

Global Economy in the Third Quarter of 2004

Entering the second half of 2004, in comparison with the robust global economic recovery in the beginning of the year, the economic indicators of some countries showed signs of slowdown. Fortunately, the international financial markets remained stable and consumer demand as well as enterprises' willingness to invest persisted. However, there are still negative factors that are potentially detrimental to economic development, such as the soaring international fuel prices, a weak US dollar, trade imbalances among countries and the uncertainty of whether the macroeconomic policies in Mainland China will lead to a "soft landing".

As indicated in the *World Economic Outlook* published by the International Monetary Fund in September 2004, private consumption and industrial output are on steady growth. This reflects that the world economy is persistently recovering, which in turn helps promote global trade volume. The organization, therefore, adjusted the 2004 forecast for the world economic growth upward to 5.0%, up 0.3 percentage point, and revised also the respective forecasts for the Euro Zone and Japan upward, from 1.8% and 3.3% predicted in April to 2.2% and 4.4%. However, it revised forecast for the US downward, from 4.6% to 4.3%. Moreover, the world trade volume (goods and services) was expected to grow 8.8% instead of 6.8%.

In the third quarter of 2004, economic growth in the US was below expectation, with GDP growth at 4.0%^a, down from 4.8% in the second quarter; quarter-to-quarter^b growth was only 3.9%. In contrast, private consumption and investments by enterprises went up 3.6% and 11.8% respectively. As regards external trade, growth rate in the total value of imports jumped from 17.7% in the second quarter to 18.6% in the third quarter due to an upsurge in fuel prices; the total value of exports increased 14.4%. Moreover, in addition to serious deficits both in trade and fiscal budget, the US is now facing pressures from a weak dollar against major currencies. The employment market, however, has stabilized, with unemployment rate at 5.5%, down 0.1 percentage point from the second quarter.

The prospect of the economic recovery in the Euro Zone turned bright. With consumer confidence index, enterprise investment and industrial output on the rebound, GDP recorded growth of 1.8% in the third quarter. Unemployment rate fell to 8.9%. However, the continually strong Euro has created much pressure to its exports. Germany, the largest economy in the Euro Zone, saw a further decline of 0.7% in private consumption as unemployment rate remained high. Owing to an increase of 11.4% in enterprise fixed investment, the economy grew 1.3% and manufacturing also went up 4.6%. Imports and exports of goods rose 10.4% and 7.3% respectively.

^a Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the third quarter of 2004 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.

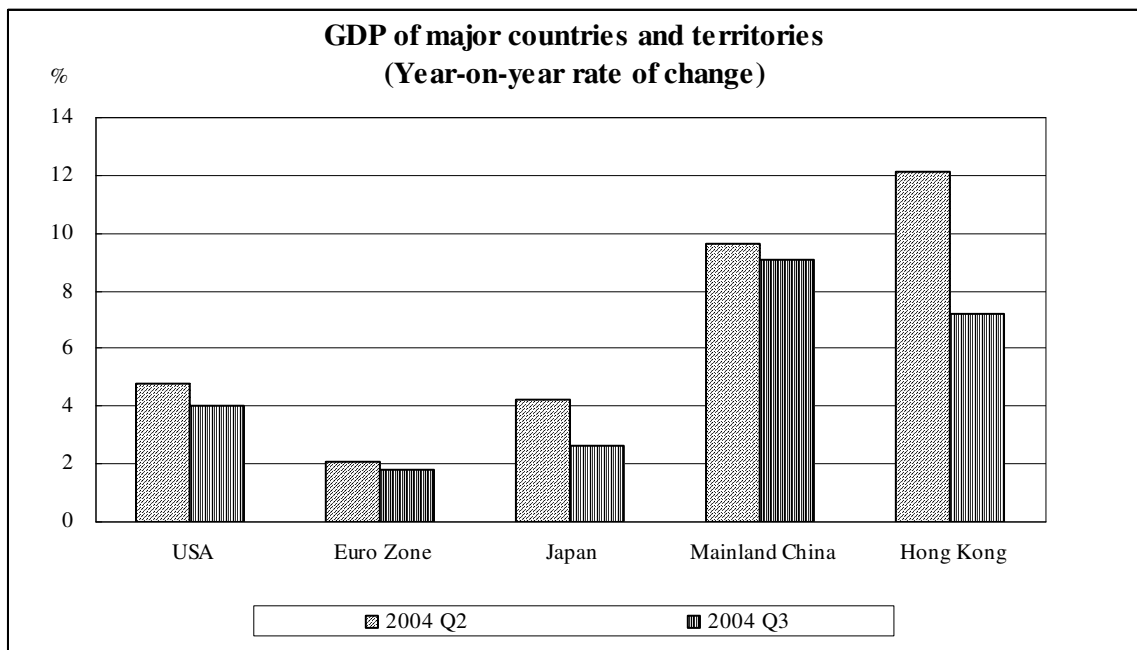
The UK economy continued to be stable, GDP went up by 3.1% in the third quarter. It was mainly due to high consumer demand spurred by a low interest rate and the government's expansion in public expenditure. Meanwhile, enterprise investment and the service industry expanded 5.7% and 7.1% respectively; values of imports and exports of goods grew 7.5% and 3.6% respectively. Unemployment rate dropped to a record low of 4.6%. In France, economic grew 2.0%, down from 2.9% in the second quarter. Private consumption rose mildly by 1.7%; industrial output was better than expected, expanding 2.0%. The Consumer Price Index (CPI) in September rose 2.1%; however, employment market was yet to improve, with an unemployment rate of 9.9%, a new record in recent years.

