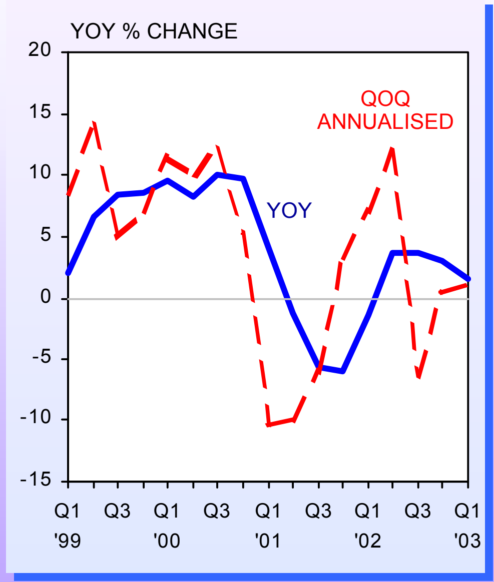
Performance of the Singapore Economy in First Quarter 2003 and Outlook for 2003

Overall Performance

Singapore's economic growth slowed from 3.0% in 4Q02 to 1.6% in 1Q03. However, growth momentum (on an annualised quarter-on-quarter basis) inched up by 1.1% after a marginal increase of 0.4% in the previous quarter.

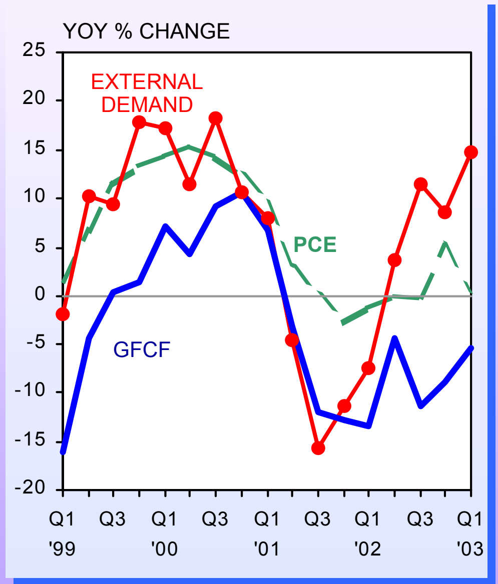
CHART 1
REAL GDP GROWTH



Sources of Growth

Total demand rose by 6.1% in 1Q03, higher than the 5.3% a quarter before. External demand, which hit a growth of 15%, was the key impetus to the improvement. Exports of manufactured goods, in particular chemicals and electronics, saw significant growth. The latter was boosted by higher exports of electronic valves. Services exports also picked up substantially due to the strong performance in transportation, financial services and other business services. Meanwhile, the decline in private investments moderated to 2.7% due to the increase in aircraft investments. Cutbacks in investments in machinery & equipment and non-residential buildings, however, deepened. In addition, private consumption expenditure (PCE) rose by a mere 0.7% in the quarter, on account of lower spending on financial services and recreational goods.

