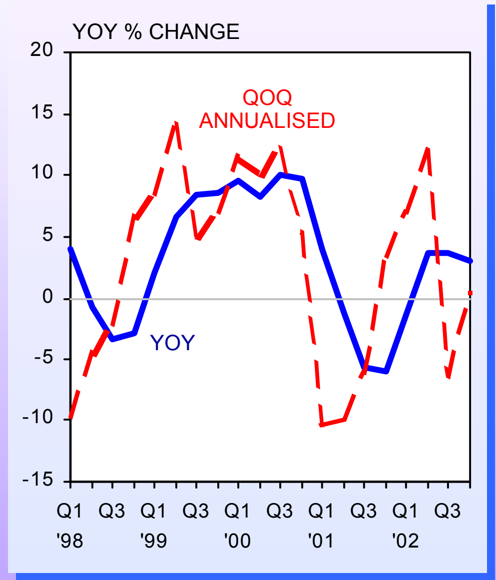
Performance of the Singapore Economy in 2002 and Outlook for 2003

Overall Performance

The Singapore economy grew by 2.2% in 2002, a turnaround from the 2.4% contraction in 2001. Growth momentum, however, was weak in the fourth quarter, with a growth of 0.4% on an annualised quarter-on-quarter basis, after a 6.6% decline in the prior quarter.

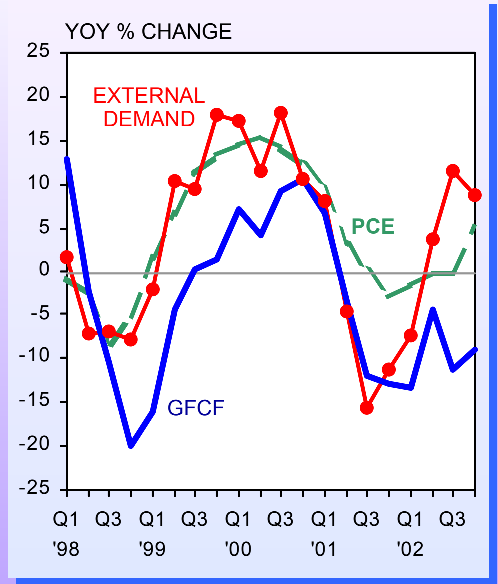
CHART 1
REAL GDP GROWTH



Sources of Growth

Total demand rose by 2.0% in 2002 after slumping by 6.8% a year before. External demand, which grew by 4.0%, was the key impetus to the recovery. Merchandise exports were boosted by electronics products, notably electronic valves and telecommunications equipment. Services exports also turned in a slightly better performance due to financial and transportation services. Private consumption expenditure (PCE) rose by a mere 0.9% in 2002, on account of lower spending on motor vehicles. A cutback in public investment spending and flagging business sentiments led to a larger 9.7% fall in gross fixed capital formation (GFCF) in 2002. The main drags on private investments were the machinery and equipment and non-residential buildings segments.

