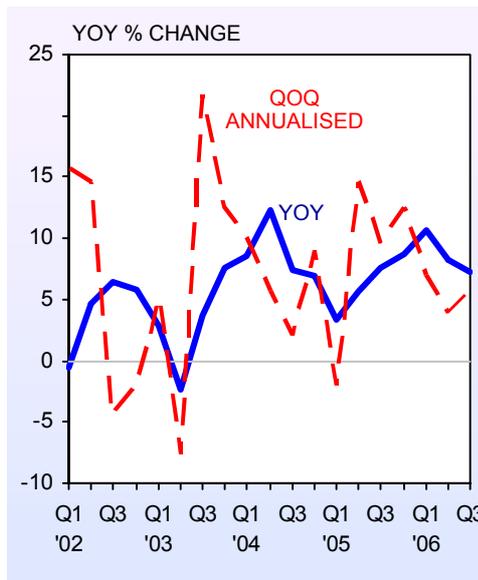


# PERFORMANCE OF THE SINGAPORE ECONOMY IN THIRD QUARTER 2006 AND OUTLOOK FOR 2006 AND 2007

## Overall Performance

The Singapore economy expanded by 7.2% in 3Q06, after an 8.2% growth in 2Q06. This brings economic growth in the first three quarters to 8.6%. The growth momentum (on an annualised quarter-on-quarter basis) was 5.7% in 3Q06, up from 3.9% a quarter earlier.

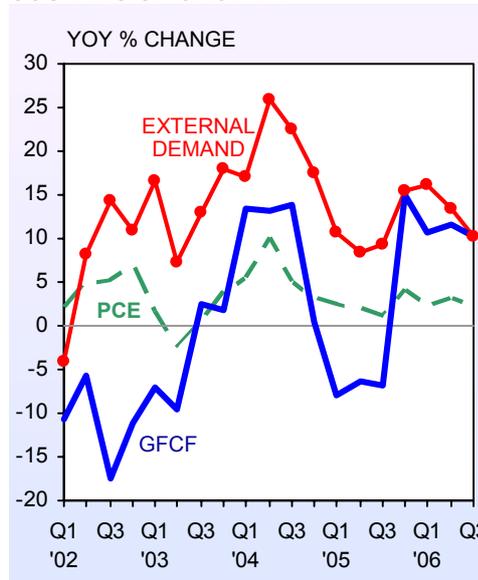
**EXHIBIT 1  
REAL GDP GROWTH**



## Sources of Growth

Total demand expanded by 9.8% in 3Q06, slightly lower than the 11% in 2Q06. This was largely due to a moderation of external demand growth from 13% to 10% in 3Q06, as both goods and services exports grew at slower pace. On the other hand, domestic demand growth improved from 4.9% to 8.0% on the back of stronger consumption expenditure.

**EXHIBIT 2  
SOURCES OF GROWTH**

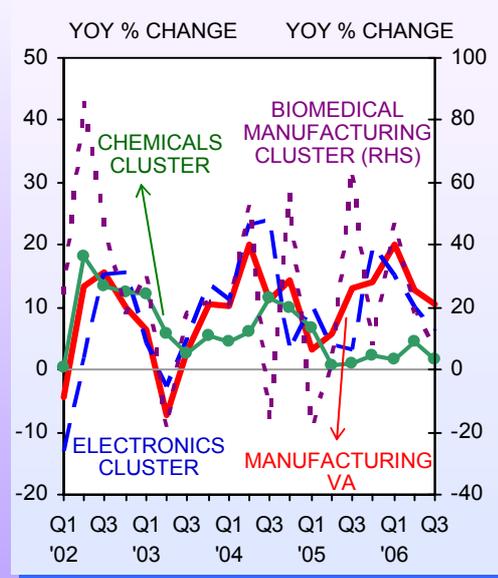


## Sectoral Performance

Economic growth was led by the manufacturing and wholesale and retail trade sector on the back of strong external demand. The construction sector grew at a faster clip while the other major services sectors experienced a moderation in growth (see Annex).

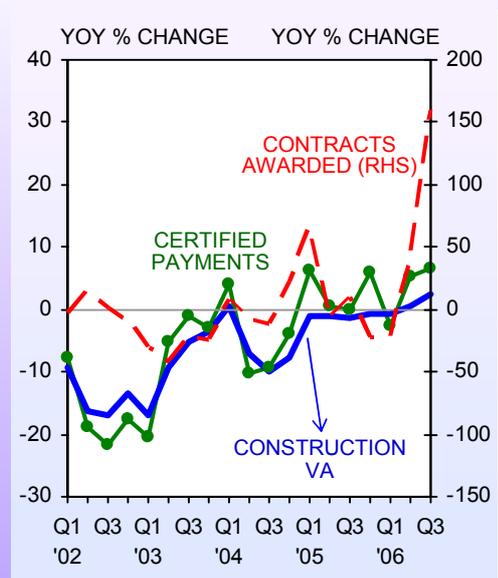
**THE MANUFACTURING SECTOR** expanded by 11% in 3Q06, down from 13% in the previous quarter. This was due to slower growth in the electronics, biomedical manufacturing, precision engineering and chemicals clusters. The transport engineering cluster continued to be the star performer, with an expansion of 39%, supported by robust performance in all its segments.

