

# PERFORMANCE OF THE SINGAPORE ECONOMY IN 2005 AND OUTLOOK FOR 2006

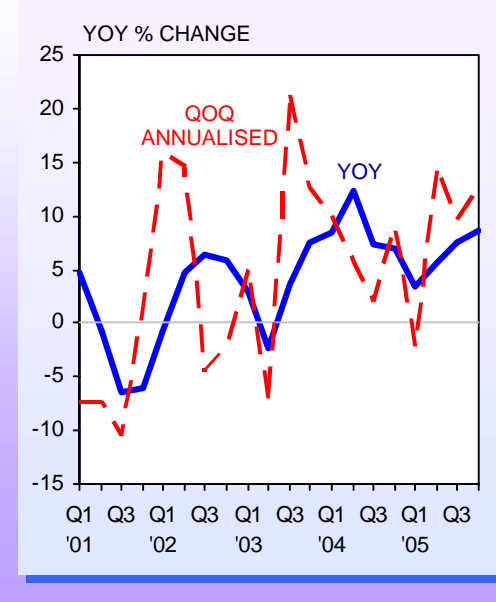
## Overall Performance

Economic activity in Singapore continued to pick up pace in 4Q05. Compared to the same quarter a year earlier, real GDP rose by 8.7%, up from 7.6% in 3Q05. The economy also showed strong momentum with 4Q05 annualised quarter-on-quarter growth reaching 13%. This brought full-year real GDP growth in 2005 to 6.4%<sup>1</sup>. The improvement over the advance estimate of 6.0% is mainly due to the better-than-expected growth in manufacturing activity.

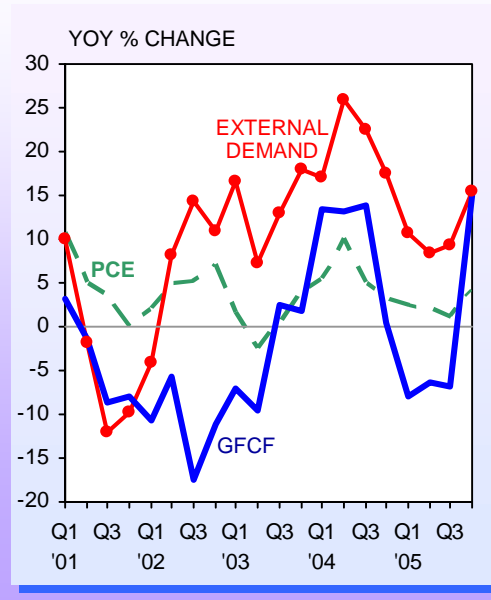
## Sources of Growth

Total demand rose by 9.1% in 2005, moderating from the 18% recovery momentum in 2004. External demand, up by 11%, provided much of the growth impetus. This reflected contributions mainly from exports of IT and telecom products. Among services exports, most important were business services, financial services, transport and travel. Growth of domestic demand, at 2.6%, reflected mainly higher public consumption and private consumption on cars, medical care and rentals. Investment spending – both public and private – fell during the year. This reflected mainly the weaker building activity in the residential segment, as well as fewer aircraft purchases.

**EXHIBIT 1  
REAL GDP GROWTH**



**EXHIBIT 2  
SOURCES OF GROWTH**



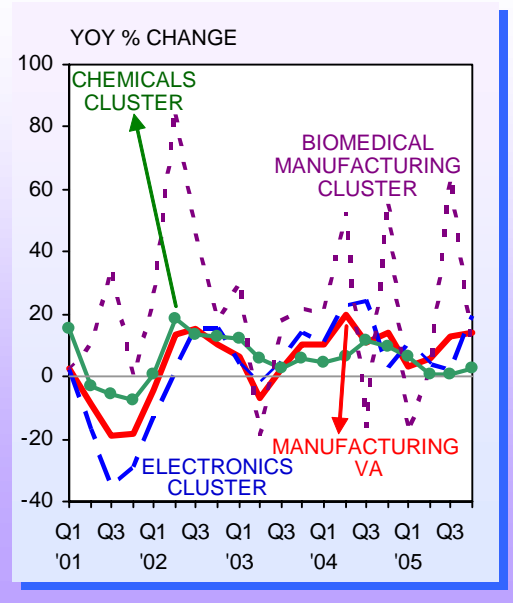
<sup>1</sup> The Singapore Department of Statistics has revised the national accounts to incorporate methodological improvements and has updated the base year from 1995 to 2000.