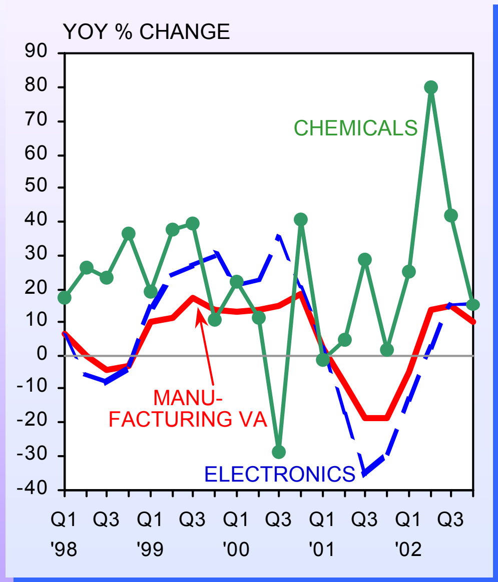
CHART 2
SOURCES OF GROWTH



Sectoral Performance

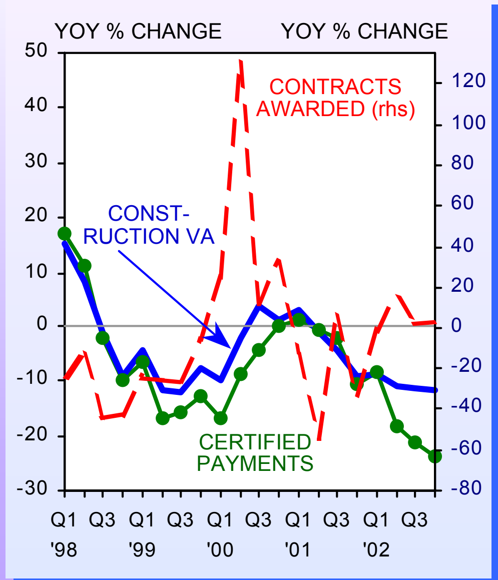
At the sectoral level, the performance was mixed. The manufacturing, wholesale & retail trade, and transport & communications sectors registered higher growth while the other major sectors deteriorated (see *Annex*).

CHART 3
MANUFACTURING SECTOR



THE MANUFACTURING SECTOR, the best performing sector, grew by 8.3% in 2002, a turnaround from the 12% decline in 2001. Growth was largely attributable to the 40% surge in the chemicals and chemical products industry, which in turn was supported by the pharmaceuticals and petrochemicals segments. The electronics industry improved from the 21% plunge in 2001 to register an expansion of 4.1%, with higher output in semiconductors, disk drives and PCBAs. Other key industries posting better growth performances as compared with 2001 include instrumentation equipment, rubber and plastics products, and transport equipment.

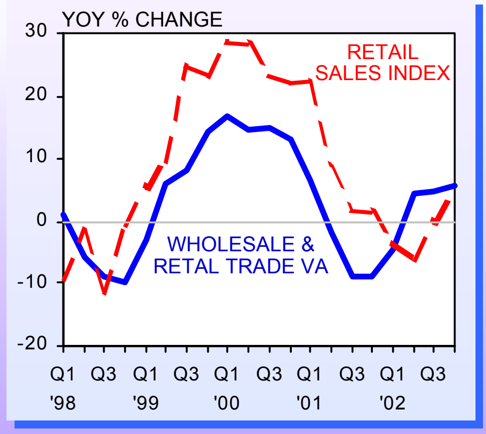
CHART 4
CONSTRUCTION SECTOR



THE CONSTRUCTION SECTOR deteriorated further in 2002, shrinking by 11% after a decline of 3.2% a year ago. Activity declined in both the public and private sectors, with overall certified payments slumping by 18%, the largest fall ever recorded. Total contracts awarded, however, rose by 4.5% as the jump in public construction demand more than offset the decline in private construction.

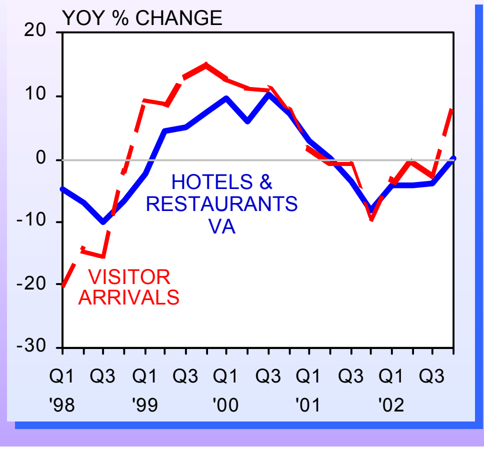
The Wholesale and Retail Trade Sector expanded by 2.7% in 2002, following a 3.3% decline in 2001. Non-oil re-exports, which fell by 2.8% in 2001 turned around to grow by 3.3%, thereby providing support to the sector. Retail sales were, however, lower by 1.1% last year, after achieving a healthy growth of 8.2% in 2001, due to poor motor vehicle sales. Excluding motor vehicles, retail sales rose by 2.7% in 2002 following a marginal 0.4% drop a year earlier.

CHART 5
WHOLESALE AND RETAIL TRADE SECTOR



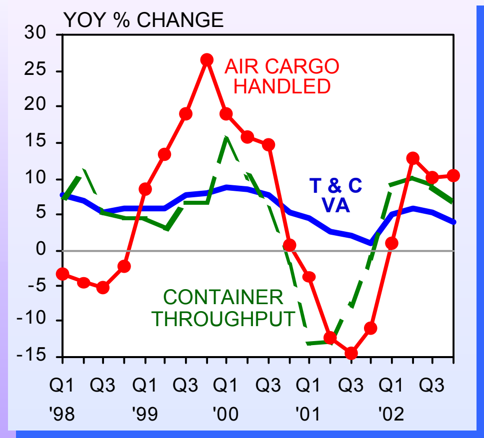
The Hotels And Restaurants Sector shrank further by 2.9% in 2002, from the –2.2% in 2001. Sluggish consumer sentiments and weak visitor arrivals posed a drag on the sector.

