

## Global Economy in the First Quarter of 2007

In the first quarter of 2007, the world economy sustained its growth and saw steady development in all economic entities. Despite the shrinking housing market, the US economy expanded progressively upon a favourable employment situation and sound internal consumption. The Euro area continued to display solid but slower growth. Meanwhile, economic growth in Japan softened but remained on the upside. In the Asian region, the developing countries continued to take the lead in displaying strong economic growth. Overall, the world economy remained on track for continued robust growth; nevertheless, downside risks related to the cooling US housing market, the depreciated US dollar, fluctuating international oil prices, intensified global trade imbalances, emerging trade protectionism, and inflation, etc. still raised concern.

In the April 2007 edition of the *World Economic Outlook*, the International Monetary Fund (IMF) reported that growth around the world was well sustained. The global economy expanded vigorously in 2006, at a rate of 5.4%, further denoting an increase in economic integration, an extension of the economic growth cycle, higher government ability in macroeconomic control, and steady development of the world economy. The projection of the IMF for global economic growth was 4.9% in both 2007 and 2008, in line with the rate forecast made in September 2006. On balance, downside risks to the outlook seemed less threatening than six months ago. Compared with the projection made in September last year, the IMF forecast for the Euro area was adjusted upwards from 2.0% to 2.3% in both 2007 and 2008, whereas the projected growth of the US was scaled down from 2.9% to 2.2% in 2007 and from 3.2% to 2.8% in 2008. For Japan, the projection for growth was revised up from 2.1% to 2.3% in 2007, before scaling down from 2.0% to 1.9% in 2008. The report also anticipated that the Mainland China economy would grow at 10.0% and 9.5% in 2007 and 2008 respectively. Meanwhile, the growth forecast for the world trade volume (goods and services) was marked down from 7.6% to 7.0% in 2007 and up from 7.2 to 7.4% in 2008.

The Organisation for Economic Co-operation and Development (OECD) forecasted, in the May 2007 edition of the *Economic Outlook*, that the world economy would sustain its growth in 2007 and 2008 but at a slower rate as compared with the preceding year. The economic growth forecast for all OECD members was 2.7% in both 2007 and 2008, down from the 3.2% recorded in 2006. Among them, the US economic growth would go down significantly from 3.3% in 2006 to 2.1% in 2007 and 2.5% in 2008. For the Euro area, the growth forecast was 2.7% in 2007 and 2.3% in 2008, down from 2.7% in 2006. Growth for Japan would rise from 2.2% in 2006 to 2.4% in 2007, before going down again to 2.1% in 2008. The economic growth projection for Mainland China was 10.4% in both 2007 and 2008. In addition, the growth forecast for the world trade volume (goods and services) was 7.5% in 2007 and 8.3% in 2008.

The US economic growth slackened off to a four-year low in the first quarter of 2007, mainly

driven by falling housing prices, issues on subprime mortgages, and a decline in exports. The Gross Domestic Product (GDP) growth declined from 3.1% in the fourth quarter of 2006 to 2.1%<sup>a</sup> in the first quarter of 2007, corresponding to a quarter-to-quarter growth<sup>b</sup> of 1.3%. Private consumption expenditure remained on the rise, up by 3.8%. As regards external trade, the growth of the total value of imports of goods kept narrowing down, to 3.6% in the first quarter, while total value of exports of goods shrank to log a 10.8% increase. The Consumer Price Index (CPI) went up by 2.4% in the first quarter after a 1.9% rise in the fourth quarter of 2006. The employment market was on the downtrend, with the unemployment rate rose by 0.6 percentage point over the preceding quarter to 4.8%. Fiscal deficits, widening trade imbalances and the cooling housing market remained the major challenges to the US economy.

The Euro area saw a continuation of solid, but softer growth. GDP registered an increase of 3.1% in the first quarter of 2007, down by 0.2 percentage point over the previous quarter. The improving labour market brought the unemployment rate to 7.3%, down by 0.8 percentage point year-on-year. Inflation pressures were contained where CPI growth was held stable at 1.8% in the first quarter of 2007, same as that in the previous quarter. Growth in exports of goods diminished by 2.6 percentage points over the preceding quarter to 9.3% in the first quarter; meanwhile, imports of goods softened further to a 5.5% rise, representing decreases of 1.9 and 16.6 percentage points over the preceding quarter and the same period of 2006 respectively.

