

Chapter 1

THE WORLD ECONOMY

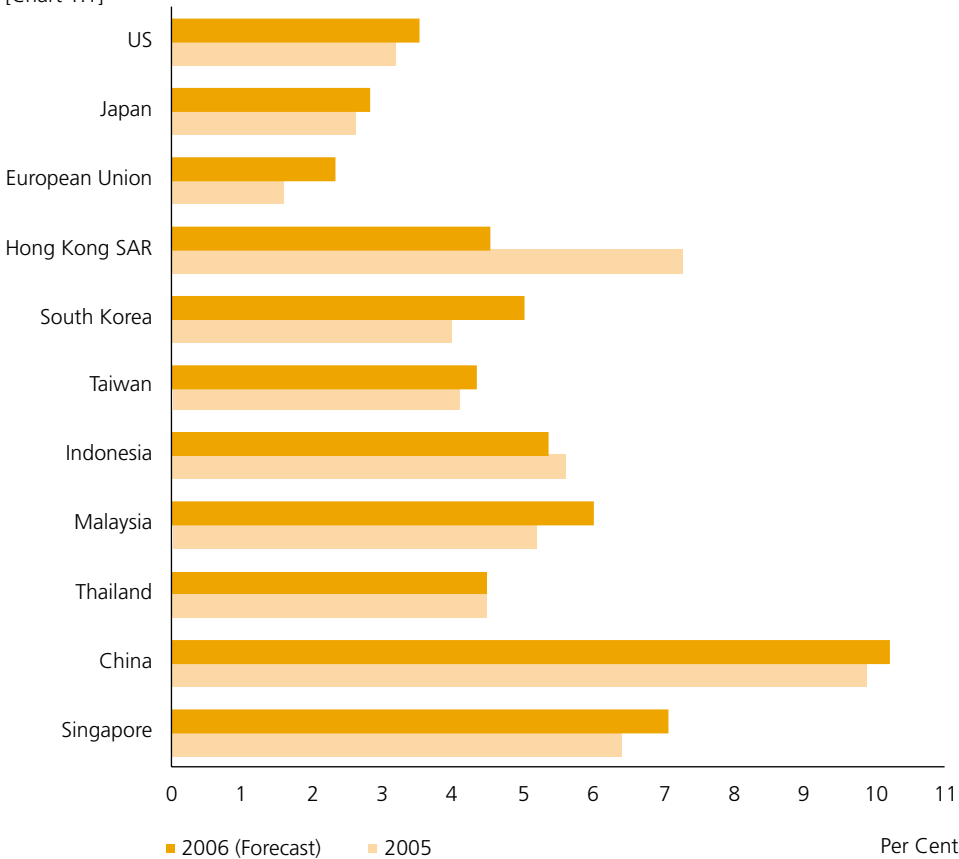
OVERVIEW

[Chart 1.1]

The world economy has generally remained resilient in the face of rising interest rates and higher oil prices. However, there are signs of slower growth in some economies. The expansion in the US and Japan have moderated. The Asian economies, supported by strong export growth, continued to expand further. Most economies experienced rising consumer price inflation, as a result of higher oil prices.

GDP GROWTH

[Chart 1.1]



Source: Various Official Sources and IMF

DEVELOPED ECONOMIES

Growth in the US and Japan decelerated...

The **US** economy expanded at an *annualised* quarter-on-quarter rate of 2.5 per cent (or a non-annualised 0.6 per cent) in the second quarter of 2006, less than half the pace registered in the previous quarter. The deceleration in growth mainly reflected a cooling off of consumer spending, a cut back in fixed investment as well as a slowdown in external demand. The **EU** economy regained its growth momentum, expanding by 0.7 per cent in the first quarter on a seasonally-adjusted quarter-on-quarter basis, from the 0.4 per cent growth in the previous quarter. The stronger economic growth was supported by increased contribution from net trade, as exports picked up markedly. **Japan's** economic growth eased to 0.8 per cent in the first quarter on a seasonally-adjusted quarter-on-quarter basis, compared to 1.1 per cent registered a quarter earlier, as imports outpaced exports due to costlier oil [Table 1.1].

Growth prospects for the developed economies remain healthy. IMF's GDP forecast of the US economy is 3.5 per cent while the European Commission expects EU growth to reach 2.3 per cent in 2006. The Bank of Japan projects the Japanese economy to grow 2.1 – 3.0 per cent in FY2006.

DEVELOPED ECONOMIES

[TABLE 1.1]

	2005				2006	2006
	2nd Qtr	3rd Qtr	4th Qtr	Annual	1st Qtr	2nd Qtr
Percentage Change Over Preceding Quarter						
Gross Domestic Product						
United States	0.8	1.0	0.4	3.2	1.4	0.6
EU	0.5	0.6	0.4	1.6	0.7	na
Japan	1.3	0.3	1.1	2.6	0.8	na
Private Consumption Expenditure						
United States	1.0	1.0	0.2	3.5	1.2	0.6
EU	0.4	0.5	0.3	1.5	0.6	na
Japan	0.8	0.5	0.6	2.1	0.5	na
Private Investment						
United States	-0.9	1.3	3.8	5.4	1.9	0.4
EU ¹	1.0	1.5	0.4	2.9	1.1	na
Japan	1.6	1.5	0.6	6.0	2.7	na
External Demand						
United States	2.3	0.8	2.3	6.8	3.3	0.8
EU	2.4	2.6	1.3	5.0	3.9	na
Japan	3.5	3.1	3.8	7.0	2.7	na
Percentage Change Over Same Period of Previous Year						
Inflation						
United States	2.9	3.8	3.7	3.4	3.6	4.0
EU	2.0	2.3	2.3	2.2	2.2	2.4
Japan	-0.1	-0.3	-0.5	-0.3	0.4	0.7

¹ Figures refer to total gross fixed capital formation.

