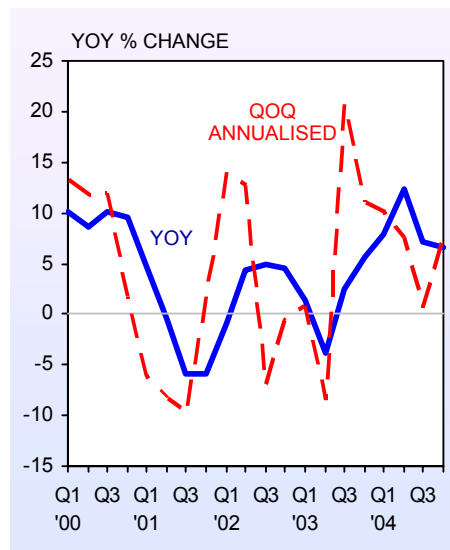


PERFORMANCE OF THE SINGAPORE ECONOMY IN 2004 AND OUTLOOK FOR 2005

Overall Performance

1. The Singapore economy rebounded by 8.4% in 2004, after a SARS-afflicted 2003, when growth struggled to hit 1.4%. In the final quarter of 2004, growth was revised upwards to 6.5% from the advance estimate of 5.4%, due to a better-than-expected performance by the biomedical cluster in December. Economic growth momentum in the fourth quarter also improved, as real GDP expanded by 7.9% on an annualised quarter-on-quarter basis.

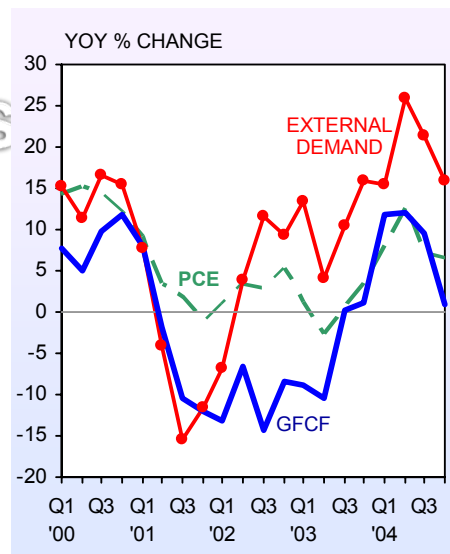
**CHART 1
REAL GDP GROWTH**



Sources of Growth

2. Total demand rose by 17.5%, a huge increase over the 4.8% in 2003. Both external demand and domestic demand, which climbed 19.6% and 11.6% respectively, lent impetus to the improvement. Amongst the components of external demand, both merchandise exports and services exports recorded an improved performance. Merchandise exports were boosted by machinery and transport equipment. Meanwhile, transportation and travel services led growth in services exports.

**CHART 2
SOURCES OF GROWTH**



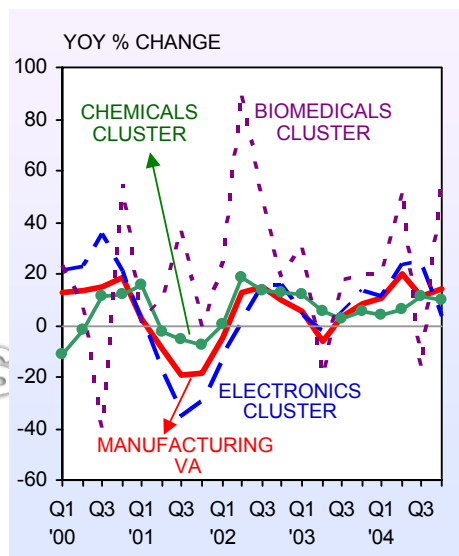
3. Within domestic demand, a healthy expansion of 8.6% was recorded by private consumption expenditure (PCE). This was led by a significant increase in expenditure on medical services and transport & communications. After three successive years of contraction, gross fixed capital formation (GFCF) grew by 8.4%. The continued drop in public investments was more than offset by the strong growth in private sector investments.