**EXHIBIT 3  
MANUFACTURING SECTOR**



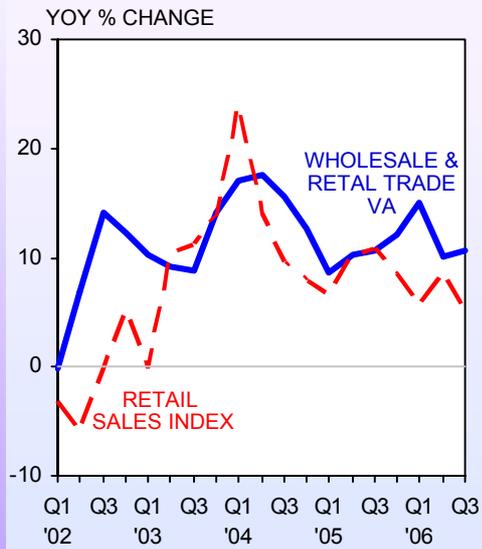
**THE CONSTRUCTION SECTOR** continued to register positive growth in 3Q06, increasing by a higher 2.3% compared to 0.4% in 2Q06. Growth momentum (on a seasonally-adjusted quarter-on-quarter annualised basis), however, contracted by 3.0%. Certified payments grew by 6.6%, higher than the 5.3% growth in 2Q06. Contracts awarded surged 160%, on the heels of a 43% increase in the previous quarter. Large contracts awarded in the private industrial and commercial segments were responsible for the spike.

**EXHIBIT 4  
CONSTRUCTION SECTOR**



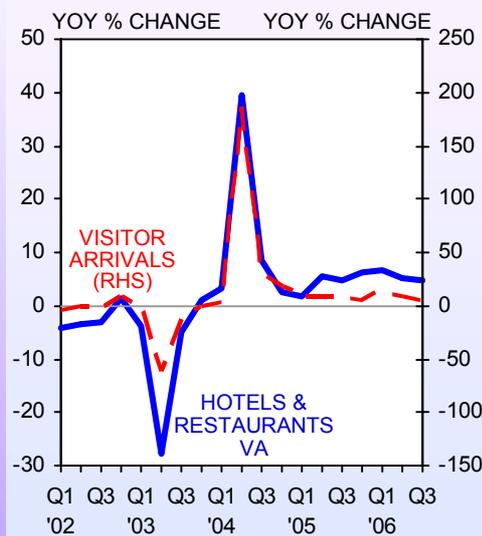
**THE WHOLESALE AND RETAIL TRADE SECTOR** expanded 11% in 3Q06 after a 10% growth in 2Q06. The wholesale segment edged up during the quarter, supported by strong performance in non-oil re-exports. On the other hand, retail sales growth moderated from 8.6% in 2Q06 to 4.9% in the quarter. Excluding motor vehicles, retail sales rose by 2.9%, down from 5.3% in 2Q06.

**EXHIBIT 5 WHOLESALE AND RETAIL TRADE SECTOR**



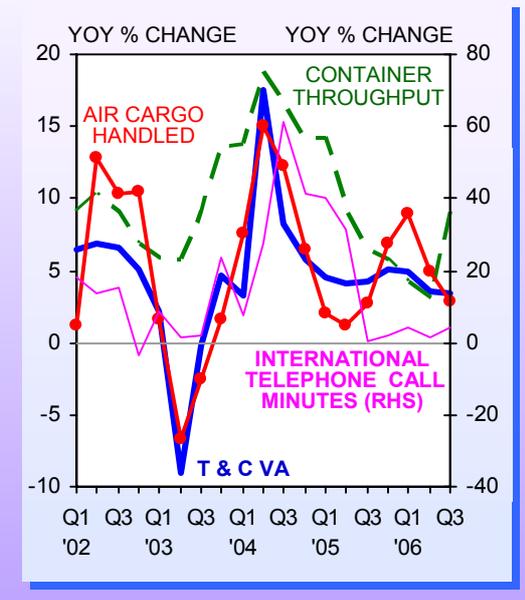
**THE HOTELS AND RESTAURANTS SECTOR** registered a 4.7% gain in 3Q06 following a 5.1% growth in 2Q06. Visitor arrivals rose 4.4% compared with 9.8% in the earlier quarter. Hotel room revenues rose by 28% due to higher average room rates. The average occupancy rate of hotels was 87% in 3Q06, similar to the same period last year.

