

## Global Economy in the Fourth Quarter of 2007

Confronting with the possible economic recession in the United States, the major economies were able to maintain steady growth in the fourth quarter of 2007. Economic growth in the United States appeared to slow in the face of the exacerbating sub-prime mortgage crisis and weakening consumer sentiment, putting pressure on the global economic growth. In the *World Economic Outlook Update* published in January 2008, the International Monetary Fund (IMF) indicated that the world economy experienced vibrant growth in the first three quarters of 2007, but the economic expansion has begun to moderate in response to continued volatility of the financial sector, facing the risk of an economic downturn. Global economic growth is projected to decelerate from 4.9% in 2007 to 4.1% in 2008, a markdown of 0.3 percentage point relative to the forecast stated in the *World Economic Outlook* in October 2007.

The US economy started to slow down in the fourth quarter on the back of tightening credit and sluggish housing market triggered by the sub-prime mortgage problem, as well as high oil prices. Gross Domestic Product (GDP) grew by 2.5%<sup>a</sup> year-on-year in the fourth quarter, with quarter-to-quarter growth<sup>b</sup> plunging from 4.9% in the preceding quarter to only 0.6% in this quarter; GDP growth for the whole year of 2007 was 2.2%, reflecting a slowdown of the economy. Private consumption expenditure in the fourth quarter rose by 1.9% over the preceding quarter; meanwhile, private domestic investment dropped significantly from a 5.0% growth in the third quarter to -12.5% in this quarter, of which the decline in residential fixed investment widened further from 11.8% and 20.5% in the second and third quarters to 25.2% in the fourth quarter. With respect to external merchandise trade, value of imports and exports of goods grew vigorously by 10.4% and 14.3% respectively. The Consumer Price Index (CPI) rose by 4.0%, while the unemployment rate fell slightly by 0.1 percentage point over the third quarter to 4.6%.

Growth has been moderate in the Euro area, with the fourth quarter GDP rising by 0.4% quarter-to-quarter or 2.3% year-on-year, down by 0.4 percentage point from the 2.7% growth in the preceding quarter; the economic expansion for 2007 was 2.7%, slightly lower than the 2.8% gain in 2006. The condition of employment in the labour market continued to improve, with the unemployment rate dropping slightly to 7.2%. Value of imports of goods rose markedly to 9.1%, as against a 4.1% gain in the third quarter, whereas growth in the exports of goods slowed to 6.5%. The inflation rate has soared beyond the critical level, at 2.9% in the fourth quarter, up by 1 percentage point from 1.9% in the first three quarters of 2007.

Slow economic growth prolonged in Germany where GDP rose by 1.6% in the

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<sup>a</sup> Unless otherwise specified, all rates of change mentioned in this analysis are comparisons of the fourth quarter of 2007 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.

fourth quarter, lower than the 3.4%, 2.5% and 2.4% growth in the past three quarters. Household consumption expenditure dropped notably that offset the contributions made by the robust increase in fixed capital investment and external trade surplus. The unemployment rate decreased further to 7.9%, down by 0.2 percentage point over the third quarter. The French economy grew moderately by 2.1% year-on-year and 0.3% quarter-to-quarter; value of imports and exports registered increases of 2.2% and 2.6% respectively, with CPI went up by 2.3%.

The slowing service sector began to decelerate the pace of expansion of the UK economy, although the fourth quarter GDP saw stable growth of 2.9% year-on-year or 0.6% quarter-to-quarter. Industrial output rose steadily by just 0.1% over the third quarter, of which output in public utilities and quarrying registered increases of 1.7% and 0.3% respectively. Expansion of the service sector softened and rose by 0.6% as against a 0.9% gain in the third quarter. Imports and exports regained momentum in the fourth quarter to increase by 6.5% and 4.4% respectively over the corresponding quarter of 2006. The unemployment rate stood at a low level of 5.2%, down by 0.2 percentage point over the preceding quarter.