Stimulated by an improved economic environment and growing exporting markets, most countries and territories in the export-oriented Asian region reported encouraging economic performance. On the back of an upsurge of 7.4% in equipment investment by enterprises, the Japan economy grew 2.6% in the third quarter of 2004, better than expected. Private consumption grew 2.1%; imports and exports of goods jumped 13.0% and 12.5% respectively. However, employment market worsened, with unemployment rate going up to 4.8%. In the Republic of Korea, the economy expanded by 4.6% only due to weak private consumption and slowed growth in exports. Values of imports and exports of goods grew 12.3% and 17.8% in the third quarter, down from 22.2% and 29.5% in the second quarter respectively. In addition, credit crisis faced by financial institutions and consumer defaults remained unsolved. Thus, the economic situation of the country was less than optimistic.

Driven by robust growth of 15.7% and 11.5% in the wholesale and retail and manufacturing sectors respectively, the Singapore economy grew steadily, up 7.5% in the third quarter. Unemployment rate in September fell to 3.4%, a large decrease of 1.1 percentage points from June. The Consumer Price Index (CPI) went up slightly by 1.7%. In Taiwan, China, driven by strong demand in electronic products, base metals and precision instruments, both imports and exports of goods performed well, up 31.9% and 21.6% respectively. In addition, enterprise fixed investment expanded rapidly by 26.4%. As a result, the GDP recorded growth of 5.3% in the third quarter. Meanwhile, unemployment rate increased to 4.6% and the Consumer Price Index (CPI) rose 1.9%.

In Hong Kong, the economy was on a clear trend of recovery driven by an improved business environment and an active property market, with GDP up by an optimal 7.2% and private consumption up by 5.1%. Regarding external trade, as a weaker US dollar strengthened the competitiveness of Hong Kong products, imports and exports of goods expanded 18.4% and 17.2% respectively. Employment situation improved as well, with unemployment rate down 0.1 percentage point to 6.8%. Moreover, the Consumer Price Index (CPI) rose 0.8%, reversing the downfall of 0.9% in the second quarter, which ended the 68-month-long deflation period in Hong Kong.

In Mainland China, the economy continued to grow steadily and GDP expanded 9.1% in the third quarter. With the stable growth in domestic consumer demand and a continuous influx of foreign capital, actual foreign investments reached USD 51.16 billion between January and September 2004. Growth in investments in fixed assets slowed down slightly, from 31.0% in the second quarter to 27.7% in the third quarter, an indication of the effectiveness of the government's macroeconomic policies. Values of imports and exports of goods increased 30.1% and 34.7% respectively and trade surplus expanded to USD 11.44 billion. At the end of September 2004, Mainland China's foreign exchange reserve amounted to USD 514.5 billion, an increase of USD 43.9 billion compared with the second quarter.



