

Global Economy in the First Quarter of 2005

Entering 2005, the world economic growth slowed to a more moderate pace compared to a robust global recovery in 2004. The expanding US economy continued to be the driving force behind the world economic growth. Growth in the Euro Zone and Japan was slow whereas economic expansion in East Asia (excluding Japan) and Southeast Asia remained on track. World trade expanded steadily; the process of regional cooperation accelerated. However, negative factors that impede economic development remain and the world economy is still facing certain difficulties. Structural problems of the major economies remain exigent; rising interest rates worldwide, highly volatile oil prices, frequent terrorist acts and interweaving traditional and non-traditional security factors lead to higher operational costs and increased risks in the economy. Trade frictions are widespread as trade protectionism in developed countries is on the rise, posing potential threats to the world economic growth.

As indicated in *World Economic Outlook* published in April 2005 by the International Monetary Fund, global growth was moderate, accompanied by a significant drop in industrial production and global trade, reflecting both a return to a more sustainable pace of expansion and the adverse impact of higher oil prices. The IMF projection of the 2005 global GDP growth remained at 4.3%, but forecasts for the Euro Zone and Japan were adjusted downward from September's 2.2% and 2.3% to 1.6% and 0.8% respectively, while forecast for the US was revised upward from 3.5% to 3.6%. Moreover, world trade volume (goods and services) is expected to grow 7.4%, up from 7.3% predicted previously.

In the first quarter of 2005, economic growth in the US fell short of expectations, GDP growth lessened to 3.7%^a from 5.0% in the first quarter of 2004 and quarter-to-quarter^b growth registered only 3.5%. Expansions in private consumption and investments by enterprises slowed from 4.2% and 12.8% in the first quarter of 2004 to 3.6% and 11.0% respectively. As regards external trade, growth rate in the total value of imports lowered from 19.6% in the fourth quarter of 2004 to 14.7% in the first quarter of 2005 due to soaring energy prices; growth rate in the total value of exports slowed to 8.7%. Moreover, apart from serious trade and fiscal deficits, the US is under the pressure of a weak US dollar against other major currencies. The employment market, however, was stabilizing, with an unemployment rate of 5.3%, 0.1 percentage point lower than that in the fourth quarter of 2004.

In the Euro Zone, prospects of economic recovery became uncertain once again, with dropping index of economic sensitivity. GDP of the Euro Zone registered growth of 1.3% in the first quarter

^a Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the first quarter of 2005 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.

and unemployment rate lingered at a high 8.8%. A record-high unemployment rate in March was an indication that sluggish growth in the Euro Zone had not improved the gloomy labour market, which would add burden to future economic growth. Meanwhile, a persistent strong Euro added pressure to its exports. In fact, growth in the Euro Zone in the first quarter was driven by the region's largest economy, namely Germany, of which the economy unexpectedly grew 1.1%. However, expansion in Germany was largely achieved by exports, whereas internal demands remained weak. Growth in private consumption lowered further to 0.5% as unemployment rate remained persistently high (unemployment rate in the first quarter was 9.8%). Fixed investment by enterprises fell 4.0% whereas imports and exports of goods rose 4.4% and 5.0% respectively.

The UK economy continued to be steady, up 2.7% in the first quarter. The growth was mainly driven by the service sector, up 3.6%, of which transport, storage, communications, financial services and business services expanded markedly. Industrial production fell slightly, causing increase in investment by enterprises slowed to 2.9%. Imports and exports of goods dropped 1.9% and 1.0% respectively compared with the previous quarter. The overall employment situation was stable, with unemployment rate falling to 4.7%. In France, the economic growth rate lowered to 1.7% in which private consumption went up 2.2%. Values of imports and exports of goods grew 7.1% and 2.2% respectively. Meanwhile, industrial output expanded 2.2% and Consumer Price Index (CPI) of March rose 2.0%. Disappointedly, the employment market had not improved, with a high 10.1% unemployment rate.