The export-driven Asian economies were dragged on by the weakening US economy, yet overall exports continued to hold up well. The IMF has estimated that every percentage point of decrease in the US economy would reduce the economic growth of Asia by 0.5 to 1 percentage point. Moreover, soaring oil prices and high inflation would add further pressure on the regional economic growth. The Japan economy seemed to pick up its pace of growth in the fourth quarter of 2007, expanding from 1.7% in the second and third quarters to 2.0%, which was underpinned by a 2.4% rise in business investment in equipment and a 10.9% increase in overall exports; nevertheless, increment of the other items of domestic demand was slower than the preceding quarters. Value of imports of goods rose by 5 percentage points from the third quarter to 11.3%, whereas exports of goods shrank mildly by 0.7 percentage point to log a 10.0% growth. The unemployment rate was held stable at 3.7%. Meanwhile, CPI rose by 0.5% in the fourth quarter after declining consecutively in the first three quarters of 2007. In the Republic of Korea, GDP grew by 5.5% in the fourth quarter that was fuelled by the strength in exports and business investment; imports and exports registered vigorous growth of 25.9% and 18.2% respectively; CPI rose by 3.4% and the unemployment rate remained at 3.0%.

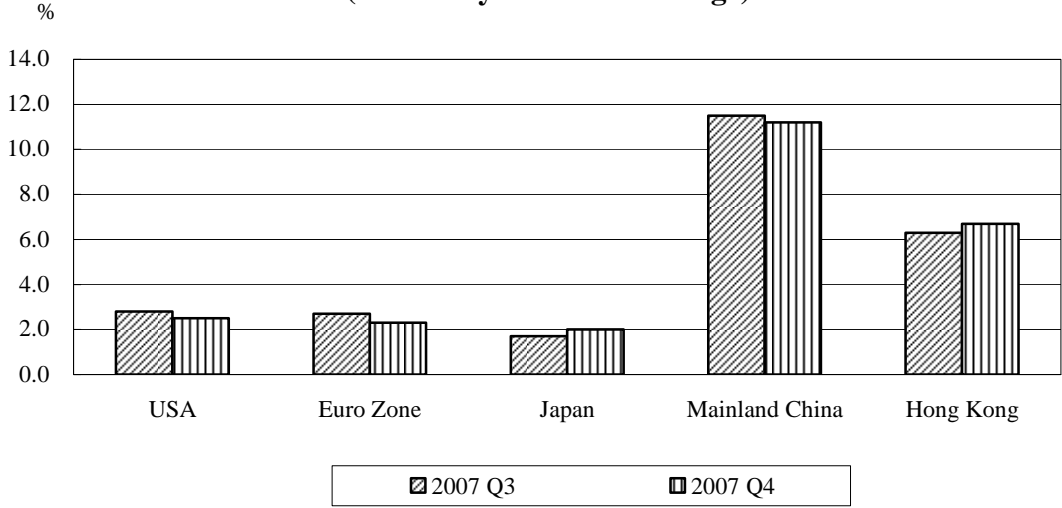
The fourth quarter growth of the Singapore economy posted its first contraction since 2003, as GDP fell by 4.8% quarter-to-quarter against a 5.1% gain in the preceding quarter; the respective year-on-year growth was 5.4%, down from 9.5% in the third quarter. For 2007 as a whole, the economy expanded by 7.7%. In the fourth quarter of 2007, the rates of expansion of the construction sector and business services were higher than the third quarter, while all other sectors showed lower growth. The manufacturing sector grew marginally by 0.2% due to a 28% plunge in Biomedical manufacturing; meanwhile, the construction sector sustained robust expansion from 20.1% in the third quarter to 24.3%. Growth momentum of the service sector maintained at 7.7%, with transport & storage, as well as business services recorded faster growth, that of all other

services softened. Value of imports and exports of goods rose by 4.5% and 7.1% respectively. The unemployment rate edged down from 1.7% in September to 1.6% in December, whilst CPI grew to 4.1% from 2.7% in the third quarter. The economy of Taiwan, China expanded by 6.4% in the fourth quarter under the support of strong external trade; the rates of increase in the imports and exports of goods rose further from 8.8% and 9.6% in the third quarter to 13.2% and 15.3% in this quarter. The unemployment rate was held stable at 3.9%, but CPI rose to 4.5%, up significantly by 3 percentage points from 1.5% in the third quarter.