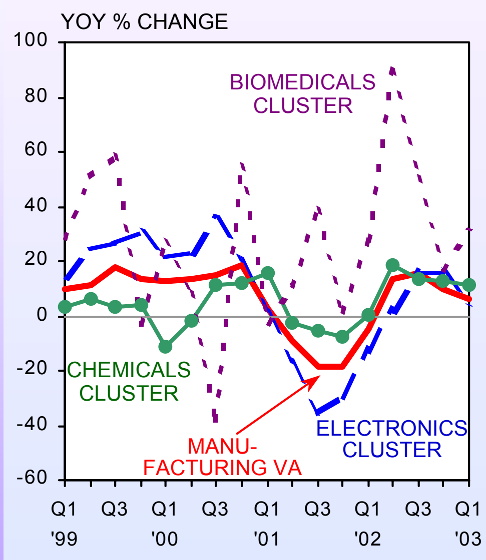
CHART 2
SOURCES OF GROWTH



Sectoral Performance

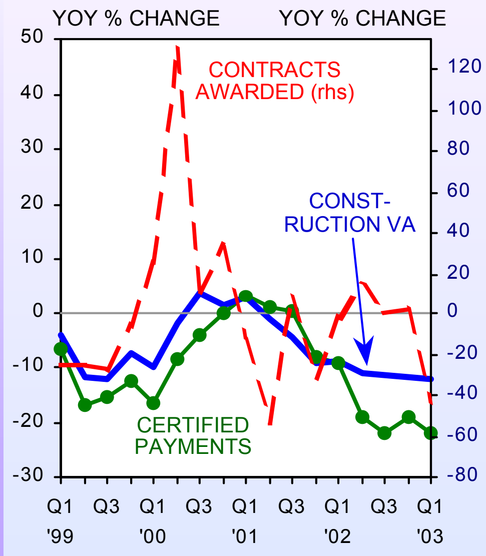
At the sectoral level, all major sectors worsened. The hotels & restaurants and transport & communications sectors decelerated significantly with the former reversing sharply to fall by 8.0%, largely due to the impact of the SARS in March (see *Annex*).

CHART 3
MANUFACTURING SECTOR



THE MANUFACTURING SECTOR grew by 6.5% in 1Q03, compared to the 9.9% expansion in the last quarter. The biomedicals cluster strengthened further to expand by 30%. The chemicals cluster also turned in a robust 11% growth. Growth in the electronics cluster, however, moderated from 16% in 4Q02 to 4.4% in 1Q03 due to lower production in the infocomms & consumer electronics segment. The transport and precision engineering clusters and general manufacturing industries also turned in a weaker performance.

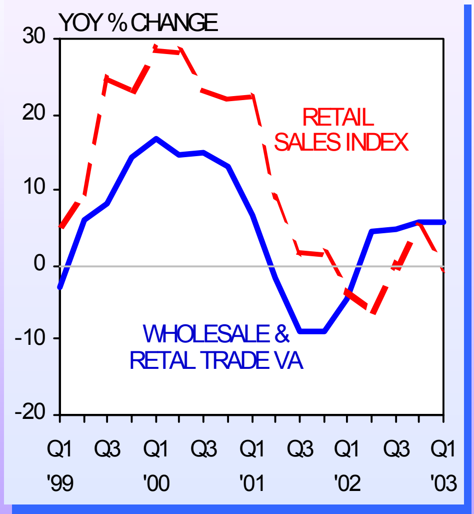
CHART 4
CONSTRUCTION SECTOR



THE CONSTRUCTION SECTOR shrank by 12%, similar to a quarter ago. Activity continued to decline in both the public and private sectors, with overall certified payments slumping by 22%, worsening from the 19% drop in 4Q02. Total contracts awarded plummeted by 44%, a huge swing from the 1.8% gain in the previous quarter. Private construction demand dipped further while public construction demand suffered a significant drop after rising for 4 quarters.

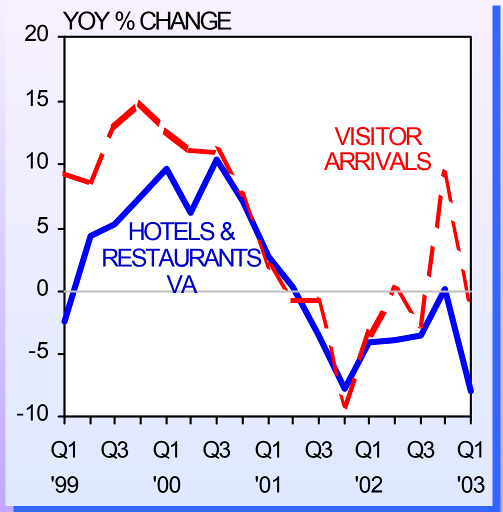
THE WHOLESALE AND RETAIL TRADE SECTOR expanded by 5.7% in 1Q03, similar to the 5.9% in 4Q02. Non-oil re-exports continued to grow at a healthy rate of 6.0%, thereby providing support to the sector. Retail sales were, however, down by 0.5%, after rising by 5.0% in the previous quarter. This was mainly due to reduced spending on consumer products such as furniture & household equipment, watches & jewellery, and wearing apparel & footwear. The growth in motor vehicle sales was also more modest. Excluding motor vehicles, retail sales fell by 1.3% reversing the 5.5% increase in the previous quarter.

