

## Global Economy in the Second Quarter of 2006

Entering the second quarter of 2006, the world economy slowed down from the upsurge in the first quarter but still continued to grow at a steady and fairly fast pace. The economic performance varied in different countries, of which the US consumption and demand for investment remained vigorous; the Euro zone demonstrated good performance while developing countries in the Asian region kept a constant growth. Along with the steady and fast global economic growth, unemployment rate in major countries and regions was gradually dropping, stimulating a soar growth in consumption, investment, imports and exports. However, problems that constrained growth of the world economy persisted such as fluctuation of high international oil prices, rising of overall price level, expanding inflationary pressure, global interest rate hikes, intensified global trade imbalances and depreciation of the US Dollar, etc. It is forecasted that the world economy in 2006 maintained in a fairly fast trend.

In the May 2006 edition of the *Economic Outlook*, the Organisation for Economic Co-operation and Development (OECD) expressed that the world economy was able to withstand shocks and maintain momentum. Therefore, the economic growth forecast for all OECD members was marked up 0.2% to 3.1% in 2006 and maintained at 2.9% in 2007. For the Euro zone, the growth forecast was adjusted up from 2.1% to 2.2% in 2006 and scaled down to 2.1% in 2007. Growth projections for Japan was both tuned up 2.0% to 2.8% in 2006 and 2.2% in 2007, while forecast for the US was revised from 3.5% to 3.6% in 2006, and regulated down to 3.1% in 2007. In addition, the growth forecast for the world trade volume (goods and services) for 2006 was rectified from 9.1% to 9.3%.

The US economy registered a robust growth in the first quarter of 2006; however, under the impacts of increasing interest rates and fluctuation of high oil prices, the economic growth in the second quarter apparently slowed down. Generally, the US economy will grow steadily with a favourable prospect in the second half of the year. Gross Domestic Product (GDP) growth rate fell from 3.7% in the first quarter to 3.5%<sup>a</sup> in the second quarter, and the quarter-to-quarter variation<sup>b</sup> slumped from 5.6% in the first quarter, which was the highest since the third quarter of 2003, to 2.5% in the second quarter of 2006. Private consumption expenditure and private domestic investment expanded 3.0% and 7.6% respectively. As regards external trade, dampened by rapid increases of energy prices coupled with a weak composite exchange rate for the US dollar, the growth of the total value of imports of goods fell from 14.3% in the first quarter to 12.9% in the second quarter, whilst that of exports of goods shrank from 14.2% in the first quarter to 13.3% in the second quarter. The Federal Reserve announced a string of 4 interest rate hikes in the first half of the year and, on 29 June, pushed the federal funds rate to 5.25%, its highest level in five years. The

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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 2006 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.

tightening monetary policy kept inflation under control to a certain extent; however, high oil prices revived up the Consumer Price Index (CPI) to 4.0%. Meanwhile, the employment market improved further, with the unemployment rate lowered by 0.4 percentage point over the preceding quarter to 4.6%. Fiscal deficits, widening trade imbalances and slowing down of the housing market were considered the main issues that hindered the economic growth in the US.

The economy in the Euro zone started to rebound at a faster pace, in which consumption increased distinctly, business investment was brisk and import and export trade maintained a favourable growth. GDP registered an increase of 2.4%, up 0.4 percentage point over the previous quarter. Unemployment rate fell to a 3-year low level at 7.9%, down 0.7 percentage point compared with the same period of last year, directly boosting consumer confidence. Attributed to the favourable external economic environment, exports of goods maintained in a fairly fast pace since the swift boost in the first quarter and achieved a 9.7% growth in the second quarter, up 3.6 percentage points, while accelerating the economic growth in the Euro zone. It is worth to note that CPI still recorded a 2.5% growth even after the European Central Bank started to raise its key interest rates since the end of 2005. The increase was higher than the average growth rate in the preceding four quarters and exceeded the 2.0% inflation level set up by the European Central Bank for a consecutive twelve-month time.