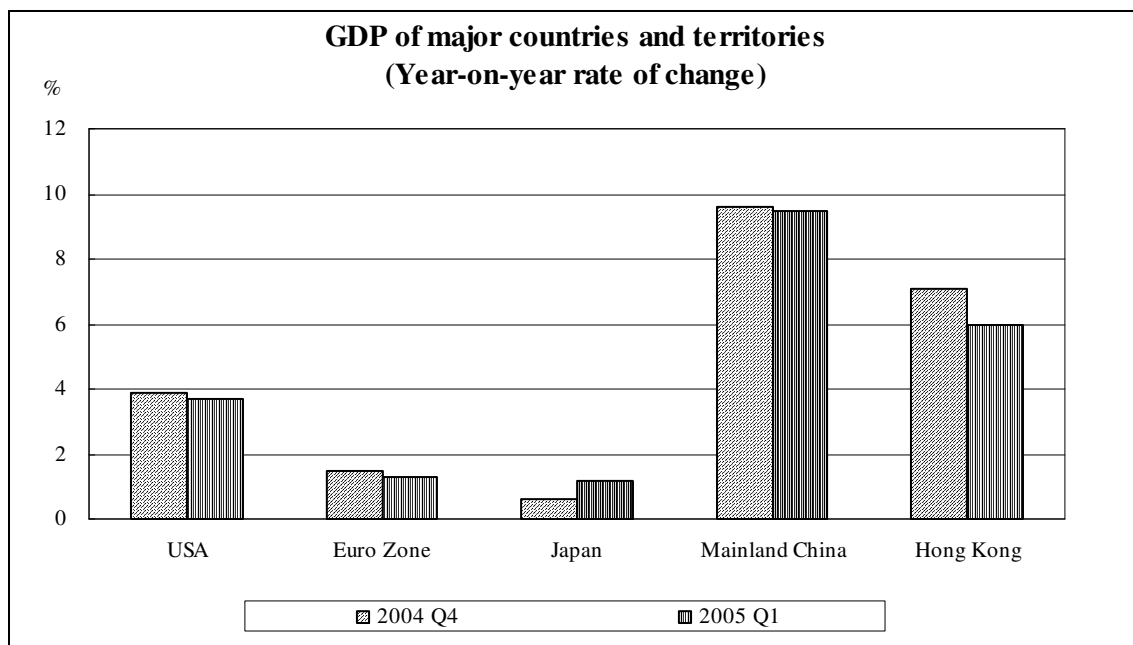
In the export-oriented Asian region, an uncertain external economic environment coupled with weaker export markets led to economic decline in some countries and territories. Spurred by an upsurge of 5.3% in equipment investments by enterprises, the Japanese economy grew 1.2% in the first quarter of 2005, which, however, was 4.4 percentage points lower than that in the same period of 2004. Private consumption inched up 0.8%. In comparison with the previous two quarters, growth in imports and exports of goods lessened to 10.0% and 3.8% respectively. Employment market was stabilizing, with an unemployment rate of 4.6%. In the Republic of Korea, the economy expanded 2.7%, fueled by growth in private consumption, equipment investments and exports. However, growth rates of the values of imports and exports of goods moderated to 5.2% and 7.4% in the first quarter, from 13.8% and 19.7% in the fourth quarter of 2004 respectively. Unemployment rate went up from the previous quarter to 3.9%; the overall outlook of the economy is not optimistic.

In Singapore, the economy slowed down sharply, up only 2.5% in the first quarter, 4.0 percentage points less than the 6.5% in the fourth quarter of 2004. Manufacturing grew 3.1%, 11.0 percentage points less than that in the previous quarter; growth in wholesale and retail lessened by 4.0 percentage points from the previous quarter to 6.7%. Moreover, unemployment rate in March jumped to 3.9% and CPI inched up 0.4%. In Taiwan China, as manufacturing continued to move out, growth in exports slowed. GDP recorded an increase of 2.5% in the first quarter, 0.7

percentage point less than that in the previous quarter. Growth rates in imports and exports of goods moderated further to 12.6% and 7.8% from 26.1% and 11.9% in the previous quarter respectively. Unemployment rate remained at 4.2% and CPI went up 1.6%.

In Hong Kong, driven by an improved business environment and an active property market, the economy kept up its momentum in growth, with GDP up 6.0% in the first quarter. Private consumption rose 4.6%. As prospects of external trade became uncertain, Europe and the US had taken protective measures against textile products imported from Mainland China, growth in imports and exports of goods slowed to 3.8% and 8.9% respectively. Employment situation continued to improve, with unemployment rate down 0.4 percentage point from the fourth quarter of 2004 to 6.1%. On the other hand, CPI went up 0.4%.

In Mainland China, the economy maintained rapid and steady growth. GDP went up 9.5% in the first quarter of 2005. With steadily growing domestic demands, foreign direct investments continued to grow, actual foreign investments reached USD 13.4 billion in the first quarter, up 9.5%. Growth rate in fixed asset investment moderated, up 22.8% in the first quarter, 20.2 percentage points less than that in the first quarter of 2004, reflecting effective government macroeconomic controls. Exports grew rapidly, values of imports and exports of goods expanded 34.9% and 12.2% respectively, with a trade surplus of USD 16.6 billion. At the end of March 2005, Mainland China's foreign exchange reserve amounted to USD 659.1 billion, an increase of USD 49.2 billion compared with the end of 2004.