CHART 5
WHOLESALE AND RETAIL TRADE SECTOR



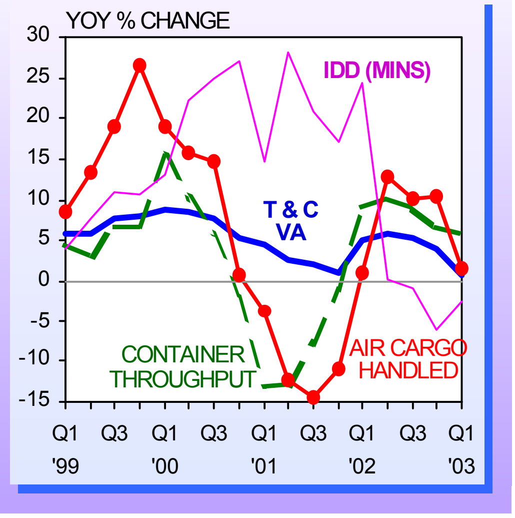
THE HOTELS AND RESTAURANTS SECTOR shrank by 8.0%, after recovering to marginal growth of 0.2% in 4Q02. The significant deterioration came on the back of a 2.0% fall in visitor arrivals and generally cautious consumer sentiments amid the SARS outbreak, the Iraq war and the weak labour market.

CHART 6
HOTELS AND RESTAURANTS SECTOR



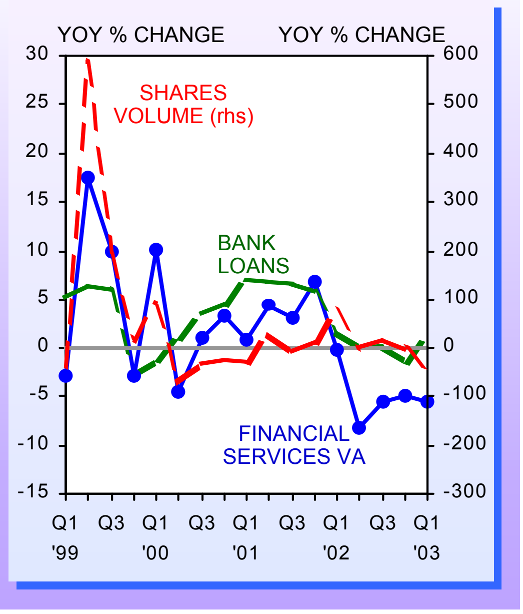
THE TRANSPORT AND COMMUNICATIONS SECTOR decelerated sharply to a growth of just 0.7%, down from 4.0% in 4Q02. Hit by the war and SARS, air passengers reversed from double-digit growth to a decline of 0.3% in 1Q03. Growth in air cargo was also down substantially to 1.6%. Container throughput rose by a moderated 5.9%. The communications segment, in contrast, saw steady growth. The pick up in mobile phone subscribers remained strong while IDD call duration fell at a slower pace.

CHART 7
TRANSPORT AND COMMUNICATIONS SECTOR



THE FINANCIAL SERVICES SECTOR registered a larger decline of 5.5% in 1Q03 compared to the –4.9% in 4Q02. This was mainly attributable to the steep fall in stock broking activity as investors' risk aversion heightened due to uncertainties over the war. Meanwhile fund management turned sluggish while commercial banking remained lacklustre. Other segments, however, turned in a better performance. The insurance segment recorded a mild expansion after 4 quarters of decline. Activity in the Asian Dollar Market rose moderately, partly due to increased issuances of foreign currency denominated bonds. The foreign exchange trading segment also continued to grow robustly, which could be partly attributed to the relocation of regional trading desks of some banks to Singapore.