Sectoral Performance

4. In the fourth quarter of 2004, with the exception of construction, all major sectors registered positive growth. However, other than manufacturing and business services, the pace of growth had slowed from the preceding quarter. For the whole of 2004, all sectors saw better economic growth compared to 2003 (see *Annex*).

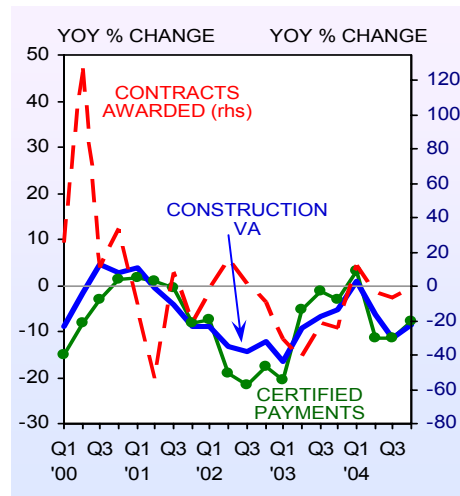
5. **THE MANUFACTURING SECTOR** grew by 14.1% in the fourth quarter of 2004, faster than the 11.2% registered in the previous quarter. The exceptional performance of the biomedical manufacturing cluster offset slower growth in the electronics and chemicals clusters. In 2004, manufacturing expanded by 13.9%, led by a surge of 25.7% in the biomedical manufacturing cluster. A similar pace of 24.0% was also notched in transport engineering. Amongst the bigger clusters, electronics and chemicals performed better than in 2003, growing by 14.9% and 7.8% respectively. Growth in the electronics cluster was driven mainly by a strong showing within the infocomms & consumer electronics and semiconductor segments.

**CHART 3
MANUFACTURING SECTOR**



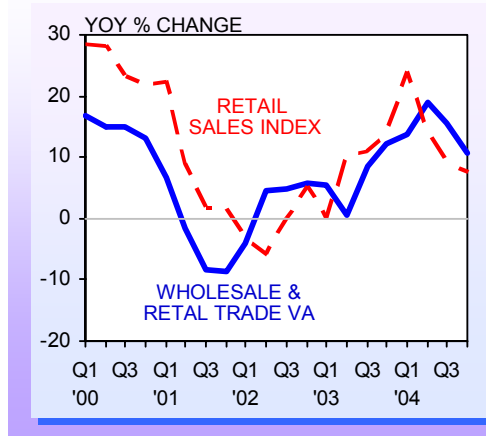
6. **THE CONSTRUCTION SECTOR** declined by a smaller 8.4% in the fourth quarter, compared to an 11.4% contraction in the third quarter. Public sector activity continued to fall, while private sector activity increased. On an annual basis, the sector shrank by 6.5% in 2004, an improvement over the 9.5% decline in 2003. Public sector certified payments receded by a greater amount, but this was offset by a smaller decline in private sector construction activity.

**CHART 4
CONSTRUCTION SECTOR**



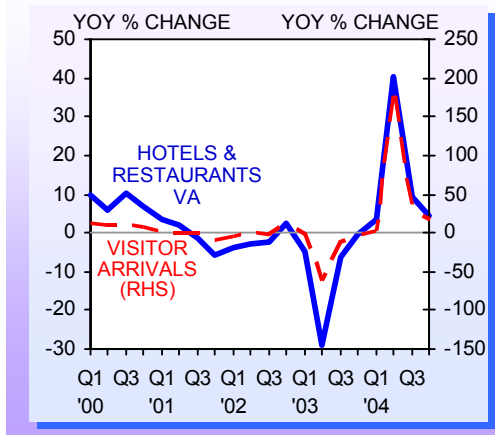
7. **THE WHOLESALE AND RETAIL TRADE SECTOR** grew by 10.7% in the fourth quarter, slower than the 15.6% rise in the earlier quarter, due to a slowdown in both NORX and retail sales. Retail sales in the fourth quarter moderated to 7.5%, down from 9.4% in the previous quarter. Excluding motor vehicles sales, retail sales also slowed to 2.3%, after growing by 6.1% in the third quarter. For the year as a whole, the continued strength of motor vehicles sales and improved sales in most retail segments lifted overall retail sales to 13.4% above the level in 2003. Consequently, the wholesale and retail trade sector expanded by 14.6% in 2004 – more than double the 6.7% growth experienced in 2003.