## Sectoral Performance

All major economic sectors showed positive growth momentum in 4Q05. Apart from construction, all sectors also registered stronger levels of activity compared to a year ago both in 4Q05 and for 2005 as a whole. (See *Annex*).

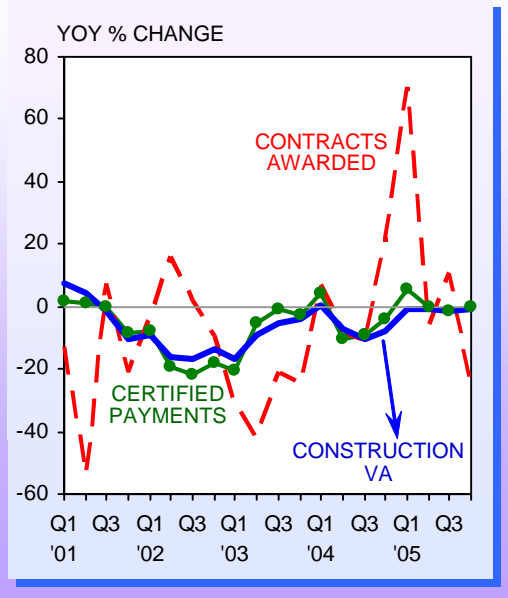
**THE MANUFACTURING SECTOR** grew by 14% in 4Q05, following a gain of 13% in 3Q05. The electronics cluster expanded by 19% in 4Q05, driven by strong performances in semiconductors and computer peripherals. Biomedical production rose by 7.6% while chemicals production grew by 2.6%. Transport engineering posted strong gains of 35%, supported by marine and offshore engineering while precision engineering rose by 12%. The improvement in manufacturing output brought annual growth to 9.3% in 2005 compared with 14% a year earlier.

**EXHIBIT 3  
MANUFACTURING SECTOR**



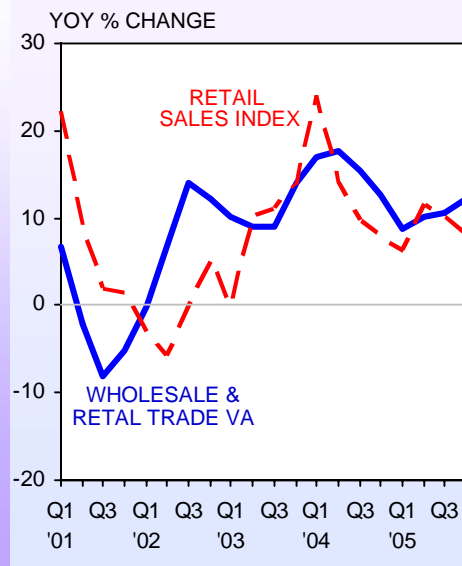
**CONSTRUCTION SECTOR** activity accelerated in 4Q05, registering positive growth on a quarter-on-quarter basis. Nevertheless, activity remained 0.8% below the level a year ago, compared with a decline of 1.4% in 3Q05. In the quarter, the continued growth in private sector activity was offset by the reduction in public sector activity. For 2005, the annual rate of decline eased to 1.1% from 6.1% a year earlier.