CHART 8
FINANCIAL SERVICES SECTOR



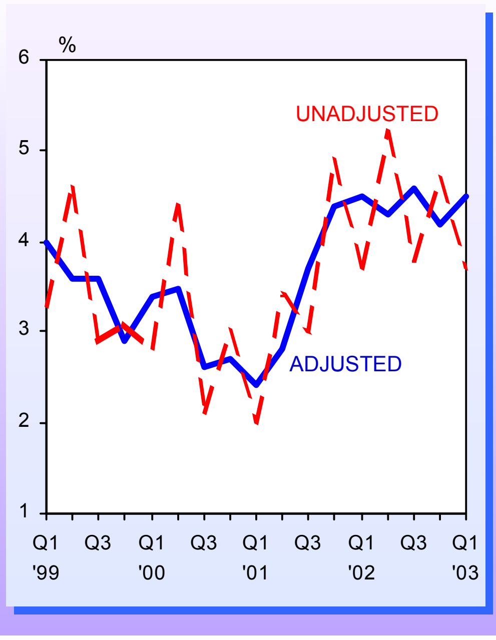
THE BUSINESS SERVICES SECTOR declined by 0.8% in 1Q03 following a marginal expansion of 0.4% in the earlier quarter. Real estate services weakened further in line with a weak property market. Demand for professional services, however, has generally picked up although demand for IT and architectural & engineering services remained soft.

CHART 9
BUSINESS SERVICES SECTOR

Labour Market

Total employment declined for the 7th consecutive quarter in 1Q03, by 9,400. This was more than double the 4,100 job losses in the previous quarter. The fall in employment in the goods-producing industries (–10,900) persisted, notably in the construction sector (–6,900). The services-producing industries saw a slight increase in employment of 1,500. As a result, the seasonally-adjusted unemployment rate in March 2003 rose to 4.5%, from the 4.2% in December 2002. However, preliminary estimates showed that a lower number of workers (around 4,200) were retrenched in 1Q03, an almost 30% drop from the 5,951 a quarter earlier.

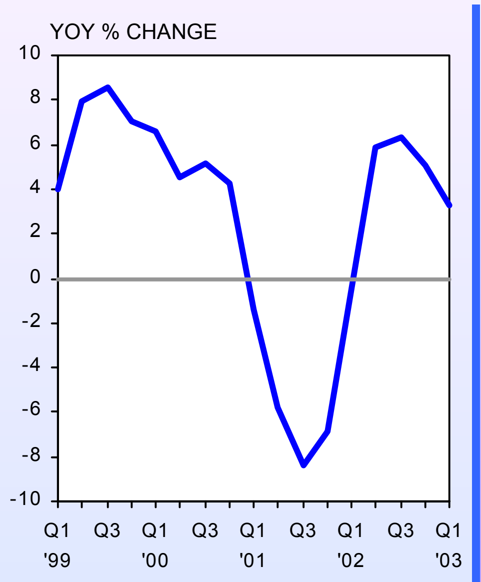
CHART 10
UNEMPLOYMENT RATE



Labour Productivity

Labour productivity increased by 3.3% in 1Q03, lower than the 5.1% rise in the previous quarter. The slowdown was evident in all major sectors. The manufacturing sector experienced the largest gain of 8.8% in labour productivity on the back of a continued recovery in activity and decline in employment in the sector. This was followed by the wholesale & retail trade (6.2%) and business services (0.8%) sectors. Other sectors, namely hotels & restaurants (–10%), financial services (–3.9%), transport & communications (–0.6%) and construction (–0.3%) saw declines in productivity.

CHART 11
LABOUR PRODUCTIVITY

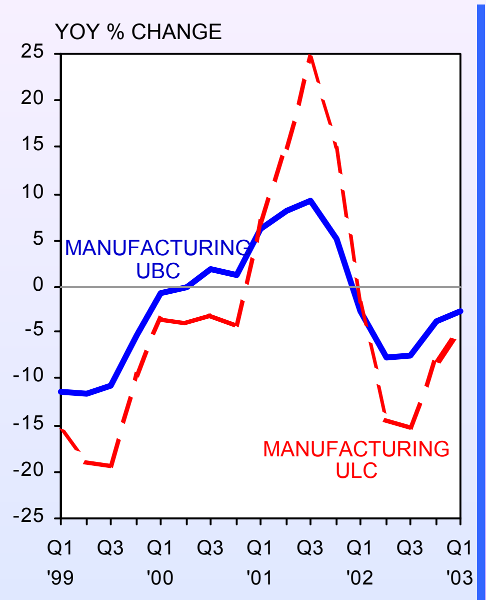


Business Costs

The overall unit labour cost (ULC) index fell for the sixth consecutive quarter, but at a moderated rate of 0.7% in 1Q03. This came on the back of the sustained increase in labour productivity.

