

Global Economy in the Third Quarter of 2005

Entering the third quarter of 2005, the world's economic growth continued to expand at a fast pace following the growth trend of the second quarter. According to figures, the rises in oil prices and the US interest rate influenced moderately the world economy. Although the USA was seriously affected by two hurricanes, "Katrina" and "Rita", the economy still continued to grow strongly. However, a worsening trend in the inflationary pressure was detected. The Euro Zone still could not get out of the long-term economic stagnation, for its economic growth was sluggish whereas the economy of Japan showed signs of a strong recovery in the 3rd quarter. In East Asia (with the exception of Japan) and in Southeast Asia, the economic development remained relatively stable. In general, the world economy was stable and favourable. However, the oil prices rose markedly and maintained at a historical high level in the international market. Until now, there are no multilateral actions aiming at reducing the oil prices, which exerts pressure on the operating cost in the world economy. The further imbalances of the world current account induces the trade protectionism, which endangers the world economic development.

In the September 2005 edition of the *World Economic Outlook*, the International Monetary Fund (IMF) pointed out that although the US and the rest of the world were affected by the high level in oil prices and the two hurricanes, the world economy continued to grow. The IMF forecasted both the 2005 and 2006 world economic growth to be 4.3%, which did not differ too much from the previous forecast by the Fund in April 2005 (4.3% for 2005 and 4.4% for 2006). Nevertheless the 2005 and 2006 forecasts for the Euro zone were adjusted downwards, from 1.6% and 2.3% in April to 1.2% and 1.8% respectively; for the US, the forecasts were adjusted downwards from 3.7% and 3.6% in April to 3.5% and 3.3% respectively; and for Japan, the forecast for 2005 was adjusted upwards from 0.8% in April to 2.0% and the growth forecast for 2006 remained at 2.0%. Moreover, the growth projections for the 2005 and 2006 world trade volume (of goods and services) were updated from 7.5% and 7.6% in April to 7.0% and 7.4% respectively.

In the third quarter of 2005, the hurricanes "Katrina" and "Rita" attacked the Gulf of Mexico, located south of the US, damaging seriously the local economy, especially the energy production and supply in the US. GDP continued a strong growth of 3.7%^a and the quarter-to-quarter^b variation was 4.3%. The economic growth remained high in the third quarter, which indicated that the US economy had a strong capacity of dealing with the external shock and thus the two hurricanes did not greatly influence the US economy. In general, the US economy will have a steady growth in 2005. In the third quarter, private consumption expenditure kept on growing at the same level of the previous quarter, at 3.9%. The domestic private investment increased further, from 4.0% in the second quarter to 4.3%. Concerning external trade, the growth rate of total import value was slightly

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

higher compared with the second quarter of 2005, being 13.8%. On the other hand, the growth rate of total export value kept on slowing down, to 10.2%. The consumer price index growth rate climbed sharply to 3.8%, up 0.9 percentage point from the second quarter. Meanwhile, the employment market flourished, with an unemployment rate of 5.0%, down 0.1 percentage point from the second quarter of 2005. Fiscal deficit, record-breaking trade deficit and the bubbling property market are the main problems faced by the US economy.

In the Euro Zone, economic development accelerated in the third quarter. GDP registered a growth rate of 1.6%, up 0.4 percentage point from the second quarter. Unemployment rate lowered to 8.5%, down 0.2 percentage point from the previous quarter. Exports, which had fuelled growth in the Euro Zone, showed a marked increment under a fall in the exchange rate of EUR against USD. Consequently, exports of goods expanded 9.6% in the third quarter, up 3.3 percentage points from the previous quarter. Imports of goods grew 3.2 percentage points more to 14.0%. The rise in private consumption and the surges in exports and investments stimulated the Euro Zone economic recovery. In the third quarter, the consumer price index (CPI) rose by 2.3%, hindering the economic recovery. In Germany, driven by strong growth in exports and expansion in enterprises' fixed asset investment, GDP grew by 1.3%. As regards the driving force behind the growth in the third quarter, namely external trade, imports and exports of goods went up 6.0% and 8.4% respectively. Although unemployment rate dropped, it remained at a high level of 9.2% in the third quarter. Enterprises' fixed asset investment rose 4.5%.