**EXHIBIT 4  
CONSTRUCTION SECTOR**



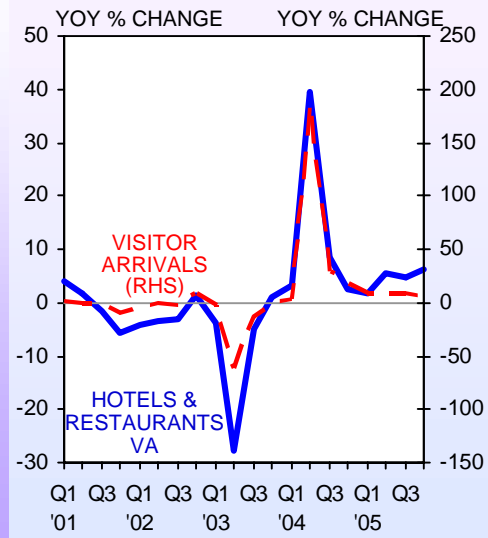
**THE WHOLESALE AND RETAIL TRADE SECTOR** expanded by 12% in 4Q05, an improvement over the previous quarter's 11%. This was due to a sharp acceleration in non-oil re-exports, which more than offset a moderation in growth of retail sales from 10% to 8.0%. The decline in retail sales largely reflected a slowdown in car sales. Excluding cars, retail sales growth slowed from 8.2% to 7.3%. Over the year 2005, the wholesale and retail trade sector registered growth of 10%, a slowdown from the 16% in 2004.

**EXHIBIT 5 WHOLESALE AND RETAIL TRADE SECTOR**



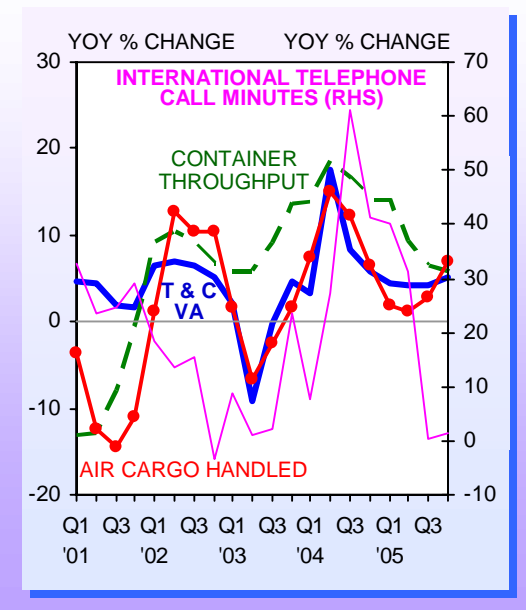
**THE HOTELS AND RESTAURANTS SECTOR** grew by 6.2% in 4Q05, up from 4.7% in the previous quarter. Both hotels and restaurants turned in comparable growth in the quarter, boosted by continued growth in visitor arrivals. They helped to maintain high levels of occupancy at hotels and allowed hoteliers to raise average room rates in the quarter. For the year 2005, the sector grew by 4.6%, in contrast to the sharp 11% rebound from SARS in the previous year.

**EXHIBIT 6 HOTELS AND RESTAURANTS SECTOR**



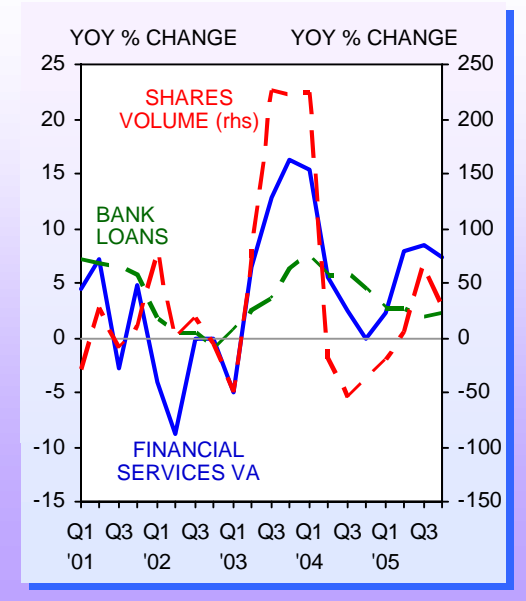
**TRANSPORT & COMMUNICATIONS** benefited from the growth in international trading activity. In 4Q05, the sector registered year-on-year growth of 5.1%, up from 4.3% in 3Q05. In sea transport, growth was lifted by higher volumes of both container throughput and sea cargo. The communications segment, meanwhile, saw growths in international telephone call duration and in mobile and broadband subscriptions. Air transport, however, slowed on the back of a moderation in the increase of air passengers handled. Overall, activity in the transport and communications sector rose by 4.5% in 2005 compared to 8.5% a year earlier.