The unit business cost (UBC) index for the manufacturing sector dipped by 2.8% in 1Q03, after the 3.8% fall in the preceding quarter. The fall is attributable to lower manufacturing ULC and services cost. Manufacturing ULC dropped by 4.8% in tandem with the gain in manufacturing labour productivity. Services cost slipped 1.4% as costs of rentals and trade & transport went down.

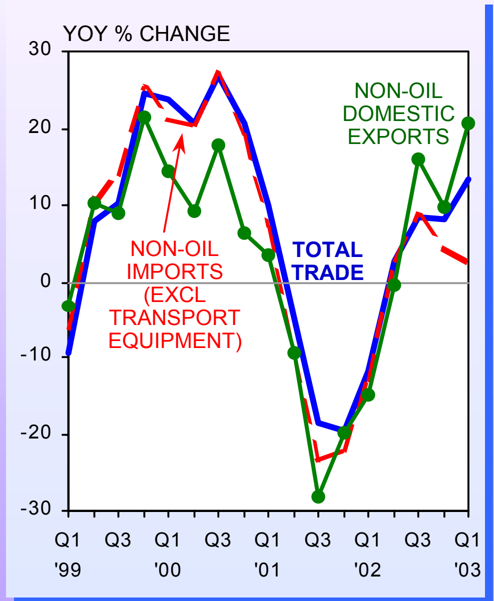
CHART 12
UNIT BUSINESS COST &
UNIT LABOUR COST



External Trade

Singapore's external trade expanded by 14% in 1Q03, improving from the 8.1% growth in 4Q02. Most key trade components registered higher growth rates. Non-oil domestic exports jumped by 21%, after climbing 9.7% the previous quarter. Non-oil imports (excluding transport equipment) also continued to grow, by 2.7%. Similarly, total trade in volume terms turned in a better performance to grow by 12% after a 8.0% rise in 4Q02.

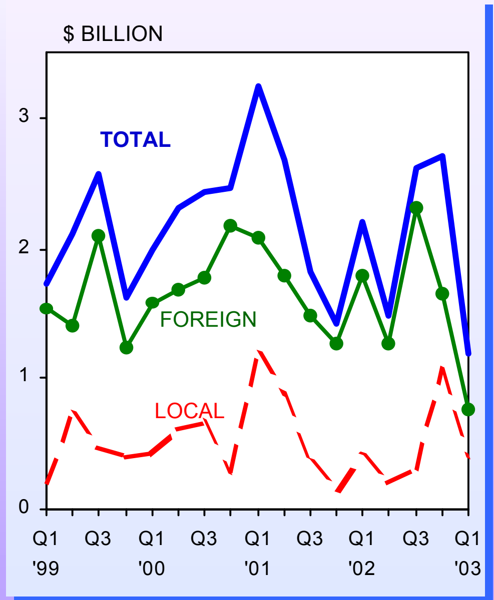
CHART 13
EXTERNAL TRADE



Investment Commitments

Fixed assets investments amounting to $1.1 billion were committed in the manufacturing sector in 1Q03. When realised, the commitments would generate $2.5 billion in value-added and create 2,452 jobs, of which 82% would be for skilled workers. Commitments in the services industries promoted by EDB amounted to $695 million in total business spending. When fully realised, the investments would generate $465 million in value-added and 1,869 jobs, of which 95% would be for skilled workers.

CHART 14
MANUFACTURING INVESTMENT COMMITMENTS

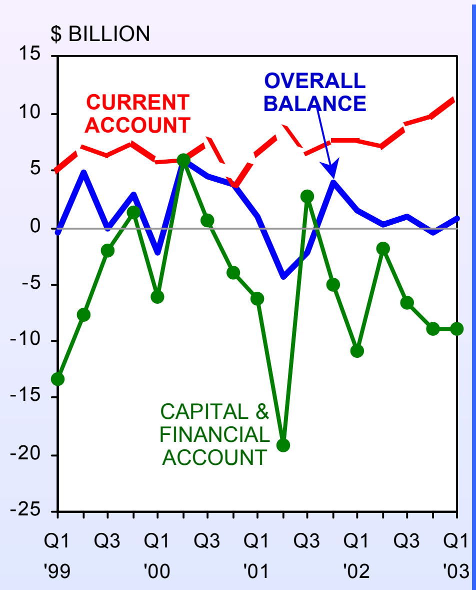


Balance of Payments

The current account surplus rose to $12 billion due to higher surpluses in the goods and services accounts and a smaller deficit in the income account. This more than compensated for the net outflow of $9.0 billion in the capital and financial account, which was mainly due to increased portfolio outflows from higher purchases of foreign debt securities. Net outflows from the "Other Investment" account also rose sharply as resident banks increased their lending to the Asian Dollar Market as well as to non-bank customers outside Singapore.