The “Big Three” Euro countries, namely Germany, the UK and France, displayed softer economic growth in the first quarter of 2007. Germany saw a GDP growth of 3.3%, down from 3.7% in the fourth quarter of 2006, which was mainly attributable to decreases in growth in imports and exports as well as a decline in private consumption expenditure due to a value-added tax (VAT) hike by 3 percentage points by the German government at the start of the year. Meanwhile, fixed capital investment and government final consumption expenditure registered increases. The unemployment rate picked up, rising 0.4 percentage point over the preceding quarter to 7.4% in the first quarter of 2007. CPI rose by 1.7%, up from 1.3% in the fourth quarter of 2006. In the UK, solid economic growth was sustained, up by 0.7% from the previous quarter to 2.8% in the first quarter of 2007. The impetus mainly came from the servicing industry which rose by 0.9% over the fourth quarter of 2006; robust growth was observed in the transport, storage and communication sector as well as business and financial services in particular. Overall industrial output in the first quarter remained constant at the level prevailing in the preceding quarter, of which outputs in the mining sector and public utility services each registered a 1.4% quarter-to-quarter rise, whereas output in the manufacturing sector dropped by 0.3%. Total values of imports and exports declined by 9.0% and 9.4% respectively compared with the same quarter of 2006. The unemployment rate remained at 5.5%, unchanged from the previous quarter. In France, the economy grew moderately at 2.0% in the first quarter of

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<sup>a</sup> Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the first 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.

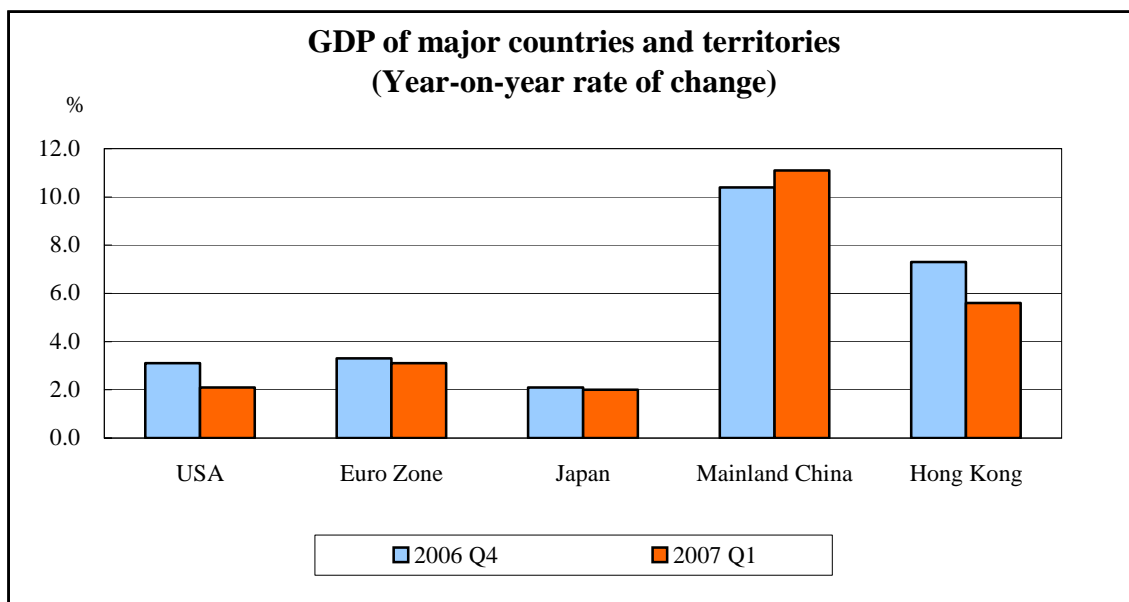
2007, with a quarter-to-quarter growth of 0.5%. Imports and exports climbed up 3.3% and 1.9% respectively in value, while CPI increased by 1.2%. As regards the employment market, the unemployment rate stood high at 8.4%, slightly down by 0.3 percentage point from the previous quarter.