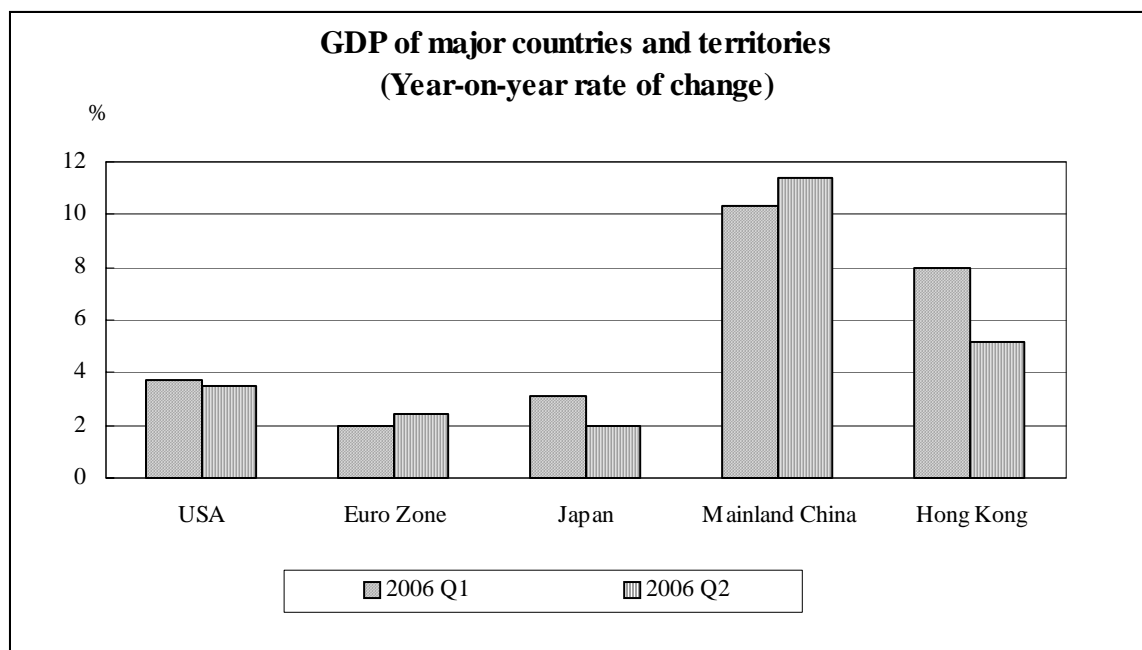
In Germany, GDP growth in the second quarter shrank to merely 1.0%, down abruptly from 3.1% in the first quarter, which was mainly caused by the substantial contractions in private consumption expenditure, corporate fixed capital investment growth, government final consumption expenditure and imports and exports growth. Among them, the growth of private consumption expenditure dropped from 1.5% to -0.2%, while those of corporate fixed capital investment and government final consumption expenditure fell from 7.4% and 2.1% in the first quarter to 1.8% and 0.8% respectively. Similarly, imports and exports of goods dropped respectively from 9.3% and 14.3% to 8.9% to 9.3% in the second quarter. The overall employment situation improved, but unemployment rate was still high and stood at 8.1%. In UK, the economy remained stable in an upward trend. Economic growth in the second quarter reached 2.6%; the manufacturing industry increased by 0.6% over the previous quarter. Suffered from the decrease in production of the mining industry, the overall industrial production inched up by only 0.6%. In contrary, the servicing industry registered a faster growth, up 1.0% from the first quarter, of which retail sales showed a strong increase. The values of total imports and exports expanded 23.7% and 24.3% respectively over the same period of last year. The employment situation worsened with an unemployment rate of 5.5%, up 0.8 percentage point. In France, the economic growth accelerated to 2.6%, mainly fuelled by the surge in fixed capital investment. Private consumption remained weak, while the values of total imports and exports climbed up 10.0% and 9.5% respectively. The CPI went up 1.8%; the employment market slightly improved, but unemployment rate remained high at 9.1%.

