

Global Economy in the Fourth Quarter of 2006

The overall world economy registered growth in the fourth quarter of 2006. Despite the cooling housing market, the US economy was buoyed by favourable factors such as the rising stock market, lower oil prices, improved employment situation, higher personal income and alleviated inflationary pressures. The US economic growth in the second half of the year slowed from the preceding period, but did not fall into a recession. The continued resilience of the Euro zone was largely driven by the robust economic expansion in major countries like Germany and France. In Asia, the acceleration of the Japanese economy slowed, but it started to regain momentum on the back of growing domestic demand and a rebound in the consumer price index; meanwhile, the developing countries in the Asia-Pacific region sustained their fast economic growth. On balance, the world economy was growing steadily at a relatively fast pace; however, impediments to growth existed in view of the cooling US housing market, the depreciating US dollar, uncertainties on international crude oil prices (such as the fluctuating geo-political situation around Iran), intensified global trade imbalances, expanding inflationary pressures, the stall of the Doha Development Round of World Trade Organization negotiations, and the emerging economic nationalism and trade protectionism.

The mild US economy growth in the fourth quarter of 2006 posted a Gross Domestic Product (GDP) growth rate of 3.1%^a, similar to that in the third quarter; quarter-to quarter growth rose slightly from 2.0% to 2.2%^b, which was mainly attributable to the strong consumption expenditure that offset the influences from the greatest cooling down in the housing market over these 15 years. The annual GDP for 2006 registered a rise of 3.3%, indicating a moderate economic growth of the US economy. In the fourth quarter, the lusty private consumption expenditure jumped from 2.7% in the third quarter to 3.6%; nevertheless, growth in private domestic investment plummeted from 5.9% in the third quarter to -2.3%, of which residential fixed investment recorded a substantial decline from -1.5% and -8.1% in the second and third quarters respectively to -12.6% in the current quarter. As regards external trade, the growth in the total value of imports of goods slowed to 4.4%, whilst that of exports of goods remained vigorous, at 14.6%. Owing to the falling fuel prices, Consume Price Index (CPI) in the fourth quarter grew by 1.9%, down 1.4 percentage points from the preceding quarter. Meanwhile, the employment situation improved, with the unemployment rate fell to 4.2%, from 4.7% in the third quarter. Fiscal deficits, widening trade imbalances and the weak housing market remained the main challenges to the US economy.

Spurred by increased domestic demand upon an improved employment situation, economy growth in the Euro zone maintained its momentum. GDP registered an increase of 3.3%, up 0.6

¹ Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the fourth 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.

percentage point from 2.7% in the third quarter; quarter-to-quarter growth was 0.9%. The economic growth for 2006 accelerated to 2.7%, as compared with 1.3% in 2005. The unemployment rate in the fourth quarter edged down to 7.6%. In terms of external trade, the total value of exports recorded double-digit growth, at 11.9%, whereas that of imports abated to an increase of 7.4%. Meanwhile, inflationary pressures eased off and CPI marked a 1.8% growth in the fourth quarter, down 0.3 percentage point over the previous quarter.

The economic boom of Germany sustained, contributing to a GDP growth of 3.5% in the fourth quarter of 2006, higher than the 3.2%, 1.4% and 2.6% in the first three quarters. The growth was mainly driven by increases in private consumption expenditure, fixed capital investment, government final consumption expenditure and external trade. The employment market continued to improve, with an unemployment rate of 7.0%, a decrease of 1.2 percentage points from the preceding quarter. The UK economy growth picked up steadily to register a rise of 3.0% in the fourth quarter, or 0.8% over the previous quarter. The impetus of economic growth came from the 1.0% quarter-to-quarter growth in the servicing industry, of which significant increases were registered in business and financial services. The overall industrial output decreased by 0.2% over the third quarter, in which output of the manufacturing sector remained stable while those in mining and public utilities dropped 0.6% and 1.7% respectively. As regards external trade, total value of exports in the fourth quarter remained constant, whereas total value of imports rose slightly by 1.6%. The unemployment rate was held at a low level, at 5.5%, down slightly by 0.1 percentage point from the third quarter. France registered a mild economic growth at 2.2% in the fourth quarter, representing a quarterly growth of 0.6%. Imports and exports expanded 3.8% and 4.3% respectively in value, while CPI rose by 1.3%. The unemployment situation improved slightly, with the unemployment rate inched down 0.2 percentage point to 8.7%, which was still at a high level.