**EXHIBIT 7 TRANSPORT AND COMMUNICATIONS SECTOR**



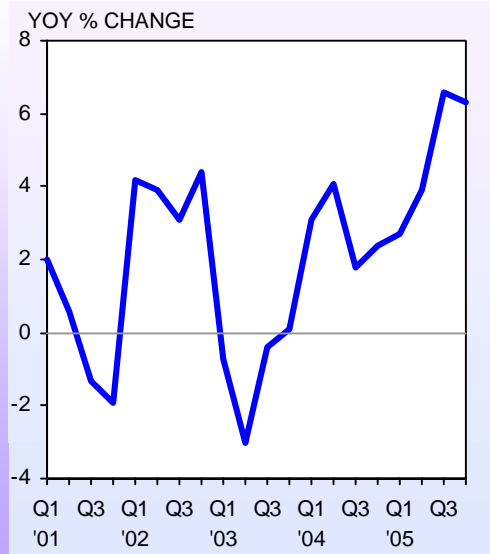
**ACTIVITY IN THE FINANCIAL SERVICES SECTOR** maintained strong growth of 7.4% in 4Q05, although this was milder than the 8.5% growth a quarter earlier. The slowdown reflected mainly lower growth in the banking segments as well as smaller gains in forex trading. Stock trading, however, strengthened on improving investor sentiments in the final quarter. Positive sentiments also lifted activity in the fund management segment. The quarter saw a smaller decline in the insurance industry as well. The consistent performance since 2Q05 brought annual growth of the financial services sector to 6.5% in 2005, up from 5.4% in 2004.

**EXHIBIT 8 FINANCIAL SERVICES SECTOR**



**THE BUSINESS SERVICES SECTOR** rose by 6.3% in 4Q05, following a 6.6% gain in the previous quarter. Activity in the key real estate services segment rose at a more moderate pace in the quarter. However, it was largely offset by stronger activity in other business services segments. These include the legal, accounting and IT & related segments. For the year as a whole, the business services sector grew by 4.9%, compared with a 2.8% gain in 2004.

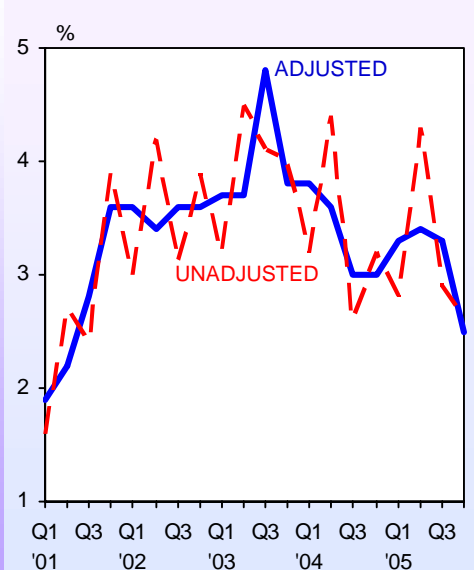
**EXHIBIT 9  
BUSINESS SERVICES SECTOR**



## Labour Market

Total employment rose by 32,800 in 4Q05, up from the 28,500 increase in the previous quarter. All major industry segments registered gains, with the services segment continuing to account for much of the increase. During the quarter, the number of services jobs rose by 24,100. In manufacturing and construction, the respective gains were 6,500 and 1,500. Retrenchment, however, also rose to 3,100 from 2,810 in 3Q05 as restructuring in the manufacturing sector continued apace. Over the year, total employment increased by 110,800, exceeding the 71,400 jobs created in 2004. This brought the seasonally-adjusted unemployment rate down from 3.3% in September to 2.5% in December 2005.