With export trade as its primary economic pillar, the Asia economy maintained in a robust upward trend under favourable external economic environment and growing demand for exports. However, persistent high oil prices raised the costs of production and living, resulting in different level of increases of the CPI in the Asian countries. Meanwhile, regional economic growth risks were enlarged owing to the global hikes of interest rates and the weakening of the US dollar against currencies in major Asian Pacific countries. In Japan, the economy was recovering though the economic growth slowed down in the second quarter to 2.0%. Corporate investment in equipment and private consumption rose 9.8% and 1.9% respectively, while imports and exports of goods expanded 18.8% and 14.7% respectively. The employment market improved, with the unemployment rate dropped further to 4.2%. The formerly decreasing CPI rebounded and recorded growth in two consecutive quarters, indicating a get-away from deflation. The economic prospect will rely on the impacts of the ending of the zero interest rate policy by the Japanese Central Bank. In the Republic of Korea, economic growth was 5.3% in the second quarter, down from the four-year high rate at 6.1% in the first quarter. Industrial production growth stood high at 9.0%; imports and exports of goods surged 14.5% and 16.3% respectively. CPI rose 2.3% while unemployment rate was 3.4%.

In Singapore, the economy slowed down to an appropriate level of 8.1% in the second quarter from the surge of 10.8% in the preceding quarter. The overall economic growth in the first half of the year reached 9.4%. Except construction, the rest of the industries registered notably growth, of which manufacturing rose 12.5%; wholesale and retail increased 10.1%, and financing and business service swelled 9.5% and 6.4% respectively. Imports and exports of goods sustained its strong position and soared 14% and 17% respectively. On the other hand, unemployment rate rose slightly to 2.9% and CPI edged up 1.2%. In Taiwan, China, GDP registered an increase of 4.6%. Attributed to the favourable external environment where the global economy maintained a steady growth at a fairly fast pace and world trade accelerated, growth of imports and exports of goods recorded 9.8% and 13.9% respectively. Meanwhile, exports stimulated the manufacturing industry to expand apparently by 8.7%. Nevertheless, private consumption and corporate fixed assets investment shrank. CPI rose by 1.5%, while employment situation in the first half of the year remained stable, with an unemployment rate of 3.9%.

The Hong Kong economy eased off to 5.2% in the second quarter, down from the desirable growth at 8.0% in the first quarter. This was mainly caused by the slump of imports and exports of goods from 13.8% and 12.1% in the previous quarter to 7.8% and 5.2% respectively, and the decline in growth of gross fixed capital formation from 7.6% to 4.3%. The employment market continued to improve, with the unemployment rate remained at 5.0% since the fourth quarter of 2005. Furthermore, increases in asset prices brought about a wealth effect and boosted consumption confidence. Consequently, private consumption increased 5.0%, higher than the 4.5% in the first quarter, while CPI grew 2.1%.

In Mainland China, based on the economic growth at around 10% in three consecutive years, GDP in the first half of 2006 rose to 10.9%, up 0.9 percentage point over the same period of last year. Economic growth in the second quarter reached 11.4%. The overheating fixed assets investment surged 29.8% in the first half of the year, up 4.4 percentage points compared with the same period of 2005. The actual foreign investment in the first six months was USD 28.428 billion, down 0.47%. In the second quarter, the values of total imports and exports of goods climbed up 18.4% and 24.1% respectively, with a trade deficit of USD 38.07 billion. At the end of June 2006, Mainland China's foreign exchange reserve reached USD 941.1 billion, an increase of USD 66 billion compared with the end of March.