With export trade as its primary economic pillar, the growth in Asian economies retreated slightly on the back of the slowdown in the US economy, whereas the overall exports continued to grow steadily. Boosted trade volume within the Asian region greatly reduced its reliance on the western markets. However, the persisting surplus in the current account and the practice in underestimation of currency in Asia might raise the pressures of setting trade barriers by Europe and the US. Moreover, high oil prices pushed up the costs of production and living, and thus suppressed consumption demand of residents for goods and services, posing a threat to economic growth. In Japan, the economy grew at a steady rate of 2.1% in the fourth quarter, which was mainly driven by a 9.8% increase in corporate investment in equipment. Private consumption rose slightly by 0.6% while fixed capital investment dropped abruptly by 9.8%. Growth in imports and in exports of goods slowed to 10.8% and 11.1% respectively. The employment market continued to improve, with the unemployment rate further dropped to 3.9%. CPI registered growth in four consecutive quarters, up 0.3% in the fourth quarter. The Republic of Korea maintained substantial economic growth, with GDP rose by 4.0% in the fourth quarter, while imports and exports of goods expanded by 13.1% and 14.4% respectively. CPI went up 2.1% whilst the employment situation improved with the

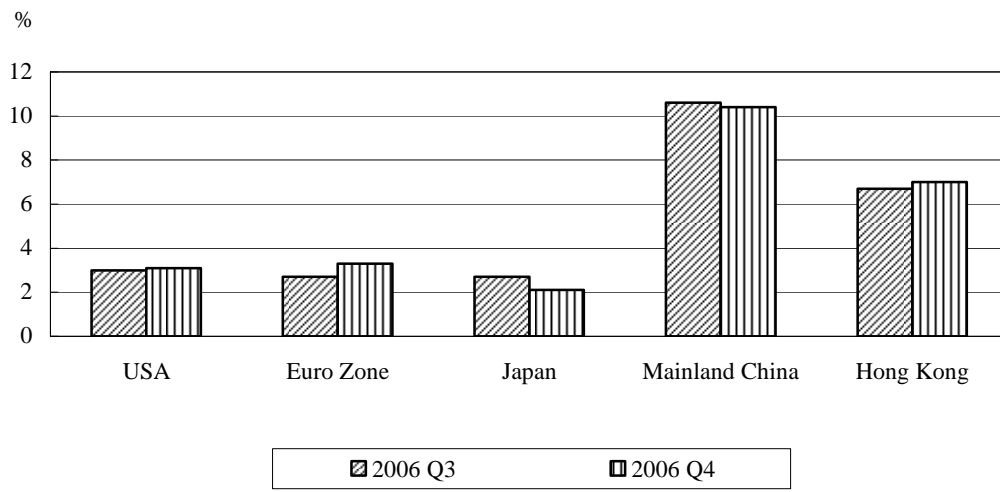
unemployment rate remained at 3.3%.

In Singapore, the economic performance was outstanding. The overall economic growth for 2006 reached 7.9%, with the fourth quarter recorded an expansion of 6.6%. All industries registered different level of increases in the fourth quarter. However, growth in the manufacturing industry abated to 7.7% as a result of decreases in output in the areas of electronics and chemistry, as well as a slowdown in the growth of the biomedicine area. The servicing industry maintained its growth rate at 6.6%, as in the previous two quarters, in which all sectors accelerated except wholesale and retail which logged a growth of 6.9%. The construction industry grew steadily, at 4.7% in the fourth quarter. Imports and exports of goods expanded at a slower pace, at 2.6% and 2.0% respectively. The employment market remained satisfactory, with the unemployment rate edged down from 2.7% in September to 2.6% in December. In addition, CPI rose marginally by 0.6%. In Taiwan, China, the slowdown in external trade brought about a GDP growth of 4.0% in the fourth quarter; growth in imports and in exports declined from 15.1% and 18.6% in the third quarter to 9.9% and 7.6% respectively. The unemployment rate shrank to 3.9%, whereas CPI declined 0.1% after a 0.3% decrease in the third quarter.

The Hong Kong economy maintained a robust growth. GDP growth registered at 7.0% in the fourth quarter, up from 6.7% in the previous quarter. This was mainly caused by a substantial rise in domestic fixed capital formation, at 9.5%, and double-digit growth in imports and in exports of goods, at 14.0% and 11.8% respectively. The employment market continued to improve, with the unemployment rate slid from 4.9% in the third quarter to 4.2%, marking the lowest level over the past 66 months. CPI climbed up 2.2%, down by 0.1 percentage point over the previous quarter.

In Mainland China, the economy maintained a high growth rate at around 10%. GDP growth in the fourth quarter was 10.4%, contributing to an annual growth rate of 10.7%, up 0.3 percentage point from 2005. The upsurge in fixed capital investment cooled slightly to an increase of 24.0% in 2006, down 2.0 percentage points from 2005. Consumption escalated with retail sales of consumer goods grew by 13.7%, an increase of 0.8 percentage point from 2005; meanwhile, consumer price expanded slightly by 1.5% in 2006, down 0.3 percentage point from the previous year. External trade remained vigorous in which total values of imports and exports of goods soared by 15.5% and 29.0% respectively, resulting in a trade surplus of USD 67.74 billion, a year-on-year growth of 102.0%. The actual foreign investment in 2006 rose 4.5% to USD 63.0 billion. At the year-end of 2006, Mainland China's foreign exchange reserve reached USD 1,066.30 billion, an increase of USD 78.4 billion over the end of September or up USD 247.4 billion compared with the end of 2005.

