

## Global Economy in the Third Quarter of 2007

The influences of the US sub-prime mortgage crisis have caused obvious volatility of the global financial market in the third quarter of 2007, yet the world economic growth persisted. The contracting US housing market and the spiraling sub-prime mortgage problem have, to a certain extent, adversely impacted the overall economy. The Euro area saw a greater economic expansion that was boosted by growth in the industrial production and exports. The pace of Japanese economic resilience grew faster and the Asian region sustained rapid growth. In sum, the world economy showed stable growth, but extended issues of the US sub-prime mortgage crisis, surging energy and food prices, as well as excessive movement of the world capital might hinder the development of the world economy.

In the October 2007 edition of the *World Economic Outlook*, the International Monetary Fund (IMF) stated that the world economy sustained vigorous growth, but turbulence in financial markets posed threats to economic growth; therefore, the IMF's projection for global economic growth for 2007 remained at 5.2%, while the forecast for 2008 has been revised downward from 5.2% in July to 4.8%. Meanwhile, forecast for the US was down by 0.1 percentage point to 1.9% for 2007 and by 0.9 percentage point to 1.9% for 2008; growth forecast for the Euro area was down by 0.1 and 0.4 percentage point respectively to 2.5% for 2007 and 2.1% for 2008; the 2007 and 2008 forecast for Japan was adjusted downward by 0.6 and 0.3 percentage point respectively to 2.0% and 1.7%. The growth projection for Mainland China was revised upward by 0.3 percentage point to 11.5% for 2007, but down by 0.5 percentage point to 10.0% for 2008. Furthermore, forecast for the world trade volume (goods and services) was marked down by 0.5 percentage point to 6.6% for 2007 and by 0.7 percentage point to 6.7% for 2008.

Despite concerns over the sub-prime mortgage problems, the US economy for the third quarter maintained a steady growth upon marked increase in exports and constant rise in private consumption expenditure. The Gross Domestic Product (GDP) grew by 2.8%<sup>a</sup>, with a quarter-to-quarter growth<sup>b</sup> of 4.9%. Private consumption expenditure and private domestic investment rose by 2.7% and 5.9% respectively quarter-to-quarter, together with a 3.9% growth in government consumption expenditure and investment. Value of merchandise exports soared vigorously by 12.9%, while value of goods imports slowed down to go up by just 3.2%. The Consumer Price Index (CPI) rose by 2.4% and the unemployment rate rose by 0.3 percentage point to 4.7% over the second quarter.

The third quarter GDP of the Euro area registered growth of 2.6% year-on-year and 0.7% quarter-to-quarter, which has been underpinned by rapid expansion in industrial production and exports. Private consumption expenditure and fixed capital investment increased by 1.6% and 4.4%.

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<sup>a</sup> Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the third quarter of 2007 with the corresponding quarter of the previous year.

<sup>b</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.

Value of imports and exports of goods registered 5.5% and 9.4% growth respectively. The unemployment rate edged down by 0.1 percentage point to 7.4% over the second quarter, while CPI grew by 1.9%. In Germany, exports maintained a robust growth, with GDP rose by 4.7% year-on-year and 0.9% quarter-to-quarter. As regard external merchandise trade, value of imports and exports increased by 4.6% and 9.0% respectively year-on-year. The unemployment rate dropped continuously to 8.7%, while CPI grew by 2.1%. In France, GDP for the third quarter rose by 2.1% year-on-year and 0.7% quarter-to-quarter, of which household consumption expenditure went up by 0.8% over the second quarter, with imports and exports of goods logged higher increment of 7.2% and 5.6% respectively; meanwhile, CPI went up by 1.3%.

The UK economy continued to perform well in the third quarter, with GDP rose by 3.3% year-on-year and the level of quarter-to-quarter growth has been able to stay at 0.8% for four consecutive quarters. Industrial output expanded by 0.2% over the preceding quarter, of which output in manufacturing sector rose slightly by 0.2%; supplies of water, electricity and fuel by 1.0% and the construction sector by 0.8%. The service sector increased by 1.0% quarter-to-quarter, of which the transport, storage and communication sector; distributive trade, hotels and restaurants both grew by 1.1%; business and financial services rose by 1.7%. Value of total exports of goods rose marginally by 0.1% and value of imports of goods rose by 3.6%. The unemployment rate was held stable at 5.4% as the preceding quarter, while CPI grew by 1.8%.