CHART 6
HOTELS AND RESTAURANTS SECTOR



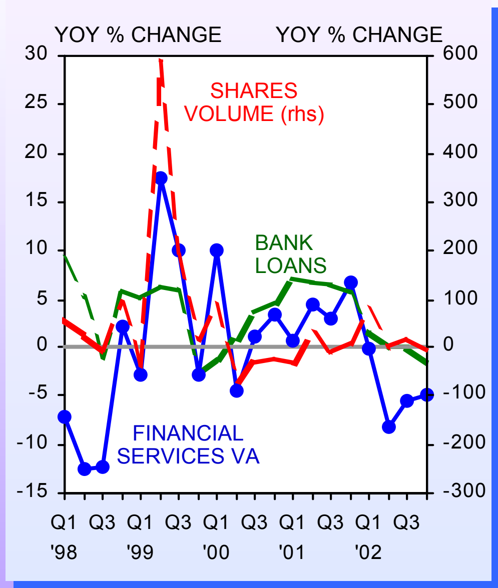
The Transport And Communications Sector expanded by 5.0% in 2002, almost twice the pace in 2001. In tandem with the recovery in trade activity, container throughput rose by 8.8%. Air cargo growth was also healthy at 8.6% while air passengers recorded a modest increase of 3.2%. The communications segment, in contrast, continued to slow. Both the increase in mobile phone subscribers and IDD call duration moderated.

CHART 7
TRANSPORT AND COMMUNICATIONS SECTOR



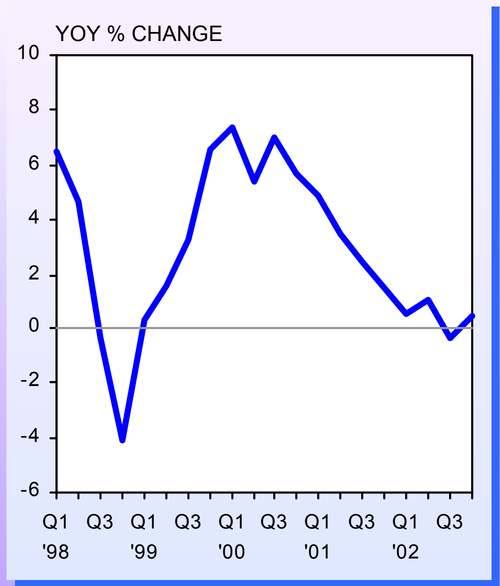
THE FINANCIAL SERVICES SECTOR reversed sharply from a 3.7% growth in 2001 to a contraction of 4.8% in 2002. The insurance segment remained in the doldrums after the boost from the CPF Investment Scheme liberalisation wore off. Stock broking activity was adversely affected by poor investor sentiments in view of the global uncertainties. Activity in commercial banking dipped on the back of a weak recovery. However, the Asian Dollar Market and fund management segments saw some improvements in 2002. The former was bolstered by a gain in fee-based income activity while the latter was supported by increased portfolio reallocations amidst volatile financial market conditions.

CHART 8
FINANCIAL SERVICES SECTOR



THE BUSINESS SERVICES SECTOR turned in a marginal growth of 0.4% in 2002 following an expansion of 3.1% in the earlier year. Real estate services were flat as the property market continued to stagnate, while IT services languished in tandem with weak business sentiments. Other professional services like legal and accounting services, however, provided some support to the sector.