**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 (%)							
	2004	2005	2006	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4
USA								
Gross Domestic Product	3.9	3.2	3.3	3.1	3.7	3.5	3.0 ^f	3.1
Exports of goods	13.0	10.4	14.5	10.8	14.2	13.3	16.0	14.6
Imports of goods	17.0	13.7	10.9	13.5	14.3	12.9	12.7	4.4
Consumer Price Index	2.7	3.4	3.2	3.7	3.6	4.0	3.3	1.9
Unemployment rate	5.5	5.1	4.6	4.7	5.0	4.6	4.7	4.2
Japan								
Gross Domestic Product	2.7 ^r	1.9 ^f	2.2	4.2	3.1	2.0	2.7	2.1
Exports of goods	12.1	7.3	14.6	13.4	17.6 ^f	14.7	15.6	11.1
Imports of goods	10.9	15.7 ^f	17.9	20.6	27.4 ^f	18.9 ^f	16.7	10.8
Consumer Price Index	0 ^f	-0.3	0.3	-0.5	0.4	0.7	0.6	0.3
Unemployment rate	4.7	4.4	4.1	4.3	4.4	4.2	4.1	3.9
Euro area								
Gross Domestic Product	2.1	1.3	2.7	1.8	2.2	2.9 ^f	2.7 ^f	3.3
Exports of goods	8.4	7.0	11.2	8.9	15.5	9.7	7.8	11.9
Imports of goods	8.5	12.0	13.3	14.2	22.1	14.6	10.5	7.4
Consumer Price Index	2.1	2.1	2.2	2.3	2.3	2.5	2.1	1.8
Unemployment rate	8.9	8.6	7.8	8.3	8.1 ^f	7.8	7.7 ^f	7.6
Mainland China								
Gross Domestic Product	10.1	10.4 ^r	10.7	9.9	10.4 ^f	11.5 ^f	10.6 ^f	10.4
Exports of goods	35.4	28.4	27.2	21.7	26.6	24.0 ^f	28.7	29.0
Imports of goods	36.0	17.6	20.0	22.1	24.8	18.5 ^f	22.1	15.5
Consumer Price Index ^a	3.9	1.8	1.5	1.8	1.2	1.3	1.3	1.5
Hong Kong								
Gross Domestic Product	8.6	7.5 ^f	6.8	7.8 ^f	8.0	5.5	6.7 ^f	7.0
Exports of goods	15.9	11.4	9.4	10.0	12.1	5.2	8.4	11.8
Imports of goods	16.9	10.3	11.6	11.3	13.8	7.8	10.6	14.0
Consumer Price Index	-0.4	1.0	2.0	1.8	1.6	2.1	2.3	2.2
Unemployment rate	6.8	5.6	4.8	5.0	5.0	5.0	4.9	4.2

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) (%)							
	2004	2005	2006	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4
USA								
Gross Domestic Product	3.9	3.2	3.3	1.8	5.6	2.6	2.0 ^r	2.2
Exports of goods	13.0	10.4	14.5	2.8	4.4 ^r	3.5 ^r	3.9	2.3
Imports of goods	17.0	13.7	10.9	5.2	1.5 ^r	2.4	3.7	-3.2
Consumer Price Index	2.7	3.4	3.2	0.8	0.6	1.2	0.7	-0.6
Unemployment rate	5.5	5.1	4.6	5.0	4.7	4.7	4.7	4.5
Japan								
Gross Domestic Product	2.7 ^r	1.9 ^r	2.2	0.4 ^r	0.7 ^r	0.3 ^r	0.1 ^r	1.2
Exports of goods	11.8 ^r	7.5	14.9	6.3 ^r	2.6 ^r	1.4 ^r	4.7 ^r	2.9
Imports of goods	10.3	16.4 ^r	18.2	6.1 ^r	4.5 ^r	1.1 ^r	5.0 ^r	0.4
Consumer Price Index	0 ^r	-0.3	0.2	0 ^r	0.2 ^r	0.1 ^r	0.3	-0.3
Unemployment rate	4.7	4.3 ^r	4.2	4.5	4.3 ^r	4.1	4.1	4.1
Hong Kong								
Gross Domestic Product	8.6	7.5 ^r	6.8	1.0 ^r	1.9 ^r	0.9 ^r	2.6 ^r	1.3
Exports of goods	15.9	11.4	9.4	1.5 ^r	3.4 ^r	-0.2 ^r	4.1 ^r	3.3
Imports of goods	16.9	10.3	11.6	1.9 ^r	3.3 ^r	-0.1 ^r	3.7 ^r	4.0
Consumer Price Index	-0.4	1.0	2.0	0.1 ^r	0.2 ^r	0.3	0.1	0.2
Unemployment rate	6.8	5.6	4.8	5.2	5.1 ^r	4.9 ^r	4.7	4.4

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