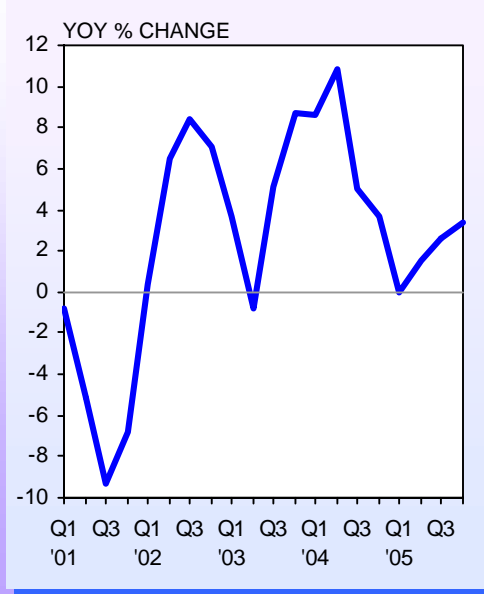
**EXHIBIT 10  
UNEMPLOYMENT RATE**



## Labour Productivity

Stronger GDP growth in 4Q05 lifted labour productivity by 3.4%, up from 2.6% gain a quarter earlier. The wholesale & retail trade and manufacturing sectors saw the largest improvement of 7.9% and 7.0% respectively. Smaller gains were chalked up in the transport & communications (2.4%) and hotels & restaurants (1.8%) sectors. Labour productivity was flat in the financial services sector, while the construction and the business services sectors saw declines. On an annual basis, overall labour productivity rose by 1.9% in 2005.

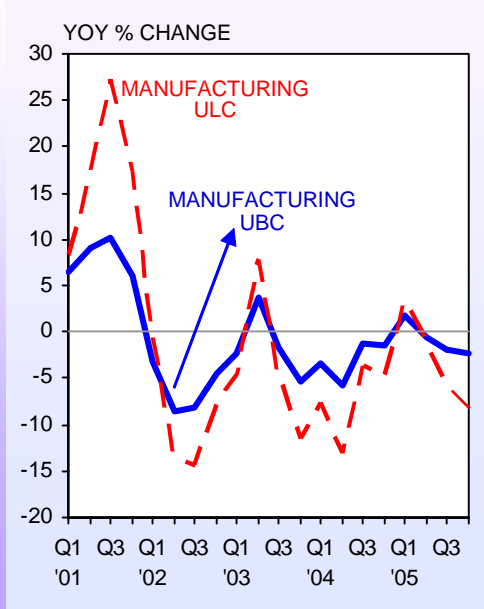
**EXHIBIT 11  
LABOUR PRODUCTIVITY**



## Business Costs

Labour productivity in 4Q05 lowered overall unit labour cost (ULC) by 4.1%, compared to the 2.2% drop in the third quarter. Unit business costs (UBC) in the manufacturing sector fell by 2.4%, compared to a drop of 1.9% in 3Q05. This was driven mainly by the reduction in manufacturing ULC, which outweighed increases in services costs and government rates & fees. Over 2005, the overall ULC declined by 1.5% while the manufacturing UBC fell by 0.7%. In 2004, the corresponding declines were 3.9% and 3.0%.

**EXHIBIT 12 UNIT BUSINESS COST & UNIT LABOUR COST**



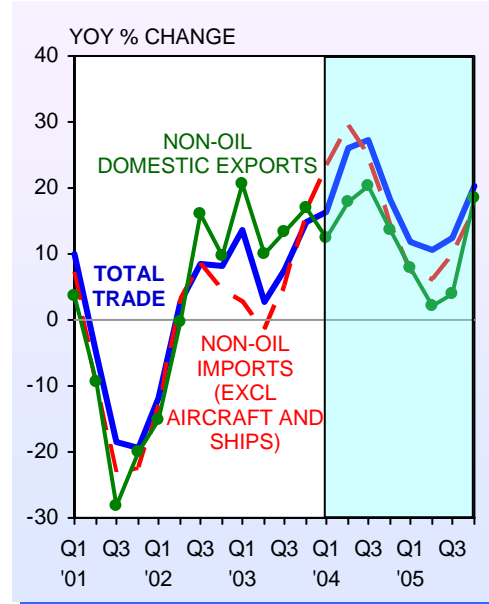
## External Trade

Singapore's external trade rose by 20% in 4Q05, accelerating from the 12% pace set a quarter earlier. Total exports grew by 21%, also well above the 12% in 3Q05. Both domestic exports and re-exports saw better performances. In particular, NODX expanded by 19%, after a 3.9% gain in 3Q05. Growth of non-oil imports (excluding aircraft and ships) accelerated to 17%, from 9.6% in 3Q05. In volume terms, total trade increased by 17%, after the 8.7% gain in the previous quarter. Over 2005, annual external trade increased by 14%, moderating from 22% in 2004, while NODX growth also eased to 8.2% from 16% a year earlier.