**CHART 5
WHOLESALE AND RETAIL TRADE SECTOR**



8. **THE HOTELS AND RESTAURANTS SECTOR** expanded by 12.4% in 2004, overturning the contraction of 9.9% in 2003. This was helped by record visitor arrivals, which surged by 35.9% over 2003.

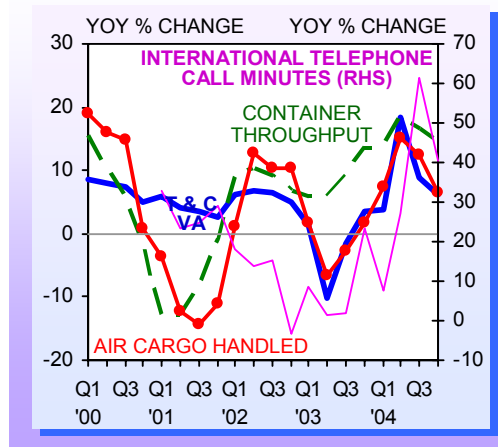
**CHART 6
HOTELS AND RESTAURANTS SECTOR**



9. TRANSPORT & COMMUNICATIONS

continued to ease, growing by 6.3% in the last quarter of 2004 against 9.0% in the third quarter. Air passengers, air cargo and container throughput all expanded but at a slower pace. On a similar note, expansion within the communications segment decelerated in the fourth quarter of 2004, because of slower growth in broadband subscribers and international telephone call duration. For the year as a whole, the transport and communications sector expanded by 9.1% from the low base of a SARS-afflicted 2003, which saw the sector decline by 1.8%.

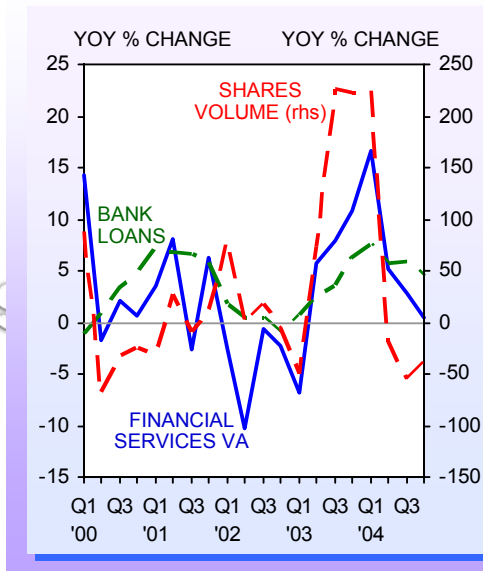
CHART 7
TRANSPORT AND COMMUNICATIONS SECTOR



10. THE FINANCIAL SERVICES SECTOR

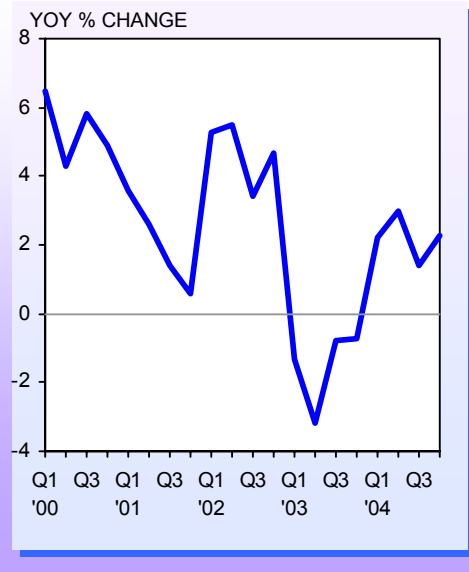
moderated further in the fourth quarter, growing by a marginal 0.4% after a gain of 2.9% in the previous quarter. Turnover in the domestic stock market remained lacklustre, while fund management activities were curtailed by the recent trend of rising interest rates and poor earnings reports. Similarly, bank loans to non-bank customers slowed. On the other hand, trading activity in the foreign exchange market improved and insurance activities remained robust. Despite a slower fourth quarter, for the year, the financial services sector expanded by 6.0%, up from the 4.3% gain in 2003. The improvement was mainly supported by healthy annual performance by FOREX trading, fund management and insurance.

