4.0	4.2	4.3	4.3	3.2	3.3

^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) (%)							
	2005	2006	2007	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1
USA								
Gross Domestic Product	3.1	2.9	2.2	0.6	3.8	4.9	0.6	0.9
Exports of goods	10.7	14.5	12.2	0.8	3.4	6.4	2.6	3.6
Imports of goods	13.9	10.9	5.4	0.7	2.6	2.9	3.2	2.5
Consumer Price Index	3.4	3.2	2.9	0.9	1.1	0.7	1.2	1.1
Unemployment rate ^a	5.1	4.6	4.6	4.5	4.5	4.7	4.8	4.9
Japan								
Gross Domestic Product	1.9	2.4	2.1	1.1 ^r	-0.6 ^r	0.3	0.6 ^r	0.8
Exports of goods	7.5	14.9	11.7	3.5 ^r	2.8 ^r	2.2 ^r	1.0 ^r	-0.5
Imports of goods	16.4	18.5	8.2	0.9 ^r	2.8 ^r	1.6	4.3	0.6
Consumer Price Index	-0.3	0.3	0.1	-0.1	0.1	0.2	0.4	0.3
Unemployment rate ^a	4.4	4.1	3.9	4.0	3.8	3.8	3.8	3.8
Hong Kong								
Gross Domestic Product	7.1	7.0	6.4 ^r	1.7	1.5	2.1 ^r	1.5 ^r	1.8
Exports of goods	11.4	9.4	9.2	0.8	2.7	0.9	1.8	1.8
Imports of goods	10.3	11.6	10.3	0.5	4.7	1.2	3.6	-1.4
Consumer Price Index	1.0	2.0	2.0	0.2	-0.1	0.2	0.9	0.4
Unemployment rate ^a	5.6	4.8	4.0	4.4 ^r	4.2	4.0 ^r	3.4	3.4

a Unemployment rate after seasonal adjustment

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