The Hong Kong economy stayed vibrant, with GDP rising by 6.3% in 2007, well above the average growth of the past decade. The fourth quarter GDP expanded by 6.7% from 6.3% in the preceding quarter, attributable to the robust growth of 10.4% in gross fixed capital formation, 10.0% in private consumption in the domestic market, 10.5% and 8.2% respectively in the imports and exports of goods. The condition of the labour market continued to improve, with the unemployment rate sliding from 4.3% in the third quarter to 3.2%. CPI went up by 1.9 percentage points from the third quarter to 3.5%, which was driven by the appreciation of Renminbi, as well as soaring oil and food prices.

Mainland China has sustained double-digit growth for five consecutive years. Despite GDP slowed to rise by 11.2% in the fourth quarter, the economy expanded by 11.4% for the whole year of 2007, the highest rate since 1994, which was boosted by rapid increase of fixed asset investment and exports. Fixed asset investment continued to grow strongly by 24.8% in 2007, up by 0.9 percentage point from 2006. Domestic consumption rose faster as value of retail sales of consumer goods expanded by 16.8%, up by 3.1 percentage points from 2006; nonetheless, price level went up on the back of higher oil and food prices that pushed consumer prices up by 4.8% in 2007, a significant increase of 3.3 percentage points over 2006. External merchandise trade saw vigorous growth in the fourth quarter, with value of imports and exports of goods rising by 25.4% and 22.2% respectively, widening the trade surplus by 12.6% year-on-year to USD 76.28 billion. In annual terms, value of imports and exports of goods expanded by 20.8% and 25.7% respectively to bring about a trade surplus of USD 262.2 billion, up by 47.7% or USD 84.7 billion compared with 2006. The actually utilized foreign investment grew by 13.6% to USD 74.8 billion in 2007. On account of rising trade surplus and continuing influx of foreign capital, the foreign exchange reserve of Mainland China reached USD 1,530 billion at the end of 2007, up by 43.3% from a year earlier.

**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 (%)							
	2005	2006	2007	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
<b>USA</b>								
Gross Domestic Product	3.1	2.9	2.2	2.6	1.5	1.9	2.8	2.5
Exports of goods	10.7	14.5	12.2	14.6	11.0	10.6	12.9	14.3
Imports of goods	13.9	10.9	5.4	4.4	4.1	3.6	3.2	10.4
Consumer Price Index	3.4	3.2	2.8	1.9	2.4	2.7	2.4	4.0
Unemployment rate	5.1	4.6	4.6	4.2	4.8	4.4	4.7	4.6
<b>Japan</b>								
Gross Domestic Product	1.9	2.4 <sup>f</sup>	2.1	2.3 <sup>f</sup>	3.0 <sup>f</sup>	1.7 <sup>f</sup>	1.7 <sup>f</sup>	2.0
Exports of goods	7.3 <sup>f</sup>	14.6 <sup>f</sup>	11.6	11.2	12.5	13.1	10.7	10.0
Imports of goods	15.7 <sup>f</sup>	18.3 <sup>f</sup>	8.6	10.8	6.6	9.9	6.3	11.3
Consumer Price Index	-0.3	0.3	o	0.3	-0.1	-0.1	-0.1	0.5
Unemployment rate	4.4	4.1	3.8	3.9	4.1	3.8	3.7	3.7
<b>Euro area</b>								
Gross Domestic Product	1.5	2.8	2.7	3.2	3.2 <sup>f</sup>	2.5	2.7 <sup>f</sup>	2.3
Exports of goods	7.8	12.1	8.3	12.8	9.3 <sup>f</sup>	8.8 <sup>f</sup>	8.8 <sup>f</sup>	6.5
Imports of goods	13.5	14.5	5.6	8.6	5.5 <sup>f</sup>	3.6 <sup>f</sup>	4.1 <sup>f</sup>	9.1
Consumer Price Index	2.2	2.2	2.2	1.8	1.9	1.9	1.9	2.9
Unemployment rate	8.9	8.3	7.5	8.0	7.7	7.5	7.4	7.2
<b>Mainland China</b>								
Gross Domestic Product	10.4	10.7	11.4	10.4	11.1	11.9	11.5	11.2
Exports of goods	28.4	27.2	25.7	29.0	27.8	27.5 <sup>f</sup>	26.2 <sup>f</sup>	22.2
Imports of goods	17.6	20.0	20.8	15.5	18.2	18.3 <sup>f</sup>	20.5 <sup>f</sup>	25.4
Consumer Price Index <sup>a</sup>	1.8	1.5	4.8	1.5	2.7	3.2	4.1	4.8
<b>Hong Kong</b>								
Gross Domestic Product	7.1	7.0 <sup>f</sup>	6.3	6.6 <sup>f</sup>	5.5 <sup>f</sup>	6.4 <sup>f</sup>	6.3 <sup>f</sup>	6.7
Exports of goods	11.4	9.4	9.2	11.9	9.0	11.7	8.2	8.2
Imports of goods	10.3	11.6	10.3	14.0	9.0	12.6	9.4	10.5
Consumer Price Index	1.0 <sup>f</sup>	2.0	2.0	2.1	1.7	1.3	1.6	3.5
Unemployment rate	5.6	4.8	4.0	4.2	4.2	4.3	4.3	3.2