CHART 8
FINANCIAL SERVICES SECTOR



11. THE BUSINESS SERVICES SECTOR rose by 2.3% in the fourth quarter, following a 1.4% gain in the third quarter of 2004. For 2004 as a whole, the sector grew by 2.2%, reversing a contraction of 1.5% a year earlier. Both fourth quarter and annual performances were largely due to robust growth in business representative offices and IT & related services. Elsewhere in the sector, the real estate segment ended the year flat following a decline in 2003, as the property market showed signs of a nascent recovery. The private residential property price index rebounded to grow by 0.9%, the first increase since 1999.

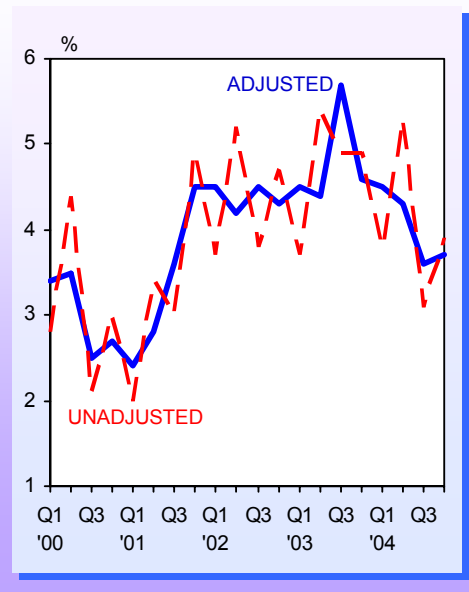
**CHART 9
BUSINESS SERVICES SECTOR**



Labour Market

12. After a weak performance in 2003, the labour market rebounded strongly last year. Total employment grew by a strong 66,200 in 2004, more than recovering the job losses totalling 35,900 over the preceding three years. The growth in total employment was achieved on the back of robust quarterly gains which peaked at 27,500 in the fourth quarter of 2004. This was the strongest quarterly performance in four years. Strong employment creation brought the total number of persons employed to a new high of 2,201,300 as at December 2004. In tandem with the economy's good performance, the unemployment rate for the whole of 2004 averaged 4.0%, lower than the 4.7% registered in 2003. Similarly, only 9,900 workers

**CHART 10
UNEMPLOYMENT RATE**



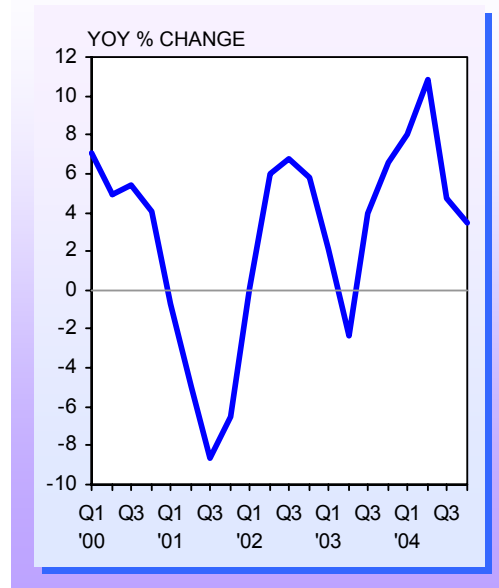
were retrenched in the whole of 2004, a marked decline from the 16,400 retrenched in 2003.