The Asian economies sustained their growth on the back of acute falling in oil prices, reducing inflationary pressures, easing of the US interest rate hikes, buoyant external economic environment, and continuous solid growth in exports. Nevertheless, downside risk related to persistent high oil prices posed a threat to growth. With export trade as its primary economic pillar, the Asian region held enormous amount of foreign exchange reserves in the central banks, creating a solid ground for economic growth while enhancing its ability to cope with future crisis. In addition, expanded trade within the region strengthened its place to withstand the cooling US economy. In Japan, the economic growth abated in the first quarter of 2007, rising at 2.0% as a result of increases in corporate investment and private consumption by 4.7% and 1.6% respectively. Imports and exports of goods expanded by 6.6% and 12.5% respectively. The improving employment market logged an unemployment rate of 4.1% in the first quarter of 2007, slightly up by 0.2 percentage point from the previous quarter, whereas CPI slowed down to 0.1%. The economic growth in the Republic of Korea was held stable at 4.0% in the first quarter of 2007, moderating from its four-year high at 6.1% in the first quarter of 2006. Industrial output growth slowed to 3.9%, whereas imports and exports of goods soared by 13.1% and 14.8% respectively. The construction sector regained its momentum and registered a 4.3% rise. CPI went up modestly by 2.0%, down by 0.1 percentage point from the previous quarter. The employment situation weakened, with the unemployment rate rose by 0.3 percentage point from the preceding quarter to 3.6%.

In Singapore, the economy displayed a sound growth at 6.1% due to strong domestic demand and satisfactory performance in all industries. The construction sector and financial services registered notable increases by 9.7% and 12.9% respectively, whereas the manufacturing sector, retail and wholesale trade, as well as hotels and restaurants softened. Value of imports of goods rose by 2.0%, down by 0.6 percentage point over the fourth quarter of 2006; meanwhile, exports of goods expanded by 1.4 percentage points to 3.4%. The unemployment rate climbed up from 2.6% in December 2006 to 2.9% in March 2007. CPI growth was held stable at 0.5%. In Taiwan, China, the economic growth went up slightly from 4.0% in the fourth quarter of 2006 to 4.15% in the first quarter, underpinned by a 1.3% rise in private fixed investment upon growth in residential construction and by a 2.3% increase in private consumption as consumers' debt situation from credit and cash cards improved. Imports of goods declined from 9.9% in the fourth quarter of 2006 to 3.1%, while exports of goods escalated from 7.6% to 8.5%, resulting in a trade surplus of USD 6.28 billion, up by USD 2.83 billion year-on-year. The unemployment rate slid to 3.8%, whereas CPI rose by 0.97%.

The Hong Kong economy maintained a strong growth. GDP rose significantly by 5.6% in the first quarter, down by 1.7 percentage points from 7.3% in the fourth quarter of 2006. The slowdown was caused by a slower growth in imports and exports of goods from 14.0% and 11.8% respectively in the preceding quarter to 9.0% each in the current quarter, coupled with a softer rise in fixed capital formation from 9.4% to 3.9%, as well as a slight increase in private consumption by 0.2 percentage points, at 5.6%. The employment market continued to improve, with the unemployment rate remained at 4.2% as in the fourth quarter of 2006. CPI rose modestly by 1.7%.

Mainland China maintained an approximate 10% economic growth in four consecutive years. The boost continued in the first quarter of 2007, where GDP growth went up by 0.7 percentage point over the same quarter of 2006 to 11.1% in the first quarter. Fixed capital investment expanded by 23.7%, down by 4 percentage points over the same quarter of 2006. The actual foreign investment in the first quarter expanded by 11.6% to USD 15.9 billion. Imports and exports of goods continued to surge, by 18.2% and 27.8% respectively, producing a trade surplus of USD 46.45 billion. At the end of March 2007, Mainland China's foreign exchange reserve reached USD 1,202 billion, an increase of USD 135.7 billion compared with the year-end of 2006. CPI went up by 1.5 percentage points over the first quarter of 2006 to 2.7%.