Consequently, Singapore's overall balance of payments turned in a surplus of $839 million, following the $437 million deficit in 4Q02. Singapore's official foreign reserves thus rose to $148 billion in the quarter (equivalent to 8.3 months of current imports).

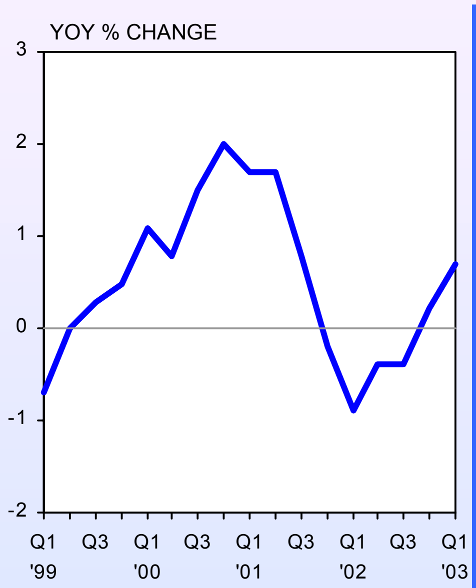
CHART 15
BALANCE OF PAYMENTS



Consumer Price Inflation

The CPI rose by 0.7% in 1Q03, slightly higher than the 0.2% increase a quarter ago. The main reasons for the increase were higher prices of healthcare (3.2%), clothing (1.8%), education (1.4%) and transport & communications (1.3%). Food prices remained unchanged while housing costs, the second largest component, dropped 0.5%. Miscellaneous items cost 1.6% more.

CHART 16
CONSUMER PRICE INDEX



Outlook For 2003

While uncertainties over the Iraq war and oil prices have diminished with the end of the war in Iraq, the outlook of the global economy remains clouded. The pace of recovery in the developed economies is still hesitant while parts of Asia are hit by the SARS outbreak.

In the US, although consumer sentiments have rebounded since April, rising unemployment may dampen the recovery in consumer demand. Over-capacity and sluggish business sentiments, which have weighed on business investment, could also prevail for some time. As such, US' growth is likely to remain moderate this year. Based on the latest forecast by IMF in April 2003, the US economy is expected to grow by 2.2% this year, a shade lower than the 2.4% in 2002.

The EU and Japanese economies, which have been battered by weak business and consumer sentiments, in part due to the war, are likely to remain sluggish. In particular, the EU economies are now expected to grow at a much slower pace this year. The other Asian economies also have to grapple with the impact of the SARS, in addition to a slow global economy. Notably, although China is likely to remain as the bright spot in the global economy, the SARS outbreak, if prolonged and widespread, would significantly affect China's growth.

The global electronics industry has continued to recover from its largest ever downturn, with global semiconductor sales increasing by 13% in the first quarter of this year. However, the recovery is likely to be moderate going forward due to lingering uncertainties over the prospects of the US economy.

The weak external environment has hampered Singapore's pace of economic recovery. The SARS outbreak has further hurt the economy, in particular the tourism and transport-related industries. The Ministry of Trade and Industry (MTI) has thus lowered the 2003 forecast from 2-5% to 0.5-2.5%, which was announced in April together with the SARS relief package.

Forward-looking indicators also point to a weaker outlook for the Singapore economy. The composite leading index (CLI), which tracks economic activity about 3 quarters ahead, fell by 1.4% in 1Q03 after a brief rise of 1.2% in 4Q02. The business expectations surveys show that manufacturers expect business conditions to remain lacklustre in the next 6 months. Sentiments have also worsened among firms in the commerce and services sectors.