Labour Productivity

13. Labour productivity growth moderated to 3.5% in the final quarter of 2004 from 4.7% in the previous quarter. For the whole year, however, productivity growth accelerated to a robust 6.7% in 2004, up from 2.6% in the previous year. Among goods producing sectors, productivity growth in the manufacturing sector clocked a faster pace of 9.7% in 2004, nearly twice the 5.2% achieved last year. On the other hand, productivity in the construction sector slid by 1.6%, reversing the 0.8% gain in 2003.

14. In the services sectors, the wholesale and retail trade sector recorded the highest labour productivity gain of 12.7% in 2004, exceeding the 7.4% clocked in the previous year. Transport and communications posted a rise of 8.6%, reversing the 2.4% decline in 2003. Hotel and restaurants achieved 8.0% growth in productivity, compared to the 11.1% erosion in 2003. Weaker productivity performance was posted by the financial services sector, which eked out a 2.1% rise. On the other hand, labour productivity in the business services sector dropped marginally by 1.1%, a slight improvement over the 2.1% fall in the preceding year.

CHART 11
LABOUR PRODUCTIVITY



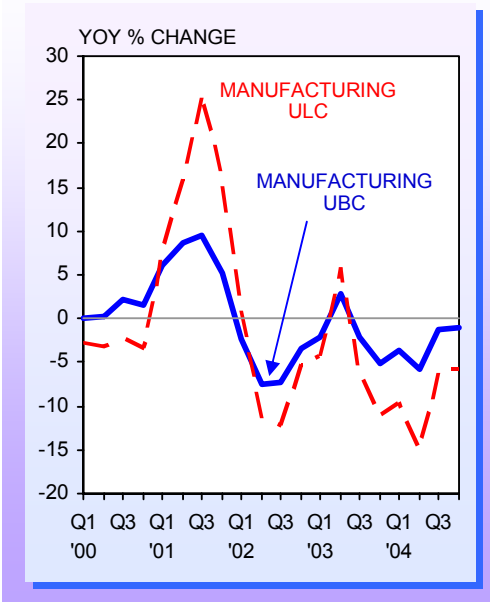
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Business Costs

15. Growth in labour productivity precipitated a 4.0% decline in the overall unit labour cost (ULC) in 2004, compared to the 0.7% drop in 2003.

16. Unit business costs (UBC) in the manufacturing sector fell in tandem by 3.0% in 2004, compared to a drop of 1.7% the previous year. This was driven mainly by the reduction in manufacturing ULC, which carries a significant weight in the UBC. This reduction had outweighed a slight increase in services costs.

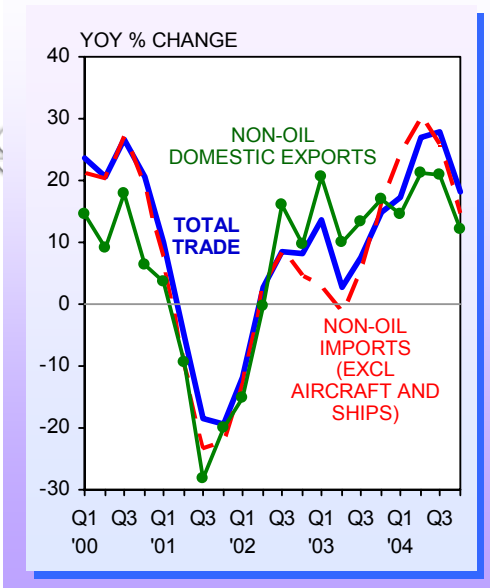
**CHART 12
UNIT BUSINESS COST &
UNIT LABOUR COST**



External Trade

17. Singapore's external trade rose by 22.5% in 2004, a strong improvement from the 9.6% growth in 2003. In level terms, it reached a historic high of \$580 billion in 2004, propelled by strong economic recovery in the US, Japan and the EU as well as robust global electronics demand. Trade growth was strongest in the second and third quarters of the year, recording 27.0% and 27.8% respectively. It subsequently expanded at a slower pace of 18.1% in the fourth quarter, due to the slowdown in global demand towards the end of 2004. In volume terms, total trade increased by 21.7% in 2004, after a 10.6% gain in 2003.