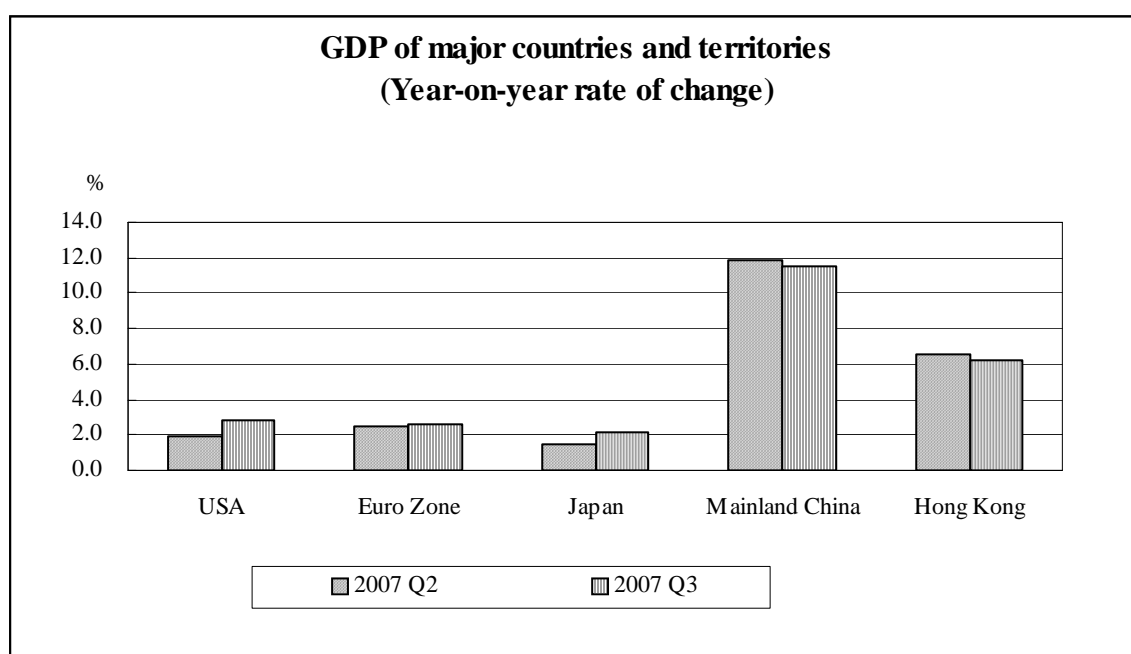
The Asian region sustained rapid growth upon strong exports and domestic demand. Nevertheless, the US sub-prime mortgage crisis and the high capital flows caused turbulence in the financial market within the region, aggravating the risk of a slow down in economic growth. In Japan, the improved corporate profitability and increase in business investment brought about a 2.1% economic growth, of which private consumption expenditure expanded by 2.4%. Value of exports and imports of goods climbed up by 10.7% and 6.3% respectively. The unemployment rate fell by 0.1 percentage point to 3.7% over the second quarter, with CPI dropped by 0.1% as in the last two quarters. Satisfactory growth in the Republic of Korea continued, with GDP rose by 5.2% in the third quarter, of which private consumption expenditure and gross fixed capital formation expanded by 4.7% and 1.8% respectively. Value of imports and exports of goods grew by 7.0% and 9.6%; the unemployment rate was 3.1% and CPI rose by 2.3%.

In Singapore, the robust economic growth was marked by an 8.9% rise in GDP in the third quarter, of which the manufacturing sector and financial services registered double-digit growth of 10.5% and 19.9% respectively; business services also rose by 7.1%; value of imports and exports of goods rose by 3.1% and 7.8%. The unemployment rate dropped to the lowest level since the Asian financial crisis, at 1.5%, and CPI rose by 2.8%. Growth in Taiwan, China accelerated, with GDP grew by 6.9% in the third quarter, of which manufacturing sector and financial services expanded by 11.3% and 12.5% respectively. Value of imports and exports of goods increased by 9.1% and 10.0% respectively. The unemployment rate moved by 0.1 percentage point to 4.0% and CPI rose by 1.5%.

The Hong Kong economy stayed vibrant, with GDP grew by 6.2% in the third quarter, which

marked the 16<sup>th</sup> consecutive quarter of distinctly above-trend growth. Exports of services ascended by 12.3% and private consumption expenditure rose by 9.7%. Value of merchandise imports and exports grew by 9.4% and 8.2% respectively. The labour market remained stable with the unemployment rate stayed at 4.3% as the second quarter, while CPI rose by 1.6%.

Mainland China maintained a double-digit rapid growth of 11.5% in the third quarter. Fixed capital investment growth in the first three quarters of 2007 remained high, up by 25.7%; the actual utilized foreign investment amounted to USD 47.20 billion, an increase of 10.9%. Value of imports and exports of goods rose markedly in the first three quarters, up by 19.1% and 27.1% respectively, with the trade surplus reaching USD 185.70 billion. At the end of September 2007, the foreign exchange reserve of Mainland China amounted to USD 1,433.61 billion, up by 45.1% from a year earlier. Meanwhile, CPI grew notably by 4.1%.