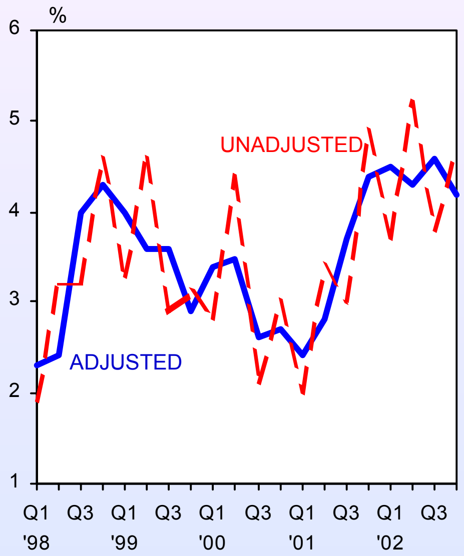
CHART 9
BUSINESS SERVICES SECTOR



Labour Market

Total employment declined by 39,500 in 2002, after posting a small gain of 100 in the previous year. This was due to a persistent decline in employment in the goods-producing industries (43,200), notably the construction sector (35,100). As a result, the average unemployment rate in 2002 rose to 4.4%, from the 3.3% in 2001. However, preliminary estimates showed that a lower number of workers (around 18,900) were retrenched in 2002, compared to the 25,800 in 2001.

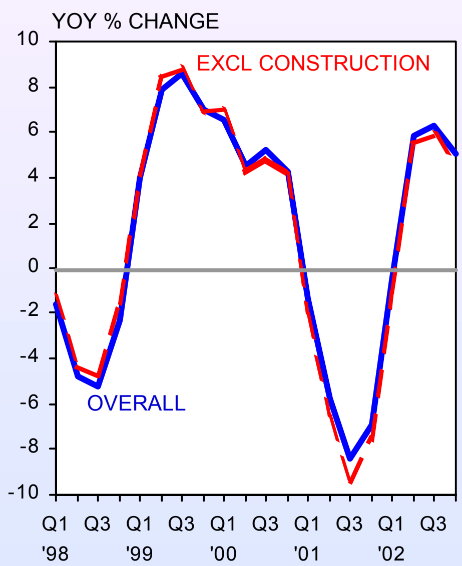
CHART 10
UNEMPLOYMENT RATE



Labour Productivity

Labour productivity increased by 4.2% in 2002, substantially improving from the 5.7% drop in the previous year. The pickup was evident in all sectors. The manufacturing sector experienced the largest gain of 11% in labour productivity on the back of a healthy increase in activity and continued decline in employment in the sector. This was followed by the transport & communications (4.9%), wholesale & retail trade (4.0%) and business services (1.4%) sectors. Other sectors, namely hotels & restaurants (–2.2%), financial services (–1.5%) and construction (–0.4%), saw more moderate declines in productivity.

CHART 11
LABOUR PRODUCTIVITY

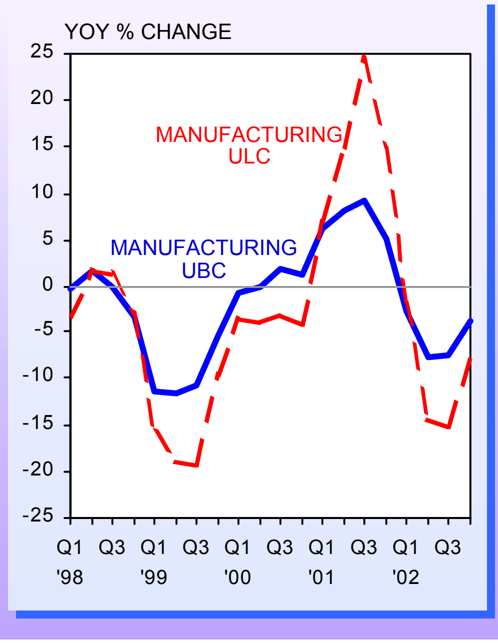


Business Costs

The overall unit labour cost (ULC) index fell by 4.2% in 2002, in contrast to the 6.1% rise the year earlier. This came on the back of a healthy increase in labour productivity.

The unit business cost (UBC) index for the manufacturing sector dipped by 5.4% in 2002, against a 7.1% increase in the previous year. All 3 components, namely manufacturing ULC, government rates & fees and services cost, registered declines. Manufacturing ULC dropped by 9.6% in tandem with the surge in manufacturing labour productivity. Government rates & fees declined 9.1% on account of lower property taxes. Services cost slipped 2.1% due mainly to lower rentals and utilities charges.