The UK economy continued to be steady, up 1.7% in the third quarter, driven mainly by the service sector (which rose 0.6% from the previous quarter), financial services, business services, government, transport and communications. Industrial production increased slightly by 0.4% from the previous quarter, of which, transport equipment, chemistry industry and artificial fibre were the main productions. The values of total imports and exports went up 2.1% and 0.7% respectively compared with the previous quarter. The overall employment situation remained stable, with an unemployment rate of 4.7%. In France, driven by household consumption expenditure, fixed asset investment by enterprises and the rise in trade surplus, the economy grew further from 1.1% in the second quarter to 1.8% in the third quarter. The quarter-to-quarter variation of household consumption expenditure was 0.7%, and that for the fixed asset investment by enterprises was 0.9%, in which the investment by non-financial enterprises was 1.1%. The values of total imports and total exports grew 2.3% and 3.1% respectively from the previous quarter. The consumer price index (CPI) rose 2.2% in September. Although the employment market improved, the unemployment rate still remained at a high level of 9.4%.

In the export-oriented Asian region, total exports grew steadily in the third quarter. Major economies in the region recorded strong growth. As exports played a major role in the Asian economy, the relatively slow growth in imports worsened the current account imbalance with the rest of the world. Trade protectionism in developed countries will be the main unfavourable factor for the

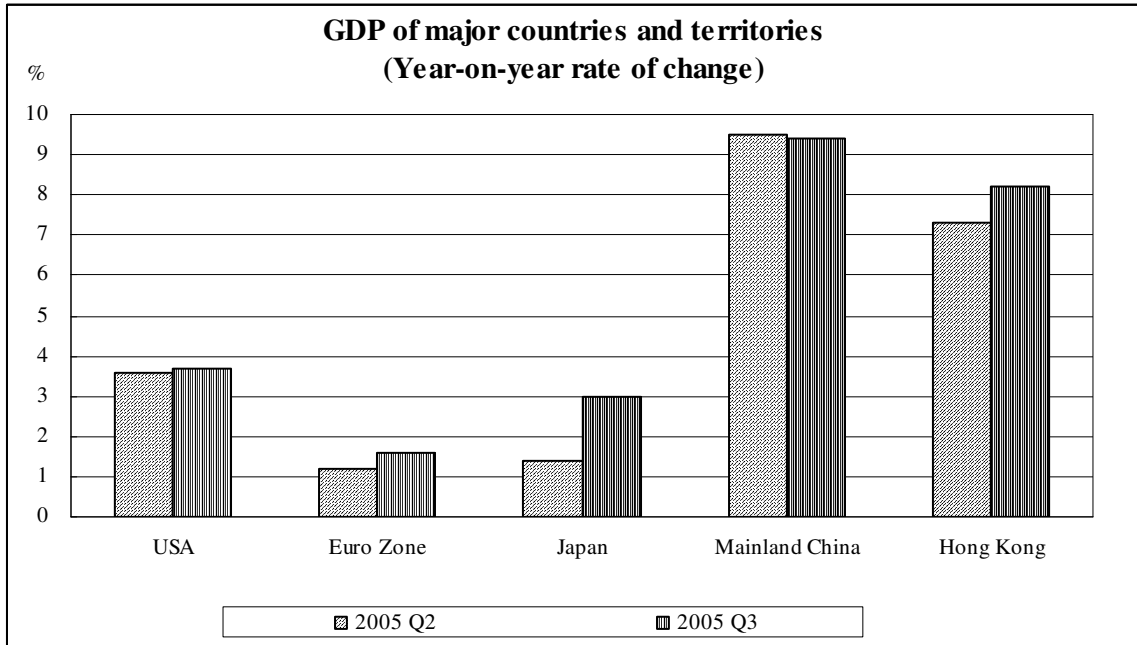
Asian economic development. Rising production costs and inflationary pressure were caused by high oil prices. The Japanese economy showed signs of a robust recovery, up 3.0% in the third quarter of 2005. Equipment investment by enterprises climbed 7.3%, private consumption rose 3.5% and fixed asset investment grew 4.2%. Imports and exports of goods went up at a faster pace, by 16.8% and 7.4% respectively. Employment market was stable, with unemployment rate remained at the level of 4.3%. In the Republic of Korea, the economy expanded 4.5% in the third quarter under growth in semi-conductors, petrochemical products, industrial machinery and exports. The values of total imports and total exports went up 10.7% and 11.5% respectively. The unemployment rate was 3.6%, showing that the employment situation improved further.