MTI is maintaining the 0.5-2.5% forecast, assuming the SARS outbreak would not worsen in Singapore and abroad. The growth forecast will be reviewed if the situation changes significantly.

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

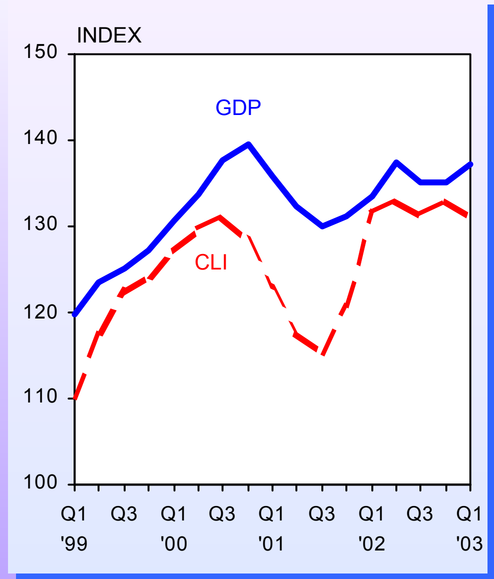
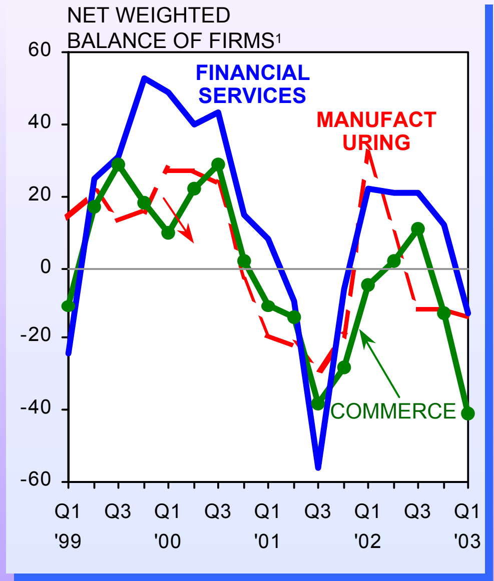


CHART 18
BUSINESS EXPECTATIONS



[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.

ANNEX

Sectoral Growth Rates

Per cent

Sector	2002	1Q02	2Q02	3Q02	4Q02	1Q03
Percentage Change Over Corresponding Period of Previous Year						
Total	**2.2**	**–1.5**	**3.8**	**3.8**	**3.0**	**1.6**
Goods Producing Industries	4.0	–5.2	7.6	8.7	5.0	2.6
Manufacturing	8.3	–4.7	13.5	15.5	9.9	6.5
Construction	–10.8	–8.8	–11.1	–11.5	–11.9	–12.3
Services Producing Industries	1.5	0.6	1.7	1.6	1.9	0.7
Wholesale & Retail Trade	2.7	–4.3	4.6	4.9	5.9	5.7
Hotels & Restaurants	–2.9	–4.1	–4.0	–3.7	0.2	–8.0
Transport & Communications	5.0	5.1	5.8	5.3	4.0	0.7
Financial Services	–4.8	–0.2	–8.2	–5.5	–4.9	–5.5
Business Services	0.4	0.5	1.1	–0.4	0.4	–0.8
Annualised Growth Rate – Seasonally-adjusted						
Total	**2.2**	**7.0**	**12.1**	**–6.6**	**0.4**	**1.1**
Goods Producing Industries	4.0	15.6	34.1	–16.0	–6.3	4.3
Manufacturing	8.3	20.8	53.9	–18.4	–3.8	5.9
Construction	–10.8	–2.1	–16.3	–10.1	–18.0	–4.7
Services Producing Industries	1.5	2.7	2.6	–1.0	3.1	–2.1
Wholesale & Retail Trade	2.7	12.0	20.9	–13.0	6.5	10.8
Hotels & Restaurants	–2.9	12.0	–3.3	–5.3	–1.7	–20.4
Transport & Communications	5.0	19.6	4.0	–0.6	–5.4	5.1
Financial Services	–4.8	–19.1	–16.3	6.7	12.4	–20.3
Business Services	0.4	0.0	1.1	–2.4	2.9	–4.9

Source: Singapore Department of Statistics