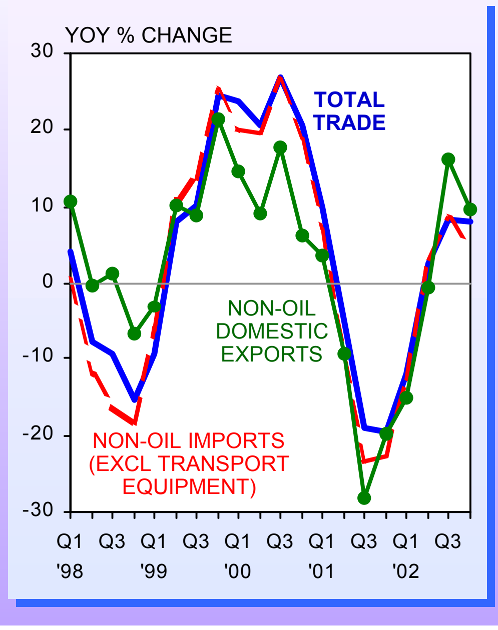
CHART 12
UNIT BUSINESS COST &
UNIT LABOUR COST



External Trade

Singapore's external trade expanded by 1.5% in 2002, reversing the 9.4% decline in 2001. The better performance was on the back of a recovery in the US economy and global electronics demand. Non-oil domestic exports, the key exports segment, rose by 1.9%, after slumping by 14% the previous year. Similarly, non-oil imports (excluding transport equipment), a short-term leading indicator of manufacturing activity, grew, albeit marginally, by 0.5%. Total trade in volume terms turned around to grow by 2.9% after a 10% drop in 2001.

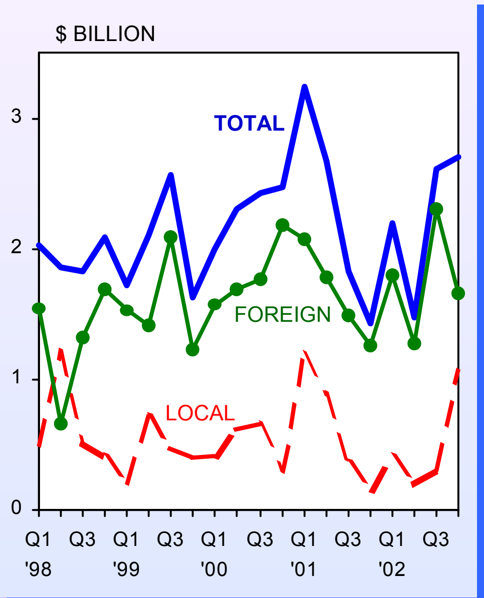
CHART 13
EXTERNAL TRADE



Investment Commitments

Fixed assets investments amounting to $9.0 billion were committed in the manufacturing sector in 2002, slightly below the $9.2 billion in 2001. When realised, the commitments would generate $7.5 billion in value-added and create 14,000 jobs, of which 64% would be for skilled workers. Commitments in the services industries promoted by EDB amounted to $2.1 billion in total business spending. When fully realised, the investments would generate $3.0 billion in value-added and 6,900 jobs, of which 89% would be for skilled workers.

CHART 14
MANUFACTURING INVESTMENT COMMITMENTS

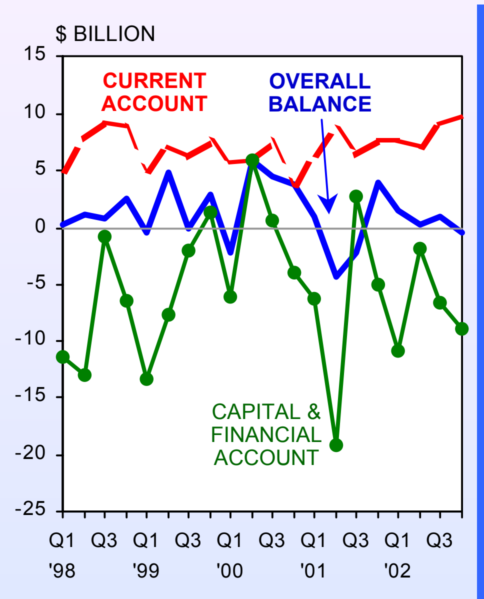


Balance of Payments

The current account surplus rose to $33.5 billion due to bigger surpluses in the goods and services accounts and a small deficit in the income account. This more than compensated for the larger net outflow of $28.3 billion in the capital and financial account, which was due to increased portfolio outflows from domestic capital markets, on the back of higher level of global uncertainties.

