

## Global Economy in the Second Quarter of 2004

As the global economic recovery continued to stride quickly in the second quarter of 2004, economic indicators in most countries showed optimal performances. Enterprises' willingness to invest as well as industrial production increased considerably and it is worth noting in particular a robust recovery in the export-oriented Asian region. However, there are still uncertainties that are potentially detrimental to economic development, such as the soaring prices of international oil and raw materials, pressures to raise the US interest rates and macroeconomic policies in Mainland China.

As indicated in the *OECD Economic Outlook* published in June by the Organisation for Economic Cooperation and Development, despite inflationary pressures, the world economic recovery carried on, with international financial markets remaining buoyant. Hence, the organization adjusted upward the 2004 forecast for its member states to 3.4%, up 0.4 percentage points. Meanwhile, it also adjusted upward growth forecast for the US and Japan, up from 4.2% and 1.8% to 4.7% and 3.0% respectively while it revised downward growth forecast for the Euro Zone, down from 1.8% to 1.6%. Moreover, the world trade volume (goods and services) was expected to grow 8.6% instead of 7.8%.

In the second quarter of 2004, economic recovery in the US was less robust than what had been expected, with GDP growth at 4.7%<sup>a</sup>, down from 5.0% in the first quarter, and quarter-to-quarter growth only at 2.8%<sup>b</sup>. A tightened monetary policy coupled with the first interest rate rise in four years led to small increases in private consumption and government expenditure, up 3.6% and 1.7% respectively. As regards external trade, growth rate in the value of imports jumped from 11.7% in the first quarter to 17.7% in the second quarter under sharp rise in fuel prices; and the value of exports also increased by 13.6%. In addition to serious deficits both in trade and fiscal budget, the US is now facing potential inflationary pressures. The employment market has stabilised, with unemployment rate remaining at 5.6%.

Economic recovery in the Euro Zone has been accelerating. With consumer and enterprise confidence indices on the rebound, industrial production went up 2.6% in the second quarter of 2004 and economic growth rose to 2.0%, up from 1.3% in the first quarter. Employment situation, however, continued to worsen, with unemployment rate at a high 9.0%. Germany, the largest economy in the Euro Zone, showed signs of optimism in economic recovery, with GDP growth at 2.0%. Manufacturing industry expanded 5.4%, albeit private consumption retreated 0.5% due to a

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<sup>a</sup> Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the second quarter of 2004 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.

high unemployment rate, which was offset by growth in imports and exports of goods, at 9.3% and 14.3% in the second quarter, up from 4.7% and 9.1% in the first quarter respectively.

Overall, the UK economy outperformed the Euro Zone. Economic growth of 3.7% in the second quarter of 2004 was mainly driven by investment by enterprises as well as by the manufacturing industry, which rose 4.7% and 1.4% respectively. Construction expanded 5.8% whereas shrinkage was seen in agriculture, fishery, mining and energy production. Meanwhile, the Consumer Price Index in June rose 1.6% and unemployment rate inched up 0.1 percentage point to 4.8%. In France, economic growth rose to 3.0%, up from 1.7% in the first quarter. Private consumption was better than expected, up 2.7%. External trade did relatively well, with total values of imports and exports up 8.3% and 4.4% respectively. The employment market was yet to improve, with unemployment rate at 9.8%, a new record in recent years.

Stimulated by growing exports and a stronger domestic demand, the export-oriented Asian economies showed encouraging signs of expansion. Japan recorded GDP growth of 4.2% in the second quarter on the back of an expanding trade surplus as well as a 10.1% surge in investment by enterprises. Private consumption rose 3.4% and the employment market became upbeat where unemployment rate dropped to a low 4.6%. Deflation, however, has not eased. In the Republic of Korea, with an optimal performance in imports and exports of goods, up 22.2% and 29.5% respectively, GDP expanded 5.5% in the second quarter and industrial production grew 12.3%. However, the economic prospects are overshadowed by a weak demand in private consumption, credit crisis faced by financial institutions and a growing number of consumer defaults. Unemployment rate rose to 3.5%.

Singapore saw a continuous upswing in economy, which surged 12.5% in the second quarter of 2004. Manufacturing and service sectors, in particular, gained the most, up 20.6% and 11.6% respectively. Unemployment rate in June stabilised at the level of 4.5% while the Consumer Price Index went up 1.9%. In Taiwan, driven by a robust 35.0% expansion in investment by enterprises, GDP registered a 7.7% increase in the second quarter; unemployment rate remained at a low 4.4%. Strong demand in electronic products, essential metals and precision instruments was the impetus behind the leap in the growth rate of total export value, from 22.3% in the first quarter to 28.8% in the second quarter. Growth rate of total import value soared to 39.7% from 31.2%.

In Hong Kong, the economy has been on a rapid recovery since the beginning of 2004. As private consumption, investment by enterprises and export of services grew 11.0%, 13.2% and 31.3% respectively, the economy grew an impressive 12.1% in the second quarter, the biggest increase in four years. As regards external trade, as a weaker US dollar strengthened the competitiveness of Hong Kong products, imports and exports of goods gained 22.1% and 17.8% respectively. Employment situation continued to improve, with unemployment rate falling 0.3 percentage point to 6.9%. Nevertheless, the serious government fiscal deficit persisted, reaching a

high HKD 17 billion in the second quarter.

In Mainland China, GDP expanded 9.6% in the second quarter of 2004 against the backdrop of a rapidly developing economy. In the first half of 2004, actual foreign investments reached USD 35.24 billion as a result of a steadily growing domestic consumer demand and a continuous influx of foreign investments. Growth in investments in fixed assets slowed down, from 42.9% in the first quarter to 31.0% in the second quarter, an indication of the effectiveness of the government's macroeconomic policies. Total values of imports and exports increased 42.9% and 37.2% respectively and trade surplus was improved to USD 1.71 billion. At the end of June, Mainland China's foreign exchange reserve amounted to USD 470.6 billion, USD 30.8 billion higher than the first quarter.

