

Global Economy in the Second Quarter of 2007

In the second quarter of 2007, the world economy maintained its rapid growth momentum. Despite the shrinking housing market, the overall US economy expanded steadily upon favourable business environment. The growth in the Euro area slackened owing to a continuous rising exchange rate of the Euro. The Asian region registered strong economic expansion that was driven by increases in internal demand and exports. The resilience of Japan's economy sustained, but its growth rate slowed from the previous quarter. Overall, the world economy remained on track for continued robust growth; nevertheless, rising energy and food prices exerted great pressure on inflation, while the sinking US housing market and global trade imbalances posed downside threats to the world economy.

In the July 2007 edition of the *World Economic Outlook*, the International Monetary Fund (IMF) indicated that the strong global expansion was expected to continue, and projections for global growth in both 2007 and 2008 have been revised upward from 4.9% in April 2007 to 5.2%. The IMF forecast for the US growth remained at 2.8% in 2008, while the projection for 2007 was scaled down by 0.2 percentage point to 2.0%. The projected growth of the Euro area was adjusted upward by 0.3 percentage point to 2.6% in 2007, and by 0.2 percentage point to 2.5% in 2008. Meanwhile, the forecast for Japan was revised up to 2.6% in 2007 and 2.0% in 2008, up by 0.3 and 0.1 percentage point respectively. For Mainland China, the growth projections were scaled up by 1.2 percentage points to 11.2% in 2007, and by 1.0 percentage point to 10.5% in 2008. In addition, the growth forecast for the world trade volume (goods and services) was marked up by 0.1 percentage point to 7.1% this year, while the projection for 2008 remained at 7.4%.

Following the slow economic growth in the first quarter and a shrinking housing market, the US regained its momentum in the second quarter due to increases in exports and private domestic investment. The Gross Domestic Product (GDP) growth was 1.9%^a and the corresponding quarter-to-quarter growth^b rose to 4.0% from 0.6% in the first quarter. Private domestic investment expanded by 4.7% over the preceding quarter, with government consumption expenditure and investment rose by 4.1%. Growth in private consumption expenditure slowed to 1.4% as compared with the first quarter. As regards external trade, total value of exports of goods went up by 10.6% while total value of imports of goods kept narrowing down to log a 3.6% rise. The condition of the employment market improved, with the unemployment rate dropped to 4.4% from 4.8% in the first quarter. The Consumer Price Index (CPI) rose by 2.7% year-on-year upon rising energy and food prices.

The Euro area saw a softer economic growth. GDP registered an increase of 2.5% in the second

^a Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the second quarter of 2007 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.

quarter of 2007, with a quarter-to-quarter growth at 0.3%. Among this, fixed capital investment increased by 4.3%, down from 7.4% in the preceding quarter; meanwhile, private consumption expenditure expanded by 1.5%. Value of imports and exports of goods recorded growth of 3.9% and 8.9% respectively. The condition of the labour market improved significantly, with the unemployment rate dropped by 0.9 percentage point from the preceding quarter to 6.7% and the CPI growth was held stable as in the first quarter, at 1.9%. In Germany, despite strong exports in the second quarter of 2007, the economic growth slowed to 2.5% upon weak expansion in internal demand, down from 3.3% in the first quarter, with a quarter-to-quarter growth of 0.3%. Value of imports and exports of goods expanded by 7.2% and 11.3% respectively. The improving condition of the employment market logged an unemployment rate of 9.1%, down by 0.9 percentage point from the preceding quarter and the CPI rose by 1.9%. In France, GDP growth decelerated to 1.3% year-on-year or 0.3% quarter-to-quarter, on the back of notable increase in imports and lower growth in gross fixed capital formation. Value of imports and exports of goods climbed up by 3.9% and 1.7% respectively. The unemployment rate dropped to 8.1% from 8.4% in the first quarter, whereas CPI growth was held at 1.2%.

In the UK, economic growth registered at 3.0%, up by 0.8% over the first quarter, in light of the booming industrial and construction sectors, as well as steady growth in the service sector, marking the sixth consecutive quarter that the rate of economic growth has reached the average level or above. Overall industrial output in the second quarter rose by 0.6% quarter-to-quarter, up from -0.1% in the previous quarter, of which the output in the mining and manufacturing sectors accelerated by 1.1% and 0.6% respectively from the first quarter, while water, electricity and gas supply dropped by 0.4%; output in the construction sector increased by 1.1%. The service sector recorded a 0.8% quarter-to-quarter growth, of which the transport, storage and communication sector, and business and financial services rose by 1.4% and 1.3% respectively from the first quarter; distributive trade, hotels and restaurants, and government and other services grew marginally by 0.4% and 0.1% respectively. Value of imports and exports of goods fell by 17.0% and 18.2% respectively. The unemployment rate went down by 0.2 percentage point from the first quarter to 5.4% and CPI grew by 2.6%.