## Investment Commitments

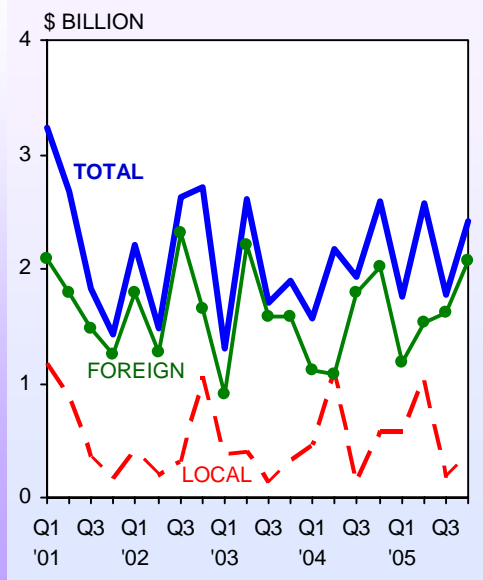
Total investment commitments in the manufacturing sector reached \$8.5 billion in 2005. When fully operational, these commitments will generate a value added of \$6.4 billion and create about 16,700 jobs, of which 49% are for skilled workers. Investment commitments in the services clusters promoted by EDB in 2005 amounted to \$2.5 billion of total business spending (TBS). When fully realised, these services investments will generate a value added of \$4.4 billion and create about 9,300 jobs, of which 83% are skilled jobs.

**EXHIBIT 13  
EXTERNAL TRADE**



Prior to 2004, data exclude trade with Indonesia.

**EXHIBIT 14 MANUFACTURING  
INVESTMENT COMMITMENTS**



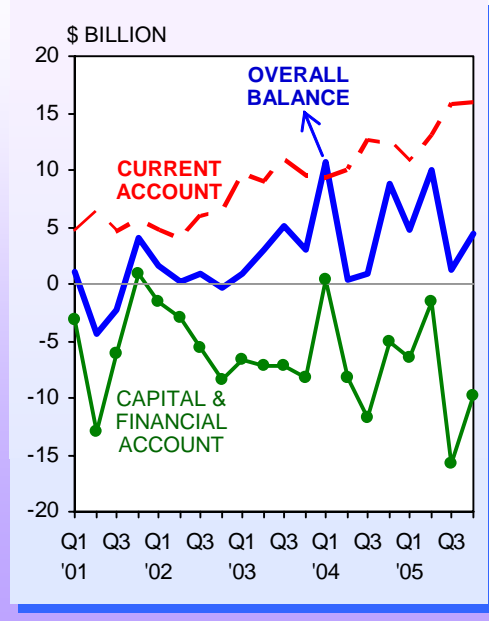


## Balance of Payments

Singapore's overall balance of payments in 2005, at \$20 billion, was virtually unchanged from that in the preceding year. Compared to 2004, both the current account surplus and capital outflows – reflected by the balance on the capital and financial account – increased.

Reflecting these developments, Singapore's official foreign reserves rose to \$194 billion as at end 2005 (equivalent to 7.0 months of current imports).

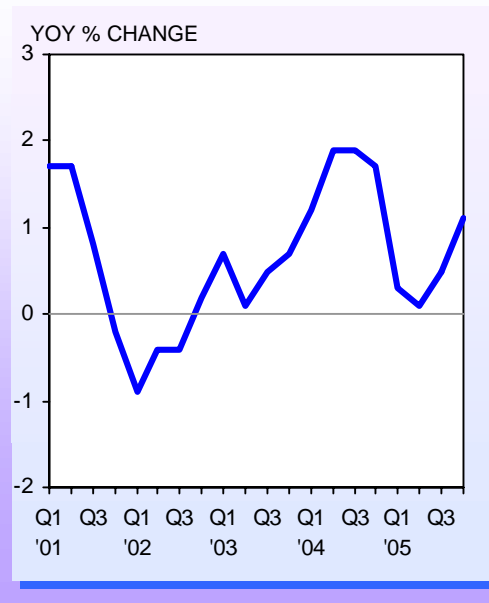
**EXHIBIT 15**  
**BALANCE OF PAYMENTS**



## Consumer Price Inflation

The consumer price index rose by 1.1% in the final three months of 2005, up from 0.5% in the third quarter. For 2005 as a whole, consumer price inflation moderated to 0.5%, down from 1.7% a year earlier. The education category registered the largest increase (2.0%). Most other categories of consumer items also saw higher prices: recreation (1.7%), food (1.3%), housing (0.8%) and healthcare (0.4%). Clothing prices were little changed in the year while transport & communications cost fell by 2.2%.