## 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	2005	2005	2005	2006	2006
				Q2	Q3	Q4	Q1	Q2
<b>USA</b>								
Gross Domestic Product	2.5 <sup>r</sup>	3.9 <sup>r</sup>	3.2 <sup>r</sup>	3.1 <sup>r</sup>	3.4 <sup>r</sup>	3.1 <sup>r</sup>	3.7 <sup>r</sup>	3.5
Exports of goods	4.5	13.0	10.4	11.8	10.2	10.8	14.2	13.3
Imports of goods	8.5	17.0	13.7	13.1	13.8	13.5	14.3	12.9
Consumer Price Index	2.3	2.7	3.4	2.9	3.8	3.7	3.6	4.0
Unemployment rate	6.0	5.5	5.1	5.0	5.0	4.7	5.0	4.6
<b>Japan</b>								
Gross Domestic Product	1.8	2.3	2.6	2.6	2.8	4.2	3.1	2.0
Exports of goods	4.7	12.1	7.3	4.3	7.4	13.4	5.3	14.7
Imports of goods	5.1	10.9	15.6	14.1	16.8	20.6	14.1	18.8
Consumer Price Index	-0.3	-0.1	-0.3	-0.1	-0.3	-0.5	0.4	0.7
Unemployment rate	5.3	4.7	4.4	4.5	4.2	4.3	4.4	4.2
<b>Euro area</b>								
Gross Domestic Product	0.7	2.1	1.3	1.1	1.6	1.7	2.0 <sup>r</sup>	2.4
Exports of goods	-2.9	8.4	7.0	6.1	9.6	8.9	15.5	9.7
Imports of goods	-0.5	8.5	12.0	10.7	14.2	14.2	22.1	14.6
Consumer Price Index	2.1	2.1	2.1	2.0	2.3	2.3	2.3	2.5
Unemployment rate	8.7	8.9	8.6	8.6	8.4	8.3	8.0	7.9
<b>Mainland China</b>								
Gross Domestic Product	9.1	10.1	9.9	10.1	9.8	9.9	10.3 <sup>r</sup>	11.4
Exports of goods	34.6	35.4	28.4	30.9	29.1	21.7	26.6	24.1
Imports of goods	39.9	36.0	17.6	15.5	19.6	22.1	24.8	18.4
Consumer Price Index <sup>a</sup>	1.2	3.9	1.8	1.8	1.4	1.8	1.2	1.3
<b>Hong Kong</b>								
Gross Domestic Product	3.2	8.6	7.3	7.2	8.2	7.5	8.0 <sup>r</sup>	5.2
Exports of goods	11.7	15.9	11.4	12.5	12.5	10.0	12.1	5.2
Imports of goods	11.5	16.9	10.3	10.1	11.5	11.3	13.8	7.8
Consumer Price Index	-2.6	-0.4	1.0 <sup>r</sup>	0.8	1.4	1.8	1.6	2.1
Unemployment rate	7.9	6.8	5.6	5.7	5.7 <sup>r</sup>	5.0 <sup>r</sup>	5.0	5.0

*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	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2
<b>USA</b>								
Gross Domestic Product	2.5 <sup>r</sup>	3.9 <sup>r</sup>	3.2 <sup>r</sup>	3.3	4.2 <sup>r</sup>	1.8 <sup>r</sup>	5.6 <sup>r</sup>	2.5
Exports of goods	4.5	13.0	10.4	4.8	0.8	2.8	5.3	3.3
Imports of goods	8.5	17.0	13.7	2.6	3.1	5.2	2.3	2.4
Consumer Price Index	2.3	2.7	3.4	1.0	1.3	0.8	0.6	1.2
Unemployment rate	6.0	5.5	5.1	5.1	5.0	5.0 <sup>r</sup>	4.7	4.7
<b>Japan</b>								
Gross Domestic Product	1.8	2.3	2.6	1.4 <sup>r</sup>	0.2 <sup>r</sup>	1.1	0.7 <sup>r</sup>	0.2
Exports of goods	4.7	11.7	7.5	3.0	4.2	6.8	-4.1	2.4
Imports of goods	5.2	10.3	16.2	7.8	6.6	6.4	1.1	1.0
Consumer Price Index	-0.3	-0.1	-0.3	-0.1	-0.1	0.1	0.5	0.2
Unemployment rate	5.3	4.7	4.4	4.3	4.3	4.5	4.2	4.1
<b>Hong Kong</b>								
Gross Domestic Product	3.2	8.6	7.3	2.8	2.2	0.6	2.2 <sup>r</sup>	0.0
Exports of goods	11.7	15.9	11.4	6.0	3.0	2.2	2.0	-1.4
Imports of goods	11.5	16.9	10.3	5.2	1.6	2.6	3.9	-1.5
Consumer Price Index	-2.6	-0.4	1.0 <sup>r</sup>	0.5	0.4	0.6	0.1	0.3
Unemployment rate	7.9	6.8	5.6	5.7	5.5	5.3	5.2	5.0

*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