*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) (%)							
	2005	2006	2007	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4
<b>USA</b>								
Gross Domestic Product	3.1	2.9	2.2	2.1	0.6	3.8	4.9	0.6
Exports of goods	10.7	14.5	12.2	2.6	0.8 <sup>f</sup>	3.4 <sup>f</sup>	6.4	2.6
Imports of goods	13.9	10.9	5.4	-2.6	0.7 <sup>f</sup>	2.6	2.9 <sup>f</sup>	3.2
Consumer Price Index	3.4	3.2	2.9	-0.5	0.9	1.1 <sup>r</sup>	0.7 <sup>f</sup>	1.2
Unemployment rate	5.1	4.6	4.6	4.5	4.5	4.5	4.7 <sup>f</sup>	4.8
<b>Japan</b>								
Gross Domestic Product	1.9	2.4 <sup>f</sup>	2.1	1.0 <sup>f</sup>	1.0 <sup>f</sup>	-0.4	0.3 <sup>f</sup>	0.9
Exports of goods	7.5	14.9	11.7	3.0 <sup>f</sup>	3.1 <sup>f</sup>	2.5 <sup>f</sup>	2.6 <sup>f</sup>	1.3
Imports of goods	16.4	18.5 <sup>f</sup>	8.2	1.2 <sup>f</sup>	0.2 <sup>f</sup>	3.3 <sup>f</sup>	1.6 <sup>f</sup>	4.3
Consumer Price Index	-0.3	0.3	0.1	-0.3	-0.1 <sup>r</sup>	0.1 <sup>r</sup>	0.2	0.4
Unemployment rate	4.4	4.1	3.9	4.0	4.0	3.8	3.8	3.8
<b>Hong Kong</b>								
Gross Domestic Product	7.1	7.0 <sup>f</sup>	6.3	1.2 <sup>f</sup>	1.7 <sup>f</sup>	1.5 <sup>f</sup>	1.8 <sup>f</sup>	1.6
Exports of goods	11.4	9.4	9.2	2.9 <sup>f</sup>	0.8 <sup>f</sup>	2.7 <sup>f</sup>	0.9 <sup>f</sup>	1.8
Imports of goods	10.3	11.6	10.3	3.3 <sup>f</sup>	0.5 <sup>f</sup>	4.7 <sup>f</sup>	1.2 <sup>f</sup>	3.6
Consumer Price Index	1.0	2.0	2.0	0.2 <sup>f</sup>	0.2 <sup>f</sup>	-0.1 <sup>r</sup>	0.2 <sup>f</sup>	0.9
Unemployment rate	5.6	4.8	4.0	4.4	4.3	4.2	4.1	3.4

*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*