

Chapter 1

THE WORLD ECONOMY

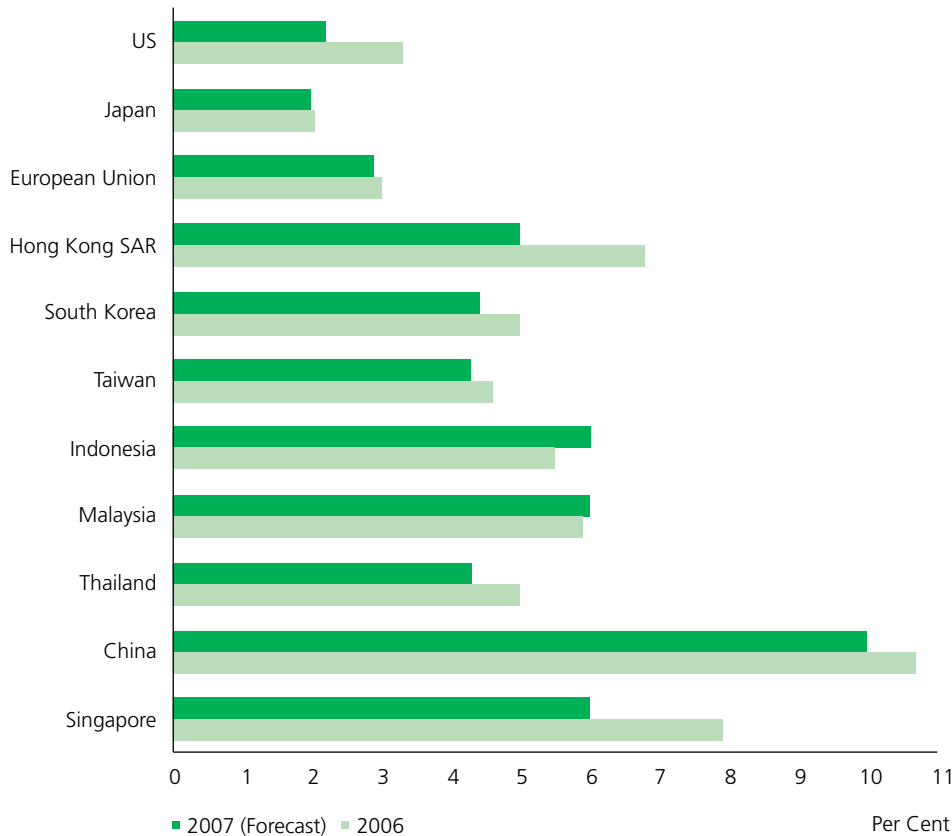
OVERVIEW

[Chart 1.1]

The world economy continued to grow at a healthy pace. The US and Japanese economies slowed in the first quarter of 2007 while the EU economy picked up momentum. Regional economies also registered credible growth. With the easing of oil prices in the first quarter, price pressures in most countries are generally contained.

GDP GROWTH

[Chart 1.1]



Source: Various Official Sources and IMF

DEVELOPED ECONOMIES

Mixed economic performances in the developed economies...

The **US** economy slowed to 1.3 per cent in the first quarter of 2007 on an annualised quarter-on-quarter basis, down from 2.5 per cent in the previous quarter. Weakness in the housing market and a higher trade deficit were the major factors that dragged the economy to its slowest growth in 4 years. **Japan's** economic growth also slowed to 0.6 per cent in the first quarter on a seasonally-adjusted quarter-on-quarter basis from 1.2 per cent in the previous quarter due to a fall in capital spending while consumer spending remained brisk. Propelled by strong growth in exports and investment, the **EU** economy grew by 0.9 per cent in the fourth quarter of 2006 on a seasonally-adjusted quarter-on-quarter basis, up from 0.7 per cent a quarter earlier [Table 1.1].

DEVELOPED ECONOMIES

[TABLE 1.1]

	2006					2007
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual	1st Qtr
Percentage Change Over Preceding Quarter						
Gross Domestic Product						
United States	1.4	0.6	0.5	0.6	3.3	0.3
EU	0.9	1.0	0.7	0.9	3.0	na
Japan	0.8	0.3	0.1	1.2	2.2	0.6
Private Consumption Expenditure						
United States	1.2	0.6	0.7	1.0	3.2	0.9
EU	0.5	0.6	0.7	0.6	2.1	na
Japan	-0.2	0.6	-1.0	1.1	0.8	0.9
Private Investment						
United States	1.9	0.2	-0.2	-4.0	4.3	-1.7
EU ¹	1.4	2.0	1.2	1.9	5.5	na
Japan	4.0	1.7	0.7	2.2	6.3	-0.8
External Demand						
United States	3.3	1.5	1.7	2.6	8.9	-0.3
EU	4.1	1.3	0.2	3.0	9.2	na
Japan	2.2	0.8	2.3	0.8	9.6	3.3
Percentage Change Over Same Period Of Previous Year						
Inflation						
United States	3.6	4.0	3.3	1.9	3.2	2.4
EU	2.3	2.5	2.3	2.1	2.3	2.2
Japan	-0.1	0.2	0.6	0.3	0.2	-0.1

¹ Figures refer to total gross fixed capital formation.

Source: Various Official Sources


Looking ahead, the outlook for the developed countries is expected to remain healthy. The IMF has lowered its 2007 forecast for the US economy from 2.9 per cent to 2.2 per cent, amid concerns of a US housing market correction. The European Commission expects the EU economy to remain buoyant in 2007 and has raised EU GDP growth forecast from 2.7 per cent to 2.9 per cent. In the case of Japan, the Bank of Japan has narrowed its previous forecast to 2.0–2.1 per cent in FY2007.