Source: Various Official Sources

NORTHEAST ASIA

Northeast Asia continued to grow...

Despite an environment of higher oil prices and rising interest rates, the Northeast Asian economies remained buoyant. **China's** growth in the second quarter of 2006 continued unabated at a break-neck pace of 11 per cent, supported by strong exports and investment growth. The **South Korean** economy slowed to 5.3 per cent in the second quarter as domestic demand and investment growth was weaker but this was mitigated by stronger external demand. Similarly for **Taiwan**, domestic consumption was weaker while investment contracted 4.0 per cent in the first quarter. Nevertheless, buoyant external demand provided the impetus for growth, enabling the economy to expand at 4.9 per cent. **Hong Kong's** growth picked up to 8.2 per cent in the first quarter [Table 1.2].

NORTHEAST ASIA

[TABLE 1.2]

	2005				2006	2006
	2nd Qtr	3rd Qtr	4th Qtr	Annual	1st Qtr	2nd Qtr
Percentage Change Over Same Period Of Previous Year						
Gross Domestic Product						
China	10.1	9.8	9.9	9.9	10.3	11.3
Hong Kong	7.2	8.2	7.5	7.3	8.2	na
South Korea	3.2	4.5	5.3	4.0	6.1	5.3
Taiwan	3.0	4.4	6.4	4.1	4.9	na
Private Consumption Expenditure						
Hong Kong	2.4	3.6	3.4	3.4	4.5	na
South Korea	3.0	4.0	4.2	3.2	4.8	4.4
Taiwan	3.0	3.7	2.8	3.0	2.1	na
Gross Fixed Capital Formation						
Hong Kong	4.9	2.8	8.4	4.1	8.5	na
South Korea	2.0	1.9	4.2	2.3	3.9	0.7
Taiwan	7.4	0.3	-11.8	0.5	-4.0	na
External Demand						
Hong Kong	10.7	12.1	10.8	10.7	13.3	na
South Korea	5.3	11.2	10.4	8.5	11.5	15.3
Taiwan	3.0	7.0	15.2	6.9	14.5	na
Inflation						
China	1.7	1.3	1.4	1.8	1.2	1.4
Hong Kong	0.9	1.2	1.2	1.0	1.3	1.8
South Korea	3.0	2.4	2.5	2.8	2.4	2.3
Taiwan	2.1	3.0	2.5	2.3	1.3	1.5

Source: Various Official Sources

The outlook for the region remains bright. For China, the National Development and Reform Commission expects whole year growth to reach 10.2 per cent, implying slower growth in the second half as more measures are taken to cool the economy. For Hong Kong, the government projects growth to be between 4.0 – 5.0 per cent. In the case of South Korea and Taiwan, the Bank of Korea and the Directorate General of Budget, Accounting and Statistics forecast growth to be 5.0 per cent and 4.31 per cent respectively.

SOUTHEAST ASIA

Across the region, the growth story remains intact...

The Southeast Asian economies have generally weathered the rising cost of capital and energy prices well in the first quarter of 2006. **Indonesia's** economy grew 4.6 per cent, powered largely by a strong net export position, which helped to offset the moderation in private consumption. The same theme of strong external demand was shared by **Thailand**, which achieved growth of 6.0 per cent. In **Malaysia**, resurgent investment growth of 11 per cent helped to boost economic growth to 5.3 per cent in the first quarter. However, domestic demand has moderated across the region, with consumption expenditure slowing for two consecutive quarters in both Indonesia and Malaysia. Thailand has seen a deceleration in gross investment for more than a year, reflecting more cautious investor sentiments. Similarly in Indonesia, investment in equipment and machinery has fallen steadily for the past two quarters, in tandem with the rise in the cost of capital [Table 1.3].

Despite the headwinds, official forecasts continue to paint a consistent picture of healthy growth for the region in 2006. In Malaysia, Bank Negara projects growth of 6.0 per cent this year while Bank Indonesia expects growth of 5.0 – 5.7 per cent in 2006. In Thailand, the Bank of Thailand's growth projection is between 4.0 and 5.0 per cent this year.

SOUTHEAST ASIA

[TABLE 1.3]

	2005				2006	2006
	2nd Qtr	3rd Qtr	4th Qtr	Annual	1st Qtr	2nd Qtr
	Percentage Change Over Same Period Of Previous Year					
Gross Domestic Product						
Indonesia	5.6	5.6	4.9	5.6	4.6	na
Malaysia	4.1	5.3	5.2	5.2	5.3	na
Thailand	4.6	5.4	4.7	4.5	6.0	na
Private Consumption Expenditure						
Indonesia	3.8	4.4	4.2	4.0	3.2	na
Malaysia	7.4	10.4	9.0	9.2	7.5	na
Thailand	4.7	4.5	4.1	4.4	4.1	na
Gross Fixed Capital Formation						
Indonesia	15.6	9.4	1.8	9.9	2.9	na
Malaysia	6.7	9.6	0.4	4.7	11.4	na
Thailand	14.3	8.4	8.1	11.4	6.6	na
External Demand						
Indonesia	11.2	4.8	7.4	8.6	10.8	na
Malaysia	8.4	5.8	9.7	8.6	5.9	na
Thailand	2.0	11.1	4.7	4.3	13.4	na
Inflation						
Indonesia	7.6	8.4	17.8	10.5	16.9	15.5
Malaysia	3.0	3.4	3.3	3.0	3.8	4.1
Thailand	3.7	5.6	6.0	4.5	5.7	6.0

Source: Various Official Sources