## 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 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1
<b>USA</b>								
Gross Domestic Product	3.9	3.2	3.3	3.7	3.5	3.0	3.1	2.1
Exports of goods	13.0	10.4	14.5	14.2	13.3	16.0	14.6	10.8
Imports of goods	17.0	13.7	10.9	14.3	12.9	12.7	4.4	3.6
Consumer Price Index	2.7	3.4	3.2	3.6	4.0	3.3	1.9	2.4
Unemployment rate	5.5	5.1	4.6	5.0	4.6	4.7	4.2	4.8
<b>Japan</b>								
Gross Domestic Product	2.7	1.9	2.2	3.1	2.0	2.7	2.1	2.0
Exports of goods	12.1	7.3	14.6	17.6	14.7	15.6	11.1	12.5
Imports of goods	10.9	15.7	17.9	27.4	18.9	16.7	10.8	6.6
Consumer Price Index	o	-0.3	0.3	0.4	0.7	0.6	0.3	0.1
Unemployment rate	4.7	4.4	4.1	4.4	4.2	4.1	3.9	4.1
<b>Euro area</b>								
Gross Domestic Product	2.1	1.3	2.7	2.2	2.9	2.8	3.3	3.1
Exports of goods	8.4	7.0	11.2	15.5	9.7	7.8	11.9	9.3
Imports of goods	8.5	12.0	13.3	22.1	14.6	10.5	7.4	5.5
Consumer Price Index	2.1	2.1	2.2	2.3	2.5	2.1	1.8	1.8
Unemployment rate	8.9	8.6	7.8	8.1	7.8	7.7	7.6	7.3
<b>Mainland China</b>								
Gross Domestic Product	10.1	10.4	10.7	10.4	11.5	10.6	10.4	11.1
Exports of goods	35.4	28.4	27.2	26.6	24.0	28.7	29.0	27.8
Imports of goods	36.0	17.6	20.0	24.8	18.5	22.1	15.5	18.2
Consumer Price Index <sup>a</sup>	3.9	1.8	1.5	1.2	1.3	1.3	1.5	2.7
<b>Hong Kong</b>								
Gross Domestic Product	8.6	7.5	6.9 <sup>r</sup>	8.1 <sup>r</sup>	5.6 <sup>r</sup>	6.8 <sup>r</sup>	7.3 <sup>r</sup>	5.6
Exports of goods	15.9	11.4	9.4	12.1	5.2	8.4	11.8	9.0
Imports of goods	16.9	10.3	11.6	13.8	7.8	10.6	14.0	9.0
Consumer Price Index	-0.4	1.0	2.0	1.6	2.1	2.3	2.2	1.7
Unemployment rate	6.8	5.6	4.8	5.0	5.0	4.9	4.2	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	2006	2006	2006	2006	2007
				Q1	Q2	Q3	Q4	Q1
<b>USA</b>								
Gross Domestic Product	3.9	3.2	3.3	5.6	2.6	2.0	2.5 <sup>r</sup>	1.3
Exports of goods	13.0	10.4	14.5	4.4	3.5	3.9	2.3	0.8
Imports of goods	17.0	13.7	10.9	1.5	2.4	3.7	-3.2	0.8
Consumer Price Index	2.7	3.4	3.2	0.6	1.2	0.7	-0.6	1.0
Unemployment rate	5.5	5.1	4.6	4.7	4.7	4.7	4.5	4.5
<b>Japan</b>								
Gross Domestic Product	2.7	1.9	2.2	0.8 <sup>r</sup>	0.3	0.1	1.2	0.6
Exports of goods	11.8	7.5	14.9	2.6	1.4	4.7	2.9	2.9
Imports of goods	10.3	16.4	18.2	4.5	1.1	5.0	0.4	0.3
Consumer Price Index	o	-0.3	0.2	0.2	0.1	0.3	-0.3	o
Unemployment rate	4.7	4.3	4.2	4.3	4.1	4.1	4.1	4.0
<b>Hong Kong</b>								
Gross Domestic Product	8.6	7.5	6.9 <sup>r</sup>	2.0 <sup>r</sup>	0.9	2.6	1.5 <sup>r</sup>	0.5
Exports of goods	15.9	11.4	9.4	3.4	-0.2	4.1	3.3	1.4
Imports of goods	16.9	10.3	11.6	3.3	-0.1	3.7	4.0	1.0
Consumer Price Index	-0.4	1.0	2.0	0.2	0.3	0.1	0.2	0.2
Unemployment rate	6.8	5.6	4.8	5.1	4.9	4.7	4.4	4.3

*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