In Singapore, the economy registered a growth of 7.0% in the third quarter after rising sharply by 5.2% in the second quarter. The economic growth was driven by external trade, with the values of total imports and total exports increasing by 10.0% and 13.0% respectively. Lower growth was recorded in construction, wholesale and retail trade, hotels, restaurants and similar establishments, transport, communications and financial services, while all other sectors grew considerably. Manufacturing rose 13.2%, 6.8 percentage points higher than the growth rate recorded in the previous quarter; and business services grew by 5.5%, 2.2 percentage points more than in the last quarter. Moreover, unemployment rate decreased to 3.3% and the consumer price index (CPI) inched up 0.5%. As for Taiwan China, due to growth in manufacturing, exports of goods and public investment, GDP recorded an increase of 4.4% in the third quarter. Imports and exports of goods recorded growth of 10.9% and 7.7% respectively. Unemployment rate grew slightly to 4.3% and the consumer price index (CPI) went up 3.0%.

In Hong Kong, the economy kept up the momentum for rapid growth, with GDP up 8.2% in the third quarter, higher than the 7.3% growth rate recorded in the second quarter. With the continued improvement in employment, economic situation was optimistic. Rising property prices enhanced consumer confidence; therefore, private consumption rose 4.6%. As external trade rebounded, imports and exports of goods rose 11.0% and 12.8% respectively. The unemployment rate dropped further to 5.5%, and the consumer price index (CPI) rose 1.4%.

In Mainland China, the economy maintained a rapid and steady growth. GDP increased 9.4% in the third quarter of 2005. GDP growth in the first, second and third quarters of 2005 were 9.4%, 9.5% and 9.4% respectively. The high and steady economic growth in the first three quarters indicated improvement in the stability of national economy and apparent reduction in inflationary pressure. Since the beginning of the year, the rise in prices had remained at around 2.0%. Nevertheless the force to expand the fixed asset investment was still high. Fixed asset investment in each of the first three quarters was over 24.0% and the monthly value was expanding. Since July 21st 2005, Mainland China has adjusted the renminbi exchange rate against the US dollar by adopting a controlled floating exchange rate system, with the market demand and supply served as the basis and a basket of currencies as the reference. In the third quarter, growth in exports slowed down to 19.7%,

whereas that in imports accelerated to 29.2%, with a trade surplus of USD 28.76 billion. The accumulated actual foreign investment in the first three quarters reached USD 43.2 billion, down 2.1% compared with the same period of previous year. At the end of September 2005, Mainland China's foreign exchange reserve amounted to USD 769.0 billion, an increase of USD 58.0 billion compared with the end of June.