The Asian economies sustained their robust growth on the back of strong consumption and external demand; however, high inflation prevailed among major economic entities (such as Mainland China and South Korea) within the region upon rising energy and food prices that required implementation of tightening monetary measures to ease the inflation pressure. The US, as the major export market of Asia, falling house prices and the weakening US dollar might pose challenges to the development of the Asian economies. In Japan, GDP growth registered at 2.3% in the second quarter of 2007, attributable to the 2.5% rise in gross fixed capital formation and the 1.3% growth in internal demand induced by satisfactory company profits. Value of imports and exports of goods expanded by 9.9% and 13.1% respectively. The unemployment rate dropped to 3.8% from 4.1% in the first quarter, with CPI edged down by 0.1% as in the previous quarter. Economic growth in South

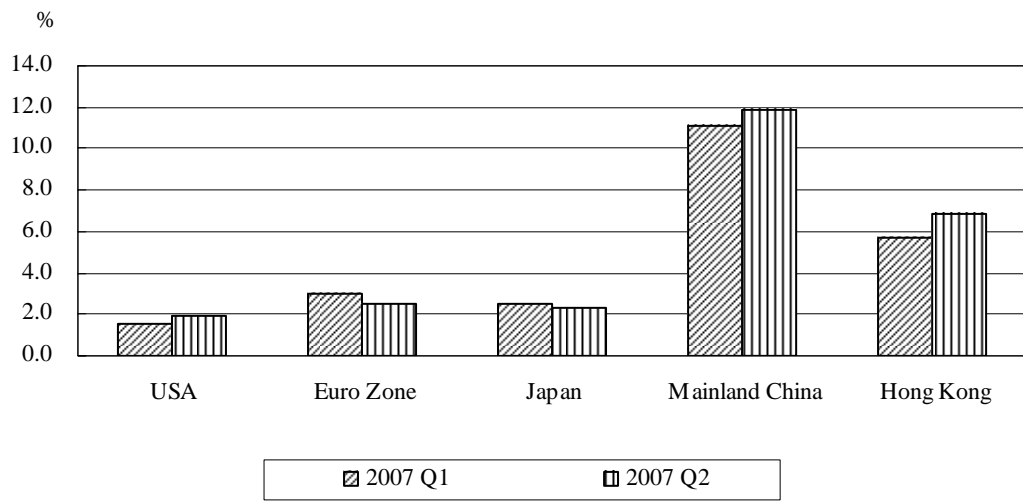
Korea was 4.9%, of which the manufacturing sector, and real estate and business services expanded by 5.9% and 3.9% respectively. Value of imports and exports of goods logged double-digit growth, at 14.3% and 14.4% respectively. The unemployment rate dropped by 0.4 percentage point from the preceding quarter to 3.2%, whereas CPI went up by 2.4%.

Singapore displayed strong economic growth in the second quarter of 2007. GDP rose by 8.6%, of which the manufacturing sector and financial services expanded by 8.3% and 17.0% respectively, with the construction sector recorded the highest growth since the third quarter of 1997, at 18.0%. Value of imports and exports of goods increased by 6.1% and 7.0% respectively. In regard to employment, as more fresh graduates entering the labour market and students looking for work during school break, the unemployment rate in the second quarter went up by 0.5 percentage point to 3.0%. CPI registered a 1.0% rise. In Taiwan, China, the economic growth climbed up by 5.1% upon robust private investment. Specifically, private fixed investment rose by 12.5% that was underpinned by a surge in capital expenditure of semi-conductor factories and an increase in the imports of civil passenger aircrafts; meanwhile, the industrial sector and the financial and insurance sector registered growth of 7.3% and 6.1% respectively. External trade grew steadily, with value of imports and exports of goods expanded by 7.3% and 6.6% respectively. The unemployment rate was held stable at 3.9%, same as the preceding quarter, while CPI rose slightly by 0.2%.

Hong Kong economic growth accelerated at a rate of 6.9% in the second quarter, attributable to strong exports and financial services. Exports of services climbed up by 10.9%, with private consumption expenditure and gross fixed capital formation rose by 6.6% and 11.1% respectively. Value of imports and exports of goods registered growth of 12.6% and 11.7% respectively. CPI rose moderately by 1.3%; the condition of the employment market continued to improve, with the number of the employed approaching 3.5 million; meanwhile, the unemployment rate went up by 0.1 percentage point from the first quarter to 4.3%.

The economy of Mainland China maintained its rapid growth rate; GDP soared by 11.9% in the second quarter of 2007, resulting in an 11.5% growth in the first half of the year. Growth in fixed capital investment remained at high level in the first half of 2007, up by 25.9%. The actually utilized foreign capital amounted to USD 31.90 billion, corresponding to an increase of 12.2% over the first half of 2006. Value of imports and exports of goods continued to surge, up by 18.2% and 27.6% respectively, producing a trade surplus of USD 112.50 billion. At the end of June 2007, Mainland China's foreign exchange reserve reached USD 1,332.63 billion, up by 41.6% (USD 391.51 billion) compared with the first half of 2006. CPI for the first half of the year went up by 1.9 percentage points year-on-year to 3.2%.

