

Box 2.1**Current global economic situation**

The dramatic eruption of the financial tsunami in September last year has led to a severe slump in activity in the advanced economies. In a globalised world, emerging economies in Asia and elsewhere have also been seriously hit through both financial and trade channels. At present, the global financial system remains under severe stress. In April, the IMF projected world output to contract by 1.3% in 2009, before recovering slowly in 2010 by 1.9%. The turnaround from the current global synchronised recession, the worst since World War II, will depend on the strong policy actions by the world's major economies to stabilise the financial sector and to support demand with monetary and fiscal easing.

Economic situation in the advanced economies

The US economy has been in deep recession since the latter half of 2008. The economy contracted markedly further at an annual rate of 6.1% in the first quarter of 2009, after a 6.3% contraction in the preceding quarter. Since the recession officially began in December 2007, the cumulative job losses amounted to 6.3 million in April 2009. Consumption spending and hence import demand remained weak. Nevertheless, the US housing market, the downturn of which triggered the subprime mortgage crisis, showed some early signs of stabilization. The fall in housing prices slowed in the more recent months, although home sales and housing starts remained sluggish.

The advanced economies in Western Europe were likewise in a dire state, with severe contraction in industrial production, rising unemployment, and in some economies falling property prices. Business and consumer sentiments in the euro area had been at record lows. The advanced economies in Asia, including Japan (*Table 1*), Hong Kong, Singapore, South Korea and Taiwan, also deteriorated markedly since the latter half of 2008. The performance of the economies in Asia, developed and developing alike, was adversely affected the drastic decline in world trade as a result of the global synchronised recession.

Table 1: Economic performance of selected advanced economies

(Year-on-year growth rate of real GDP (%))

	<u>2008</u>				<u>2009</u>	<u>Forecast by IMF*</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
US	2.5 (0.2)	2.1 (0.7)	0.7 (-0.1)	-0.8 (-1.6)	-2.6 (-1.6)	1.1	-2.8	0.0
Euro area	2.1 (0.7)	1.4 (-0.3)	0.6 (-0.3)	-1.5 (-1.6)	n.a. (n.a.)	0.7	-4.2	-0.4
Japan	1.5 (0.3)	0.7 (-1.2)	-0.2 (-0.4)	-4.3 (-3.2)	n.a. (n.a.)	-0.6	-6.2	0.5

Notes: () Figures in brackets refer to seasonally adjusted quarterly growth rates.

(*) World Economic Outlook, April 2009, IMF

(n.a.) Not yet available.

Box 2.1 (Cont'd)***Economic situation in the export-dependent Asian economies***

With the shrinking demand in the advanced economies severely affecting global trade, there had been serious disruptions to production activities in Asia, which constitute important parts of the global supply chains. Declines in industrial production were first spotted in some of the Asian economies stepping into the second half of last year, followed by more severe and widespread contractions in Asian exports. The sharp declines in Asian exports continued in the first quarter of 2009, putting a severe drag on the overall performance of Asian economies. While the more advanced economies in Asia generally entered into recession, the emerging market economies in Asia also saw notable deceleration in growth.

Table 2: Asian economies severely affected by shrinking external demand

	Year-on-year growth rate of real GDP (%)					Year-on-year growth rate of exports in US\$ terms (%)		
	2008				2009	2008		2009
	Q1	Q2	Q3	Q4	Q1	Q3	Q4	Q1
Mainland	10.6	10.1	9.0	6.8	6.1	23.1	4.4	-19.7
Hong Kong	7.3	4.1	1.5	-2.6	-7.8	5.6	-1.8	-21.5
Japan	1.5	0.7	-0.2	-4.3	n.a.	12.9	-9.9	-40.6
Singapore ⁺	6.7	2.5	0.0	-4.2	-11.5	-0.7	-19.6	-30.6
Korea	5.5	4.3	3.1	-3.4	-4.3	27.0	-9.9	-24.9
Taiwan	6.2	4.6	-1.0	-8.4	n.a.	8.0	-24.7	-36.6
Indonesia	6.2	6.4	6.4	5.2	n.a.	27.9	-5.6	-33.9*
Malaysia	7.4	6.7	4.7	0.1	n.a.	21.3	-12.6	-29.9*
Thailand	6.0	5.3	3.9	-4.3	n.a.	28.4	-8.5	-19.2*
Philippines	4.7	4.4	5.0	4.5	n.a.	4.1	-22.3	-39.9*

Notes: (+) Non-oil exports.

(n.a.) Not yet available.

(*) Figures for January and February combined.

The Mainland's external trade also fell markedly, due to the shrinkage in global demand for manufactured goods. In particular, Guangdong's exports, which have been closely tied to Hong Kong's trading and other business activities, also went down notably. Nevertheless, domestic demand in the Mainland remained fairly robust in the first quarter. The growth momentum in retail sales and fixed investment went very much unabated. The industrial value-added also managed to post some re-acceleration in March as compared to the growth rate in January and February combined. Bank loans and money supply M2 also registered notable increases in March. All these tend to reflect the good progress made by the stimulus measures, including the RMB 4 trillion package announced last November, by the Central Government. If the Mainland recovers to faster growth in the coming quarters, as widely expected by many private sector analysts, this will provide some support to the Hong Kong economy as well as to the economic stability of the region.