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 (%)							
	2002	2003	2004	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3
USA								
Gross Domestic Product	1.9	3.0	4.4	3.8	3.8	3.6	3.6	3.7
Exports of goods	-4.9	4.5	13.0	14.4	11.0	8.7	11.7	10.2
Imports of goods	2.0	8.5	17.0	18.6	19.6	14.7	13.1	13.8
Consumer Price Index	1.6	2.3	2.7	2.7	3.3	3.0	2.9	3.8
Unemployment rate	5.8	6.0	5.5	5.5	5.4	5.3	5.1	5.0
Japan								
Gross Domestic Product	-0.3	1.4	2.6	2.6	0.6	1.2	1.4	3.0
Exports of goods	6.4	4.7	12.2	12.5	11.2	3.8	4.3	7.4
Imports of goods	-0.6	5.0	10.9	13.0	17.0	10.0	14.1	16.8
Consumer Price Index	-0.9	-0.3	-0.1	-0.1	0.5	-0.2	-0.1	-0.3
Unemployment rate	5.4	5.3	4.7	4.8	4.5	4.6	4.3	4.3
Euro area								
Gross Domestic Product	0.9	0.5	2.0	1.8	1.6 ^f	1.2 ^f	1.2 ^f	1.6
Exports of goods	1.0	-2.9	8.4	8.6	8.5	3.4	6.3	9.6
Imports of goods	-4.0	-0.5	8.5	13.5	11.6	8.8	10.8	14.0
Consumer Price Index	2.2	2.1	2.2	2.2	2.3	2.0	2.0	2.3
Unemployment rate	8.3	8.8	8.9	8.9	8.8	8.8	8.7	8.5
Mainland China								
Gross Domestic Product	8.0	9.1	9.5	9.1	9.6	9.4	9.5	9.4
Exports of goods	22.3	34.6	35.4	34.7	35.6	34.9	30.9	29.2
Imports of goods	21.2	39.9	36.0	30.1	30.5	12.2	15.5	19.7
Consumer Price Index ^a	-0.8	1.2	3.9	5.3	3.2	2.8	1.8	1.4
Hong Kong								
Gross Domestic Product	1.8	3.1	8.2	6.7	7.2	6.2	7.3 ^f	8.2
Exports of goods	5.4	11.7	15.3	15.3	12.6	8.9	11.1	12.8
Imports of goods	3.3	11.5	14.1	14.2	7.0	3.8	7.0	11.0
Consumer Price Index	-3.0	-2.6	-0.4	0.8	0.2	0.4	0.8	1.4
Unemployment rate	7.3	7.9	6.8	6.8	6.5	6.1	5.7	5.5

^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) (%)							
	2002	2003	2004	2004	2004	2005	2005	2005
				Q3	Q4	Q1	Q2	Q3
USA								
Gross Domestic Product	1.6	2.7	4.2	4.0	3.3	3.8	3.3 ^r	4.3
Exports of goods	-4.9	4.5	13.0	2.5	1.8	2.6	4.7	0.8
Imports of goods	2.0	8.5	17.0	2.4	5.6	2.2	2.6	3.1
Consumer Price Index	1.6	2.3	2.7	0.5	0.8	0.6	1.0	1.3
Unemployment rate	5.8	6.0	5.5	5.5	5.4	5.3	5.1	5.0
Japan								
Gross Domestic Product	-0.3	1.4	2.6	-0.1 ^r	0.1	1.5 ^r	0.8 ^r	0.4
Exports of goods	6.4	4.7	12.2	1.5	1.0	-1.2	2.2	4.0
Imports of goods	-0.6	5.0	10.9	5.0	1.6	-0.6	7.4	6.7
Consumer Price Index	-0.9	-0.3	-0.1	0.1	0.4	-0.5	-0.1	-0.1
Unemployment rate	5.4	5.3	4.7	4.8	4.5	4.6	4.3	4.3
Hong Kong								
Gross Domestic Product	1.9	3.2	8.1	1.7	0.6	1.4	3.4 ^r	2.7
Exports of goods	5.4	11.7	15.9	0.6	2.9	-0.3	6.7	2.0
Imports of goods	3.3	11.5	16.9	-1.1	0.6	2.5	5.6	1.7
Consumer Price Index	-3.0	-2.6	-0.4	-0.2	0.3	0.4	0.5	0.4
Unemployment rate	7.3	7.9	6.8	6.8	6.5	6.1	5.7	5.5

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