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	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2
USA								
Gross Domestic Product	3.6 ^r	3.1 ^r	2.9 ^r	3.2 ^r	2.4 ^r	2.6 ^r	1.5 ^r	1.9
Exports of goods	13.0	10.7 ^r	14.5	13.3	16.0	14.6	11.0 ^r	10.6
Imports of goods	17.0	13.9 ^r	10.9	12.9	12.7	4.4	4.1 ^r	3.6
Consumer Price Index	2.7	3.4	3.2	4.0	3.3	1.9	2.4	2.7
Unemployment rate	5.5	5.1	4.6	4.6	4.7	4.2	4.8	4.4
Japan								
Gross Domestic Product	2.7	1.9	2.2	2.1 ^r	1.4 ^r	2.2 ^r	2.5 ^r	2.3
Exports of goods	12.1	7.3	14.6	14.7	15.6	11.2 ^r	12.5	13.1
Imports of goods	10.9	15.7	18.3 ^r	19.4 ^r	16.7	10.8	6.6	9.9
Consumer Price Index	o	-0.3	0.3	0.2 ^r	0.6	0.3	-0.1 ^r	-0.1
Unemployment rate	4.7	4.4	4.1	4.2	4.1	3.9	4.1	3.8
Euro area								
Gross Domestic Product	2.0 ^r	1.5 ^r	2.8 ^r	2.2 ^r	2.5 ^r	3.3	3.0 ^r	2.5
Exports of goods	8.9 ^r	7.8 ^r	11.2	9.4 ^r	8.0 ^r	11.7 ^r	9.3	8.9
Imports of goods	9.4 ^r	13.5 ^r	13.3	14.6	10.5	7.6 ^r	5.1 ^r	3.9
Consumer Price Index	2.1	2.2 ^r	2.2	2.5	2.1	1.8	1.9 ^r	1.9
Unemployment rate	8.8 ^r	8.6	7.9 ^r	7.7 ^r	7.6 ^r	7.5 ^r	7.6 ^r	6.7
Mainland China								
Gross Domestic Product	10.1	10.4	10.7	11.5	10.6	10.4	11.1	11.9
Exports of goods	35.4	28.4	27.2	24.0	28.7	29.0	27.8	27.6
Imports of goods	36.0	17.6	20.0	18.5	22.1	15.5	18.2	18.2
Consumer Price Index ^a	3.9	1.8	1.5	1.3	1.3	1.5	2.7	3.2
Hong Kong								
Gross Domestic Product	8.6	7.5	6.9	5.6	6.8	7.3	5.7 ^r	6.9
Exports of goods	15.9	11.4	9.4	5.4 ^r	8.4	11.9 ^r	9.0	11.7
Imports of goods	16.9	10.3	11.6	8.1 ^r	10.7 ^r	14.0	9.0	12.6
Consumer Price Index	-0.4	1.1 ^r	2.0	2.0 ^r	2.3	2.1 ^r	1.7	1.3
Unemployment rate	6.8	5.6	4.8	5.0	4.9	4.2	4.2	4.3

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) (%)							
	2004	2005	2006	2006	2006	2006	2007	2007
				Q2	Q3	Q4	Q1	Q2
USA								
Gross Domestic Product	3.6 ^r	3.1 ^r	2.9 ^r	2.4 ^r	1.1 ^r	2.1 ^r	0.6 ^r	4.0
Exports of goods	13.0	10.7 ^r	14.5	3.5	3.3 ^r	2.6 ^r	1.1 ^r	3.5
Imports of goods	17.0	13.9 ^r	10.9	2.7 ^r	3.3 ^r	-2.6 ^r	0.8	2.4
Consumer Price Index	2.7	3.4	3.2	1.2	0.7	-0.6	1.0	1.5
Unemployment rate	5.5	5.1	4.6	4.6 ^r	4.7	4.5	4.5	4.5
Japan								
Gross Domestic Product	2.7	1.9	2.2	0.4 ^r	0.1	1.3 ^r	0.8 ^r	0.1
Exports of goods	11.8	7.5	14.9	1.4	4.1 ^r	2.9	3.2 ^r	2.6
Imports of goods	10.3	16.4	18.6 ^r	0.1 ^r	4.6 ^r	0.8 ^r	0.8 ^r	3.4
Consumer Price Index	o	-0.3	0.3 ^r	0.1	0.3	-0.3	-0.2 ^r	0.2
Unemployment rate	4.7	4.4 ^r	4.1 ^r	4.1	4.1	4.0 ^r	4.0	3.8
Hong Kong								
Gross Domestic Product	8.6	7.5	6.9	0.9	2.6	1.5	0.6 ^r	2.0
Exports of goods	15.9	11.4	9.4	-0.2	4.1	3.3	1.4	1.9
Imports of goods	16.9	10.3	11.6	-0.1	3.7	4.0	1.0	3.6
Consumer Price Index	-0.4	1.1 ^r	2.0	0.7 ^r	0.6 ^r	0.4 ^r	o ^r	0.4
Unemployment rate	6.8	5.6	4.8	4.9	4.7	4.4	4.3	4.2

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