**EXHIBIT 16**  
**CONSUMER PRICE INDEX**





## Outlook For 2006

The Singapore economy grew by a healthy 6.4% in 2005 after a strong 8.7% growth in the previous year. Forward-looking indicators point to continued growth in the next few quarters. The composite leading index (CLI) rose for the fourth consecutive quarter in 4Q05. The latest surveys of business expectations show that businesses in both manufacturing and services are optimistic about business conditions in the next 6 months.

These reflect the general optimism concerning the global economic environment in 2006. The World Bank projected the world economy to maintain its growth at 3.2% this year, same as in 2005 in which it continued to register healthy performance despite the impediments of higher oil prices and natural calamities.

Growth in the US economy is expected to remain healthy this year despite some concerns over higher interest rates and its twin deficits. There are also growing optimism in the Japanese and EU economies. China and India are expected to turn in another year of strong growth. The regional economies, too, are likely to register steady gains this year.

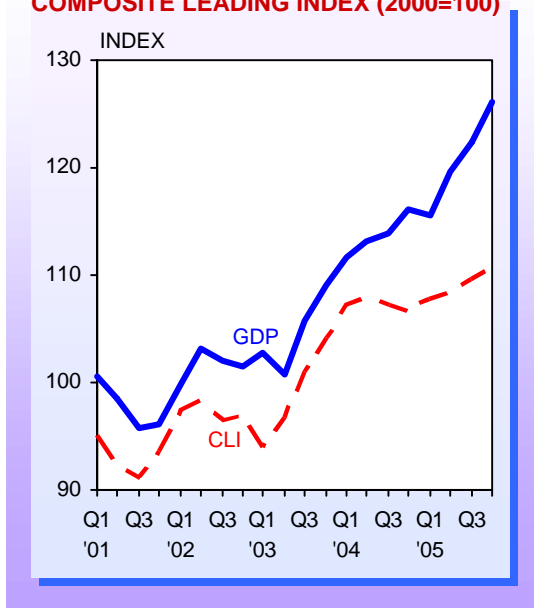
Global electronics demand is expected to maintain its growth momentum this year, on the back of continuing gains in consumer electronics sales. The problem of excess inventory in some segments of the IT industry appeared to have cleared over the course of 2005, which should give production a further boost. Research house Gartner has projected global semiconductor sales to grow by 7.6%, following a 6.8% increase in 2005.

On the domestic front, the improvement in the unemployment rate to 2.5% at the end of 2005 will improve consumer sentiments. This and continued robust external demand could encourage businesses to increase capital spending, boosting domestic demand.

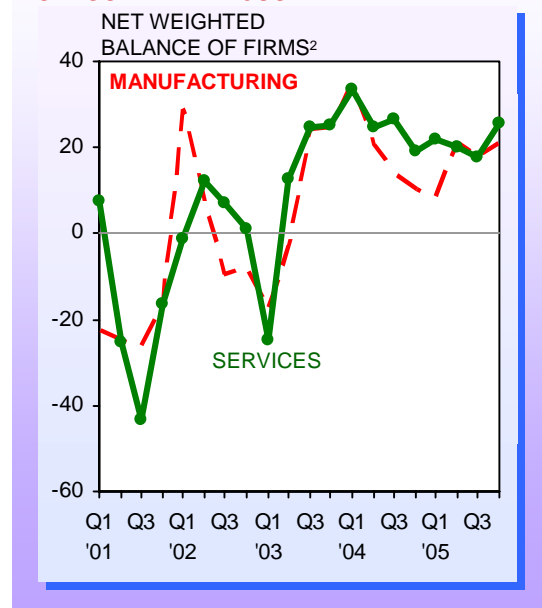
While the general economic outlook is benign, some downside risks persist. Most notable is the continuing tightness of the supply-demand situation in the oil industry. Recent developments in important oil producing countries highlighted that supply disruptions could lead to spikes in oil prices. Other uncertainties include an abrupt unwinding of current international imbalances, threats of terrorism and an outbreak of Avian flu among humans.