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 (%)							
	2003	2004	2005	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1
USA								
Gross Domestic Product	1.9	3.0	4.4	5.0	4.8	4.0	3.9	3.7
Exports of goods	-4.9	4.5	13.0	13.2	13.6	14.4	11.0	8.7
Imports of goods	2.0	8.5	17.0	11.7	17.7	18.6	19.6	14.7
Consumer Price Index	1.6	2.3	2.7	1.8	2.9	2.7	3.3	3.0
Unemployment rate	5.8	6.0	5.5	5.6	5.6	5.5	5.4	5.3
Japan								
Gross Domestic Product	-0.3	1.4	2.6	5.6	4.2	2.6	0.6	1.2
Exports of goods	6.4	4.7	12.2	11.6	13.4	12.5	11.2	3.8
Imports of goods	-0.6	5.0	10.9	4.3	9.0	13.0	17.0	10.0
Consumer Price Index	-0.9	-0.3	-0.1	-0.1	-0.3	-0.1	0.5 ^r	-0.2
Unemployment rate	5.4	5.3	4.7	4.9	4.6	4.8	4.5	4.6
Euro area								
Gross Domestic Product	0.9	0.5	2.0	1.6	2.1 ^r	1.8 ^f	1.5 ^f	1.3
Exports of goods	1.0	-2.9	8.4	4.2	11.4	8.6	8.5	3.4
Imports of goods	-4.0	-0.5	8.5	-0.3	8.3	13.5	11.6	8.8
Consumer Price Index	2.2	2.1	2.2	1.7	2.3	2.2	2.3	2.0
Unemployment rate	8.3	8.8	8.9	8.8	9.0	8.9	8.8	8.8
Mainland China								
Gross Domestic Product	8.0	9.1	9.5	9.7	9.6	9.1	9.6	9.5
Exports of goods	22.3	34.6	35.4	34.0	37.2	34.7	35.6	34.9
Imports of goods	21.2	39.9	36.0	42.2	42.9	30.1	30.5	12.2
Consumer Price Index ^a	-0.8	1.2	3.9	2.8	4.4	5.3	3.2	2.8
Hong Kong								
Gross Domestic Product	1.9	3.2	8.1	7.3 ^r	12.0 ^f	6.6 ^f	7.1	6.0
Exports of goods	5.4	11.7	15.3 ^f	15.0 ^f	18.7 ^f	15.3 ^f	12.6 ^f	8.9
Imports of goods	3.3	11.5	14.1 ^f	16.3 ^f	20.3 ^f	14.2 ^f	7.0 ^f	3.8
Consumer Price Index	-3.0	-2.6	-0.4	-1.8	-0.9	0.8	0.2	0.4
Unemployment rate	7.3	7.9	6.8	7.2	6.9	6.8	6.5	6.1

^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) (%)							
	2003	2004	2005	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1
USA								
Gross Domestic Product	1.9	3.0	4.4	4.5	3.3	4.0	3.8	3.5
Exports of goods	-4.9	4.5	13.0	3.4	2.4	2.5	1.8	2.6
Imports of goods	2.0	8.5	17.0	4.2	5.5	2.4	5.6	2.2
Consumer Price Index	1.6	2.3	2.7	0.9	1.2	0.5	0.8	0.6
Unemployment rate	5.8	6.0	5.5	5.6	5.6	5.5	5.4	5.3
Japan								
Gross Domestic Product	-0.3	1.4	2.6	1.4	-0.2	-0.3	- ^r	1.3
Exports of goods	6.4	4.7	12.2	2.8	4.9	1.5	1.0	-1.2
Imports of goods	-0.6	5.0	10.9	2.5	6.5	5.0	1.6	-0.6
Consumer Price Index	-0.9	-0.3	-0.1	0.2	-0.2	0.1	0.4	-0.5
Unemployment rate	5.4	5.3	4.7	4.9	4.6	4.8	4.5	4.6
Hong Kong								
Gross Domestic Product	1.9	3.2	8.1	2.4 ^r	1.9 ^r	1.7 ^r	0.6	1.5
Exports of goods	5.4	11.7	15.9	2.5 ^r	5.8	0.6 ^r	2.9 ^r	-0.3
Imports of goods	3.3	11.5	16.9	3.7 ^r	3.6 ^r	-1.1 ^r	0.6 ^r	1.6
Consumer Price Index	-3.0	-2.6	-0.4	0.3 ^r	-0.1 ^r	-0.2 ^r	0.3 ^r	0.4
Unemployment rate	7.3	7.9	6.8	7.2	6.9	6.8	6.5	6.1

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

Hong Kong SAR Census and Statistics Department