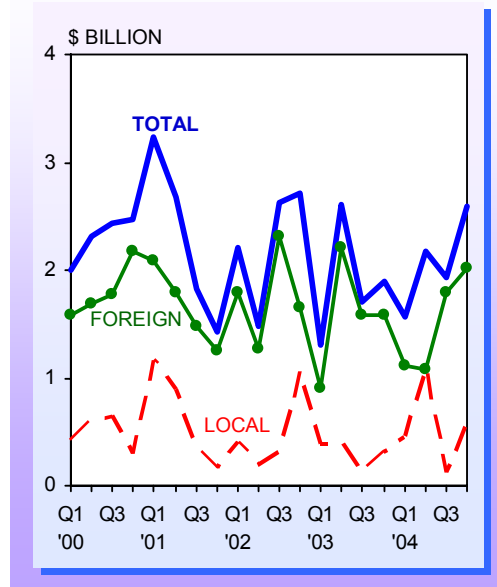
**CHART 13
EXTERNAL TRADE**



Investment Commitments

18. Total investment commitments in the manufacturing sector in 2004 increased almost 10% over 2003 to reach \$8.3 billion, a strong affirmation of Singapore as an attractive location for manufacturing. When fully operational, these commitments will generate a value added of \$6.4 billion and create about 11,800 jobs, of which 61% are for skilled workers. Investment commitments in the services clusters promoted by EDB in 2004 amounted to \$2.3 billion of total business spending (TBS). When fully realised, these services clusters will generate a value added of \$4.0 billion and create about 10,000 jobs, of which 80% are for a skilled workforce.

**CHART 14
MANUFACTURING INVESTMENT
COMMITMENTS**

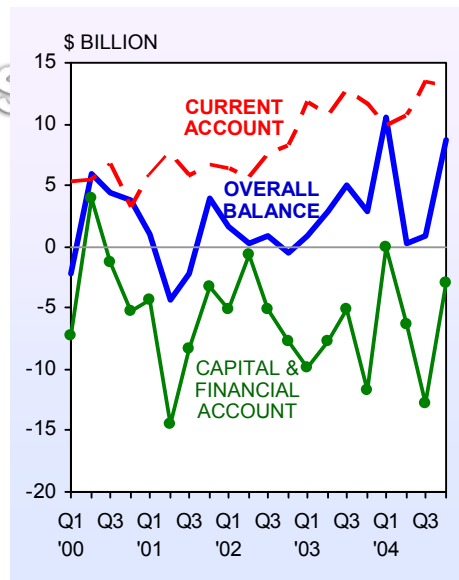


Balance of Payments

19. Singapore's overall balance of payments registered a larger surplus of \$20.4 billion in 2004, compared to \$11.8 billion in the preceding year. The bigger surplus mainly reflected the decline in outflows from the capital and financial account and a slight improvement in the current account surplus.

20. Consequently, Singapore's official foreign reserves rose by \$20.7 billion to reach \$183.8 billion as at end 2004 (equivalent to 8.0 months of current imports).

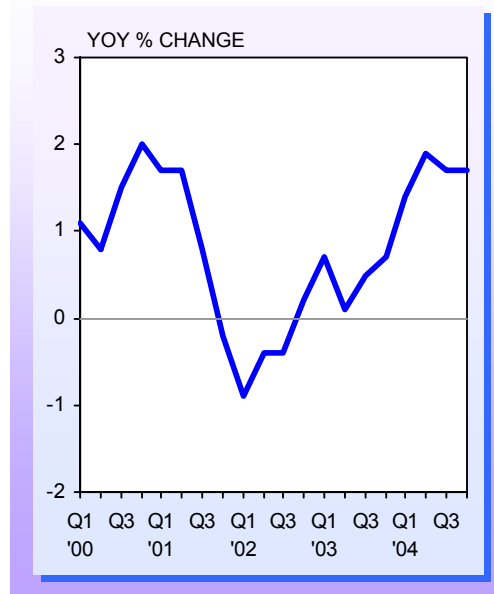
**CHART 15
BALANCE OF PAYMENTS**



Consumer Price Inflation

21. The consumer price index rose by 1.7% in the final three months of 2004, similar to the gain in the third quarter. For the year as a whole, the rate of consumer price inflation also came in at 1.7% in 2004, up from 0.5% a year earlier. The category that saw the largest gains in prices was expenditure on healthcare (6.0%). The other categories that saw higher costs in 2004 included education (4.2%), miscellaneous consumer items (2.3%), food (2.0%), transport & communications (1.2%) and clothing (0.1%). Only the cost of housing declined in 2004, coming down by a marginal 0.1%.