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 (%)							
	2001	2002	2003	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3
USA								
Gross Domestic Product	0.8	1.9	3.0	3.5	4.4	5.0	4.8 ^r	4.0
Exports of goods	-6.5	-4.9	4.5	2.1	9.8	13.2	13.6	14.4
Imports of goods	-6.2	2.0	8.5	5.4	8.2	11.7	17.7	18.6
Consumer Price Index	2.8	1.6	2.3	2.2	1.9	1.8	2.9	2.7
Unemployment rate	4.8	5.8	6.0	6.1	5.9	5.6	5.6	5.5
Japan								
Gross Domestic Product	0.2 ^r	-0.3	1.3 ^r	1.9	3.4	5.6	4.2	2.6
Exports of goods	-5.1	6.4	4.7	7.1	4.0	11.6	13.4	12.5
Imports of goods	3.6	-0.6	5.0	6.5	-0.5	4.3	9.0	13.0
Consumer Price Index	-0.7	-0.9	-0.3	-0.2	-0.3	-0.1	-0.3	-0.1
Unemployment rate	5.0	5.4	5.3	5.2	5.1	4.9	4.6	4.8
Euro area								
Gross Domestic Product	1.5	0.9	0.4	0.3	0.8 ^r	1.4 ^r	2.1 ^r	1.8
Exports of goods	5.0	1.0	-2.9	-3.0	-2.1	4.2	11.4	8.6
Imports of goods	-2.0	-4.0	-0.5	-2.7	-0.3	-0.3	8.3	13.5
Consumer Price Index	2.6	2.2	2.1	2.0	2.1	1.7	2.3	2.2
Unemployment rate	8.5	8.3	8.8	8.8	8.8	8.8	9.0	8.9
Mainland China								
Gross Domestic Product	7.3	8.0	9.1	9.6	9.9	9.8	9.6	9.1
Exports of goods	6.8	22.3	34.6	29.7	40.5	34.0	37.2	34.7
Imports of goods	8.2	21.2	39.9	34.3	38.5	42.2	42.9	30.1
Consumer Price Index ^a	0.7	-0.8	1.2	0.7	2.7	2.8	3.6	3.8
Hong Kong								
Gross Domestic Product	0.5	1.9	3.2	4.0	4.9	7.0	12.1	7.2
Exports of goods	-5.8	5.4	11.7	7.1	11.4	13.0	17.8	17.2
Imports of goods	-5.4	3.3	11.5	6.1	13.8	15.7	22.1	18.4
Consumer Price Index	-1.6	-3.0	-2.6	-3.6	-2.3	-1.8	-0.9	0.8
Unemployment rate	5.1	7.3	7.9	8.3	7.3	7.2	6.9	6.8

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) (%)							
	2001	2002	2003	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3
USA								
Gross Domestic Product	0.8	1.9	3.0	7.4	4.2	4.5	3.3 ^f	3.9
Exports of goods	-6.5	-4.9	4.5	1.9	5.7	3.4	2.4	2.5
Imports of goods	-6.2	2.0	8.5	0.6	4.4	4.2	5.5	2.4
Consumer Price Index	2.8	1.6	2.3	0.6	0.2	0.9	1.2	0.5
Unemployment rate	4.8	5.8	6.0	6.1	5.9	5.6	5.6	5.5
Japan								
Gross Domestic Product	0.2 ^f	-0.3	1.3 ^f	0.6	0.9 ^f	1.7 ^f	-0.1 ^f	0.1
Exports of goods	-5.1	6.4	4.7	5.0	2.4	2.8	4.9	1.5
Imports of goods	3.6	-0.6	5.0	2.8	-1.9	2.5	6.5	5.0
Consumer Price Index	-0.7	-0.9	-0.3	0.1	-0.2	0.2	-0.2	0.1
Unemployment rate	5.0	5.4	5.3	5.2	5.1	4.9	4.6	4.8
Hong Kong								
Gross Domestic Product	0.5	1.9	3.2	6.8	1.4	1.2	2.6	1.9
Exports of goods	-5.8	5.4	11.7	-1.1	7.4	4.5	5.8	0.3
Imports of goods	-5.4	3.3	11.5	0.7	9.9	4.8	6.6	-1.4
Consumer Price Index	-1.6	-3.0	-2.6	-0.3	0.3	0.0	0.0	0.0
Unemployment rate	5.1	7.3	7.9	8.3	7.3	7.2	6.9	6.8

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