Consequently, Singapore's overall balance of payments turned in a small surplus of $2.3 billion in 2002, following the $1.6 billion deficit in 2001. Singapore's official foreign reserves thus rose by $2.8 billion in 2002 to reach $142.7 billion as at end 2002 (equivalent to 8.2 months of current imports).

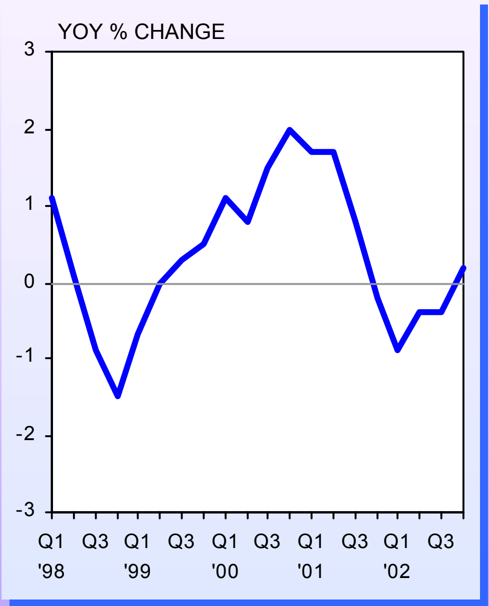
CHART 15
BALANCE OF PAYMENTS



Consumer Price Inflation

The CPI fell by 0.4% in 2002, compared with a 1.0% increase a year ago. The main reasons for the decline were lower costs of housing and transport & communications (–2.2% and –1.0% respectively). Food prices remained unchanged while prices of clothing rose 0.2%. Cost of education and healthcare posted stronger increases of 1.4% and 3.2% respectively. Miscellaneous items cost 0.3% more.

CHART 16
CONSUMER PRICE INDEX



Outlook For 2003

After recovering at the beginning of 2002, the global economy has slowed over the course of the year, plagued by concerns over accounting and auditing practices, weak corporate earnings and increased geopolitical risks.

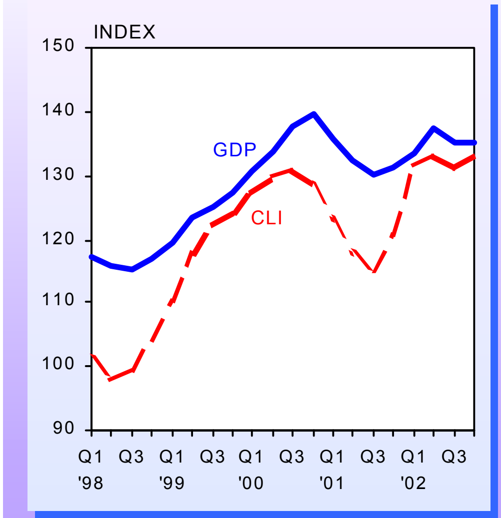
In the US, increased prospects of a war with Iraq, coupled with concerns over terrorism and the nuclear stand-off with North Korea, have weighed on business investments. Consumer confidence has also been dampened by the rise in unemployment and decline in the stock market.

A slower US economy, the main driver of global growth, and a war between the US and Iraq will have a significant impact on many economies. Greater uncertainties stemming from these developments have already capped the growth momentum in the EU economies. The Japanese economy, plagued by persistent deflation and sluggish business and consumer sentiments, could weaken further. The other Asian economies, which have recovered from the 2001 recession by varying extent, could also be affected adversely, depending on how geopolitical developments pan out. A short war would have minimal impact while a longer conflict would lead to higher oil prices and slower global growth.

The global electronics industry had recovered with a marginal 0.6% growth in 2002, after the sharp 33% contraction in 2001. However, the recovery is likely to remain soft as a result of greater uncertainties about the prospects of the US economy and the impact of a war with Iraq. The 2003 growth forecast for global semiconductor sales has thus been cut further to 9% from the earlier projection of 12%.