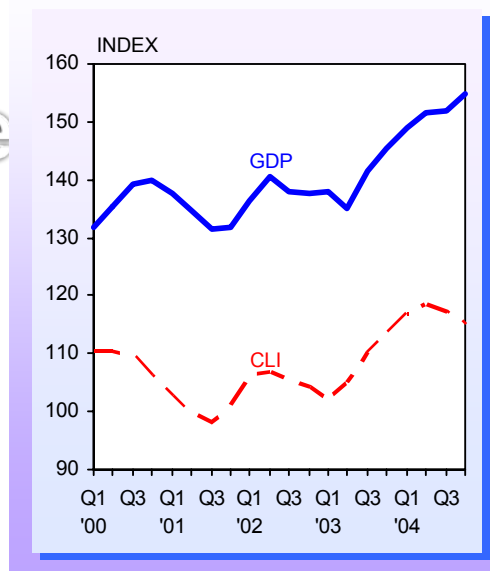
**CHART 16
CONSUMER PRICE INDEX**



Outlook For 2005

22. The Singapore economy registered exceptional growth in 2004 on the back of a recovery from a SARS-afflicted 2003. However, as it rebounded from a low base, there had already been early indications towards the end of 2004 of a moderation in 2005. The composite leading index (CLI), an indicator that leads economic activity by about three quarters ahead, fell for the second consecutive quarter in the last quarter of 2004. The index was lower by 1.9% over the third quarter of 2004, larger than the 1.2% decline in the third quarter over the second quarter.

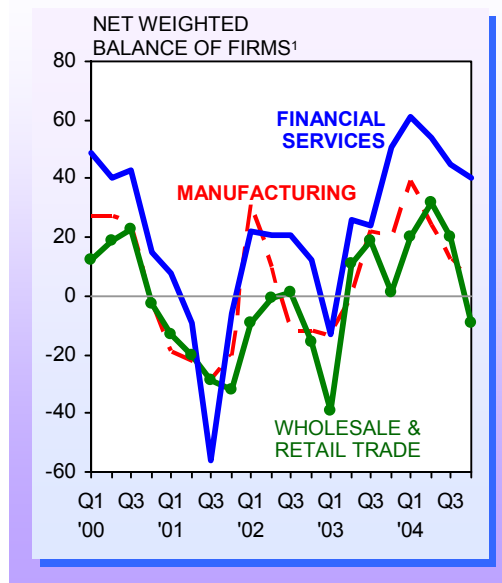
**CHART 17
GROSS DOMESTIC PRODUCT &
COMPOSITE LEADING INDEX (1995=100)**



23. The latest business expectations surveys¹ reveal that manufacturers and service providers expect business conditions to soften, though sentiments still remain in positive territory.

24. Moving forward, there are a number of factors that will influence the extent of moderation in 2005. These include a slowdown in the global semiconductor cycle, concerns over a possible hard landing in China, and lingering high oil prices.

**CHART 18
BUSINESS EXPECTATIONS**



25. After expanding vigorously by 25.5% last year, Gartner forecasts global semiconductor growth in 2005 to ease substantially to 5.2 per cent. Slower growth in the major OECD economies will compound the current inventory glut weighing down on the industry, thus resulting in greater uncertainty as to when a turnaround can materialise. In view of this, numerous industry giants have slashed earnings expectations in 2005.

26. Despite taking a series of steps to cool its rapid economic growth, the risk of a hard landing for China still remains. Though growth of fixed asset investment, industrial output and inflation has moderated, credit growth and money supply picked up again in recent months. Therefore, it remains to be seen whether a soft landing in 2005 can be successfully achieved.