NORTHEAST ASIA

Northeast Asia continued to register healthy growth...

The Northeast Asian economies continued to record healthy growth. **China** maintained its robust growth pace, growing by 11.1 per cent in the first quarter. The **Hong Kong** economy also saw stronger performance at 7.0 per cent growth in the fourth quarter of 2006 on the back of higher growth in private consumption and external demand. In contrast, **South Korea's** growth remained unchanged at 4.0 per cent in the first quarter of 2007 compared with the previous quarter. On the other hand, **Taiwan's** growth moderated to 4.0 per cent in the last quarter of 2006 from 5.0 per cent in the previous quarter on the heels of weaker external demand growth [Table 1.2].

The outlook for the Northeast Asian economies is optimistic. The Chinese National Development and Reform Commission expects growth to be around 10 per cent in 2007. For Hong Kong, the official growth estimate is between 4.5 and 5.5 per cent. In the case of South Korea, the Bank of Korea maintains its projection of 4.4 per cent growth in 2007. The Taiwan Directorate General of Budget has raised the growth forecast for the Taiwan economy slightly from 4.14 per cent to 4.30 per cent for this year.



*...strong performance
in Northeast Asian
economies...*

NORTHEAST ASIA

[TABLE 1.2]

	2006					2007
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual	1st Qtr
Percentage Change Over Same Period Of Previous Year						
Gross Domestic Product						
China	10.3	11.5	10.6	10.4	10.7	11.1
Hong Kong	8.0	5.5	6.7	7.0	6.8	na
South Korea	6.3	5.1	4.8	4.0	5.0	4.0
Taiwan	4.9	4.6	5.0	4.0	4.6	na
Private Consumption Expenditure						
Hong Kong	4.8	5.4	4.4	5.8	5.1	na
South Korea	5.2	4.1	4.0	3.7	4.2	4.0
Taiwan	2.0	1.4	0.4	2.4	1.5	na
Gross Fixed Capital Formation						
Hong Kong	7.3	4.5	10.3	9.5	7.9	na
South Korea	3.5	0.1	4.6	4.5	3.2	7.0
Taiwan	-4.8	-4.2	3.5	5.7	0.3	na
External Demand						
Hong Kong	13.3	6.9	9.0	10.9	9.9	na
South Korea	11.1	15.7	12.4	10.5	12.4	11.2
Taiwan	13.8	12.4	13.1	2.7	10.1	na
Inflation						
China	1.2	1.4	1.3	2.0	1.5	2.7
Hong Kong	1.3	1.8	2.1	1.8	1.7	0.3
South Korea	2.1	2.2	2.5	2.1	2.2	2.0
Taiwan	1.3	1.5	-0.3	-0.1	0.6	1.0

Source: Various Official Sources

SOUTHEAST ASIA

Resurgent investment growth in Indonesia and Malaysia...

Growth in **Indonesia** came in at 6.0 per cent in the first quarter of 2007 after expanding by 6.1 per cent in the previous quarter. The main engines were the stronger private consumption and external demand. A stronger external balance also helped **Thailand** mitigate the weak investment climate. Fourth quarter growth slowed to 4.2 per cent, bringing full year growth to 5.0 per cent, which was above the 4.5 per cent pace in 2005. On the other hand, resurgent investment growth powered the 5.7 per cent expansion in the **Malaysian** economy in the fourth quarter. Full year growth clocked 5.9 per cent, higher than the 5.2 per cent the previous year [Table 1.3].

SOUTHEAST ASIA

[TABLE 1.3]

	2006					2007
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual	1st Qtr
Percentage Change Over Same Period Of Previous Year						
Gross Domestic Product						
Indonesia	5.0	5.0	5.9	6.1	5.5	6.0
Malaysia	5.9	6.2	5.8	5.7	5.9	na
Thailand	6.1	5.0	4.7	4.2	5.0	na
Private Consumption Expenditure						
Indonesia	2.9	3.0	3.0	3.8	3.2	4.5
Malaysia	7.5	7.3	6.8	6.6	7.0	na
Thailand	3.9	3.3	2.8	2.5	3.1	na
Gross Fixed Capital Formation						
Indonesia	1.1	1.1	1.3	8.2	2.9	7.5
Malaysia	11.4	7.6	3.5	9.8	7.9	na
Thailand	6.6	4.0	3.2	2.4	4.0	na
External Demand						
Indonesia	11.6	11.3	8.2	6.1	9.2	8.9
Malaysia	5.9	4.9	10.5	4.1	6.3	na
Thailand	14.4	9.0	4.7	6.8	8.5	na
Inflation						
Indonesia	16.9	15.5	14.9	6.1	13.1	6.4
Malaysia	3.8	4.1	3.6	3.0	3.6	2.6
Thailand	5.7	6.0	3.6	3.3	4.6	2.5

Source: Various Official Sources

Most Southeast Asian economies are expected to grow faster in 2007. In Malaysia, Bank Negara projects growth to come in slightly higher at 6.0 per cent this year, supported by further improvements in the investment climate. Bank Indonesia is also projecting higher growth of 5.7–6.3 per cent in 2007. However, for Thailand, the Bank of Thailand's forecast is for the Thai economy to decelerate to 3.8–4.8 per cent this year.