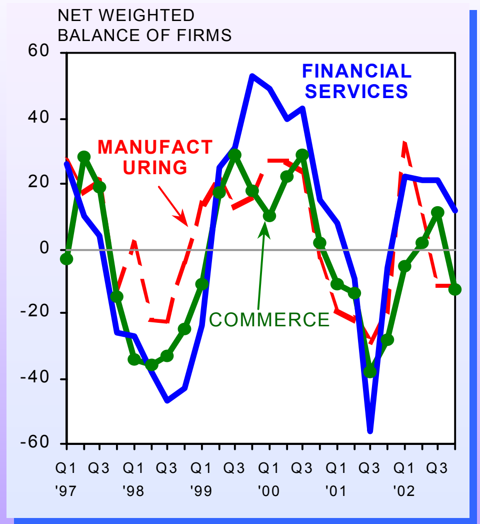
Forward-looking indicators also point to a mixed outlook for the Singapore economy. The composite leading index (CLI), which tracks economic activity about 3 quarters ahead, rose by 1.5% in the final quarter of 2002 after a brief dip of 1.4% in the third quarter. The business expectations surveys show that manufacturers expect business conditions to remain lacklustre in the first half of the year. Sentiments have also worsened among firms in the commerce, real estate and transport & storage sectors. However, firms in business services, insurance and commercial banks are optimistic about prospects in the next six months.

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



Taking into account the above factors, the Ministry of Trade and Industry is maintaining Singapore's 2003 growth forecast at 2-5%.

CHART 18
BUSINESS EXPECTATIONS



ANNEX

Sectoral Growth Rates

Per cent

Sector	2001	2002	1Q01	2Q01	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02
Percentage Change Over Corresponding Period of Previous Year										
Total	**–2.4**	**2.2**	**4.1**	**–1.3**	**–5.7**	**–6.1**	**–1.5**	**3.8**	**3.8**	**3.0**
Goods Producing Industries	–9.2	4.0	2.7	–6.6	–15.1	–15.9	–5.2	7.6	8.7	5.0
Manufacturing	–11.5	8.3	2.4	–8.8	–18.9	–18.5	–4.7	13.5	15.5	9.9
Construction	–3.2	–10.8	2.9	–1.2	–4.6	–9.1	–8.8	–11.1	–11.5	–11.9
Services Producing Industries	2.0	1.5	5.0	2.5	0.5	0.3	0.6	1.7	1.6	1.9
Wholesale & Retail	–3.3	2.7	6.7	–1.5	–8.6	–8.8	–4.3	4.6	4.9	5.9
Hotels & Restaurants	–2.2	–2.9	2.8	0.3	–3.6	–7.9	–4.1	–4.0	–3.7	0.2
Transport & Communications	2.6	5.0	4.5	2.8	2.1	1.1	5.1	5.8	5.3	4.0
Financial Services	3.7	–4.8	0.7	4.5	2.9	6.8	–0.2	–8.2	–5.5	–4.9
Business Services	3.1	0.4	4.9	3.5	2.5	1.5	0.5	1.1	–0.4	0.4
Annualised Growth Rate – Seasonally-adjusted										
Total	**–2.4**	**2.2**	**–10.5**	**–9.9**	**–6.2**	**3.4**	**7.0**	**12.1**	**–6.6**	**0.4**
Goods Producing Industries	–9.2	4.0	–27.3	–20.0	–19.4	7.5	15.6	34.1	–16.0	–6.3
Manufacturing	–11.5	8.3	–34.3	–24.6	–23.7	17.5	20.8	53.9	–18.4	–3.8
Construction	–3.2	–10.8	–1.5	–8.1	–8.1	–17.0	–2.1	–16.3	–10.1	–18.0
Services Producing Industries	2.0	1.5	1.8	–1.9	–0.8	2.5	2.7	2.6	–1.0	3.1
Wholesale & Retail	–3.3	2.7	–6.6	–15.7	–14.8	3.5	12.0	20.9	–13.0	6.5
Hotels & Restaurants	–2.2	–2.9	–4.8	–4.0	–6.0	–16.4	12.0	–3.3	–5.3	–1.7
Transport & Communications	2.6	5.0	3.1	0.8	1.6	–0.9	19.6	4.0	–0.6	–5.4
Financial Services	3.7	–4.8	4.1	17.5	–5.5	10.9	–19.1	–16.3	6.7	12.4
Business Services	3.1	0.4	4.4	–2.3	4.3	–0.5	0.0	1.1	–2.4	2.9

Source: Singapore Department of Statistics