# **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	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3
<b>USA</b>								
Gross Domestic Product	3.6	3.1	2.9	2.4	2.6	1.5	1.9	2.8
Exports of goods	13.0	10.7	14.5	16.0	14.6	11.0	10.6	12.9
Imports of goods	17.0	13.9	10.9	12.7	4.4	4.1	3.6	3.2
Consumer Price Index	2.7	3.4	3.2	3.3	1.9	2.4	2.7	2.4
Unemployment rate	5.5	5.1	4.6	4.7	4.2	4.8	4.4	4.7
<b>Japan</b>								
Gross Domestic Product	2.7	1.9	2.2	1.5 <sup>r</sup>	2.2	2.4 <sup>r</sup>	1.5 <sup>r</sup>	2.1
Exports of goods	10.1 <sup>r</sup>	10.6 <sup>r</sup>	13.4 <sup>r</sup>	15.6	11.2	12.5	13.1	10.7
Imports of goods	12.3 <sup>r</sup>	20.1 <sup>r</sup>	13.1 <sup>r</sup>	16.7	10.8	6.6	9.9	6.3
Consumer Price Index	o	-0.3	0.3	0.6	0.3	-0.1	-0.1	-0.1
Unemployment rate	4.7	4.4	4.1	4.1	3.9	4.1	3.8	3.7
<b>Euro area</b>								
Gross Domestic Product	2.0	1.5	2.8	2.5	3.2 <sup>r</sup>	3.1 <sup>r</sup>	2.5	2.6
Exports of goods	8.9	7.8	12.1 <sup>r</sup>	8.8 <sup>r</sup>	12.8 <sup>r</sup>	8.8 <sup>r</sup>	8.7 <sup>r</sup>	9.4
Imports of goods	9.4	13.5	14.5 <sup>r</sup>	11.3 <sup>r</sup>	8.6 <sup>r</sup>	4.8 <sup>r</sup>	2.8 <sup>r</sup>	5.5
Consumer Price Index	2.1	2.2	2.2	2.2 <sup>r</sup>	1.8	1.9	1.9	1.9
Unemployment rate	8.9 <sup>r</sup>	8.9 <sup>r</sup>	8.3 <sup>r</sup>	8.2 <sup>r</sup>	8.0 <sup>r</sup>	7.7 <sup>r</sup>	7.5 <sup>r</sup>	7.4
<b>Mainland China</b>								
Gross Domestic Product	10.1	10.4	10.7	10.6	10.4	11.1	11.9	11.5
Exports of goods	35.4	28.4	27.2	28.7	29.0	27.8	27.6	26.3
Imports of goods	36.0	17.6	20.0	22.1	15.5	18.2	18.2	20.7
Consumer Price Index <sup>a</sup>	3.9	1.8	1.5	1.3	1.5	2.7	3.2	4.1
<b>Hong Kong</b>								
Gross Domestic Product	8.5 <sup>r</sup>	7.1 <sup>r</sup>	6.8 <sup>r</sup>	6.4 <sup>r</sup>	6.9 <sup>r</sup>	5.6 <sup>r</sup>	6.6 <sup>r</sup>	6.2
Exports of goods	15.9	11.4	9.4	8.4	11.9	9.0	11.7	8.2
Imports of goods	16.9	10.3	11.6	10.7	14.0	9.0	12.6	9.4
Consumer Price Index	-0.4	1.1	2.0	2.3	2.1	1.7	1.3	1.6
Unemployment rate	6.8	5.6	4.8	4.9	4.2	4.2	4.3	4.3

<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) (%)							
	2004	2005	2006	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3
<b>USA</b>								
Gross Domestic Product	3.6	3.1	2.9	1.1	2.1	0.6	3.8 <sup>r</sup>	4.9
Exports of goods	13.0	10.7	14.5	3.3	2.6	1.1	3.5	6.4
Imports of goods	17.0	13.9	10.9	3.3	-2.6	0.8	2.6 <sup>r</sup>	2.8
Consumer Price Index	2.7	3.4	3.2	0.8 <sup>r</sup>	-0.5 <sup>r</sup>	0.9 <sup>r</sup>	1.5	0.5
Unemployment rate	5.5	5.1	4.6	4.7	4.5	4.5	4.5	4.6
<b>Japan</b>								
Gross Domestic Product	2.7	1.9	2.2	o <sup>r</sup>	1.3	0.7 <sup>r</sup>	-0.4 <sup>r</sup>	2.5
Exports of goods	11.8	7.5	14.9	4.1	2.9	3.0 <sup>r</sup>	2.6	2.7
Imports of goods	10.3	16.4	18.6	5.1 <sup>r</sup>	0.8	0.6 <sup>r</sup>	3.1 <sup>r</sup>	1.7
Consumer Price Index	o	-0.3	0.3	0.3	-0.3	-0.2	0.2	0.2
Unemployment rate	4.7	4.4	4.1	4.1	4.0	4.0	3.8	3.8
<b>Hong Kong</b>								
Gross Domestic Product	8.6	7.1 <sup>r</sup>	6.8 <sup>r</sup>	2.3 <sup>r</sup>	1.4 <sup>r</sup>	0.9 <sup>r</sup>	1.9 <sup>r</sup>	1.7
Exports of goods	15.9	11.4	9.4	4.1	3.3	1.4	1.9	0.4
Imports of goods	16.9	10.3	11.6	3.7	4.0	1.0	3.6	0.7
Consumer Price Index	-0.4	1.0 <sup>r</sup>	2.0	0.6	0.4	o	0.4	-0.1
Unemployment rate	6.8	5.6	4.8	4.7	4.4	4.3	4.2	4.1

<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

Hong Kong SAR Census and Statistics Department