In view of the positive developments in the external economic environment and domestic demand, the Ministry of Trade and Industry has raised the 2006 GDP growth forecast to between 4% and 6%, from the previous forecast of between 3% and 5%.

**EXHIBIT 17**  
**GROSS DOMESTIC PRODUCT &**  
**COMPOSITE LEADING INDEX (2000=100)**



**EXHIBIT 18**  
**BUSINESS EXPECTATIONS,**  
**SEASONALLY ADJUSTED**



<sup>2</sup> 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

<b>Sector</b>	<b>2004</b>	<b>2005</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>	<b>1Q05</b>	<b>2Q04</b>	<b>3Q05</b>	<b>4Q05</b>
<b><u>Percentage Change Over Corresponding Period of Previous Year</u></b>										
<b>Total</b>	<b>8.7</b>	<b>6.4</b>	<b>8.5</b>	<b>12.3</b>	<b>7.4</b>	<b>6.9</b>	<b>3.4</b>	<b>5.7</b>	<b>7.6</b>	<b>8.7</b>
<b>Goods Producing Industries</b>	10.5	7.7	8.4	15.3	7.8	10.8	2.7	4.9	10.7	12.0
<i>Manufacturing</i>	13.9	9.3	10.3	20.0	11.1	14.3	3.2	5.9	13.1	14.2
<i>Construction</i>	-6.1	-1.1	0.6	-7.0	-10.1	-7.6	-1.1	-1.1	-1.4	-0.8
<b>Services Producing Industries</b>	7.6	6.0	7.8	11.2	6.9	5.0	4.2	5.8	6.8	7.2
<i>Wholesale &amp; Retail</i>	15.6	10.5	17.1	17.6	15.5	12.7	8.7	10.2	10.7	12.1
<i>Hotels &amp; Restaurants</i>	11.5	4.6	3.4	39.5	8.5	2.5	1.9	5.4	4.7	6.2
<i>Transport &amp; Communications</i>	8.5	4.5	3.3	17.5	8.3	5.7	4.5	4.1	4.3	5.1
<i>Financial Services</i>	5.4	6.5	15.4	5.5	2.4	-0.1	2.2	7.9	8.5	7.4
<i>Business Services</i>	2.8	4.9	3.1	4.1	1.8	2.4	2.7	3.9	6.6	6.3
<b><u>Annualised Growth Rate – Seasonally-adjusted</u></b>										
<b>Total</b>	<b>8.7</b>	<b>6.4</b>	<b>10.1</b>	<b>5.7</b>	<b>2.0</b>	<b>9.0</b>	<b>-2.1</b>	<b>14.6</b>	<b>9.6</b>	<b>12.5</b>
<b>Goods Producing Industries</b>	10.5	7.7	14.6	11.0	-3.8	21.3	-13.2	19.5	20.0	24.6
<i>Manufacturing</i>	13.9	9.3	18.2	17.1	-3.5	25.6	-19.0	28.2	25.6	28.1
<i>Construction</i>	-6.1	-1.1	-1.6	-21.3	-8.8	3.5	27.9	-20.5	-9.9	5.6
<b>Services Producing Industries</b>	7.6	6.0	3.5	7.3	2.9	5.7	1.8	13.4	6.6	7.1
<i>Wholesale &amp; Retail</i>	15.6	10.5	20.6	12.4	9.2	8.3	6.1	17.5	11.3	13.0
<i>Hotels &amp; Restaurants</i>	11.5	4.6	4.5	3.7	1.6	-0.7	3.6	17.8	-0.7	4.6
<i>Transport &amp; Communications</i>	8.5	4.5	6.6	9.0	3.8	3.1	2.4	7.4	4.3	5.9
<i>Financial Services</i>	5.4	6.5	-15.6	2.6	0.0	15.3	-7.8	27.6	2.1	10.7
<i>Business Services</i>	2.8	4.9	3.9	4.5	-2.1	3.5	5.3	9.1	8.5	2.5

Source: Singapore Department of Statistics