27. Oil prices will continue to be an area of concern in 2005, as limited capacity within the industry makes it vulnerable to heightened volatility and price pressures. Coupled with continued geopolitical uncertainty surrounding supplier countries, even a minor supply disruption can cause prices to spiral upwards.

¹ The y-axis of the chart on business expectations represents the net weighted balance of companies that predict an improvement in business situation. This is derived from the weighted percentage of companies in the survey that predict better business minus the weighted percentage of companies that predict worse business.

28. Notwithstanding an expected moderation across most drivers of growth, growth is still predicted to be healthy especially in the developed economies, which account for a substantial portion of Singapore's export market. OECD and G-3 leading indicators have held their ground after slipping towards the end of 2004, signalling expectations of moderate but still healthy growth rates in 2005.

29. All things considered, the Ministry of Trade and Industry has maintained its economic growth forecast for 2005 at 3-5%.

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Sectoral Growth Rates

Per Cent

<u>Sector</u>	<u>2003</u>	<u>2004</u>	<u>1Q03</u>	<u>2Q03</u>	<u>3Q03</u>	<u>4Q03</u>	<u>1Q04</u>	<u>2Q04</u>	<u>3Q04</u>	<u>4Q04</u>
Percentage Change Over Corresponding Period of Previous Year										
Total	1.4	8.4	1.3	-3.8	2.4	5.6	7.9	12.3	7.2	6.5
Goods Producing Industries	0.5	9.9	1.1	-6.1	1.2	5.8	8.2	14.7	7.1	9.8
Manufacturing	2.7	13.9	5.7	-6.0	3.1	8.7	10.2	20.1	11.2	14.1
Construction	-9.5	-6.5	-16.5	-9.4	-6.6	-5.1	1.0	-6.4	-11.4	-8.4
Services Producing Industries	1.3	7.5	0.7	-3.1	2.4	5.1	7.2	11.4	6.9	4.8
Wholesale & Retail	6.7	14.6	5.5	0.6	8.5	12.1	13.7	19.0	15.6	10.7
Hotels & Restaurants	-9.9	12.4	-4.6	-29.0	-6.2	-0.5	3.5	40.3	9.2	4.6
Transport & Communications	-1.8	9.1	1.3	-10.3	-1.6	3.5	3.7	18.4	9.0	6.3
Financial Services	4.3	6.0	-6.8	5.8	8.0	10.8	16.7	5.2	2.9	0.4
Business Services	-1.5	2.2	-1.3	-3.2	-0.8	-0.7	2.2	3.0	1.4	2.3
Annualised Growth Rate – Seasonally-adjusted										
Total	1.4	8.4	0.8	-8.4	20.7	11.1	10.1	7.5	0.7	7.9
Goods Producing Industries	0.5	9.9	0.1	-8.0	23.9	9.7	9.1	15.4	-4.1	21.0
Manufacturing	2.7	13.9	5.1	-11.5	32.2	13.5	11.1	24.2	-1.6	25.3
Construction	-9.5	-6.5	-20.7	8.5	-0.4	-5.7	1.7	-19.5	-20.1	7.1
Services Producing Industries	1.3	7.5	-1.3	-8.7	19.8	12.6	7.2	6.9	1.3	3.7
Wholesale & Retail	6.7	14.6	9.4	-1.1	20.3	21.5	15.5	18.7	7.2	2.4
Hotels & Restaurants	-9.9	12.4	-11.3	-67.1	182.6	16.6	6.4	11.2	3.5	-3.5
Transport & Communications	-1.8	9.1	4.7	-34.1	42.7	15.9	6.0	12.4	2.1	4.5
Financial Services	4.3	6.0	-10.6	42.5	1.3	16.8	9.9	-5.7	-7.4	5.9
Business Services	-1.5	2.2	-8.3	-3.1	6.6	2.5	3.0	-0.1	0.1	6.5

Source: Singapore Department of Statistics