**EXHIBIT 6 HOTELS AND RESTAURANTS SECTOR**



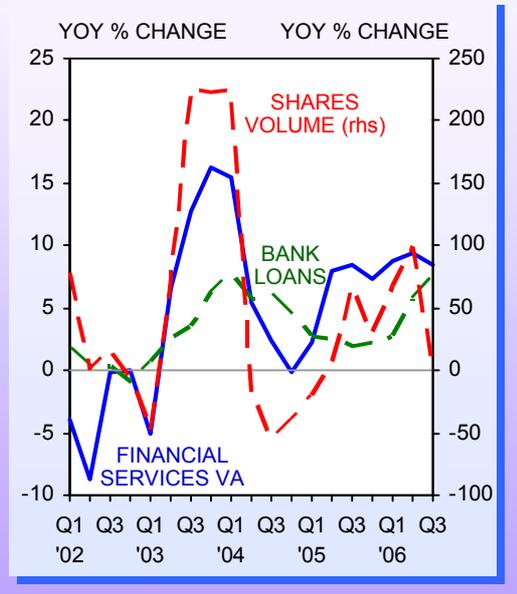
**GROWTH IN THE TRANSPORT AND COMMUNICATIONS SECTOR** eased slightly to 3.4% in 3Q06 compared to 3.6% in the previous quarter. Slower growth in air passengers and air cargo led to the moderation in growth of the air segment. The sea segment, however, turned in better performance, with higher growth in sea cargo handled and container throughput. In the communications segment, the number of mobile phone subscribers and international telephone call duration registered higher growth. The number of broadband subscribers continued to increase.

**EXHIBIT 7 TRANSPORT AND COMMUNICATIONS SECTOR**



**THE FINANCIAL SERVICES SECTOR** expanded by 8.4% in 3Q06 after growing 9.4% a quarter earlier. The expansion was generally broad-based across most segments, except for the stock market. In particular, the fund management segment continued to see brisk business, suggesting that the broader investor climate has remained healthy. Both the domestic and offshore banking segments picked up, with the latter continuing to outperform on the back of stronger lending to non-bank customers.

**EXHIBIT 8 FINANCIAL SERVICES SECTOR**



**THE BUSINESS SERVICES SECTOR** registered a gain of 5.1% in 3Q06, easing from the 6.2% growth a quarter earlier due to a slowdown in most segments in the sector. The IT-related services, however, continued to grow strongly.

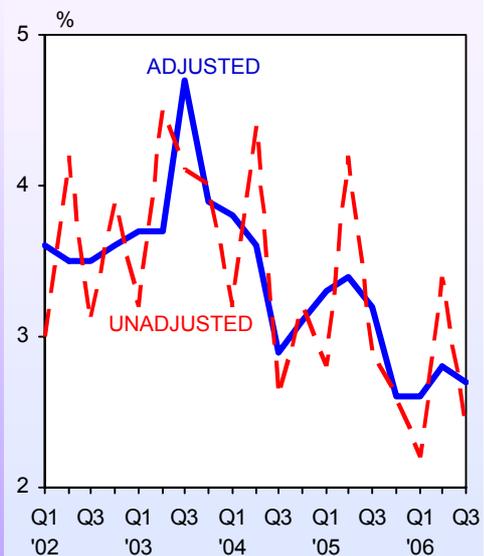
**EXHIBIT 9  
BUSINESS SERVICES SECTOR**



## Labour Market

Total employment grew strongly by 41,600 in 3Q06, higher than the 36,400 gains in 2Q06. This brings cumulative employment creation in the first three quarters to 123,100, surpassing the 113,300 gains for the whole of 2005. The bulk of the gains came from services, with an increase of 24,600 jobs. In manufacturing and construction, the respective gains were 11,300 and 5,500. The number of workers retrenched in 3Q06 was 2,300, lower than the 3,200 in the previous quarter. The growth in employment led to an improvement in the seasonally-adjusted unemployment rate from 2.8% in June 2006 to 2.7% in September 2006.

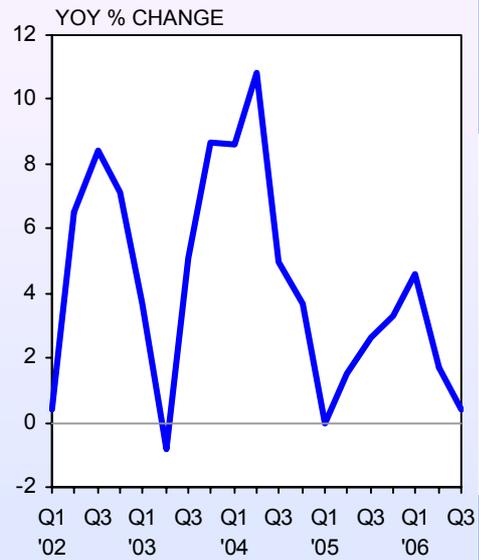
**EXHIBIT 10  
UNEMPLOYMENT RATE**



## Labour Productivity

The moderation in GDP growth coupled with stronger employment gains led to a slowing of labour productivity growth from 1.7% in 2Q06 to 0.4% in 3Q06. At the sectoral level, the wholesale and retail trade sector experienced the largest increase of 6.0% followed by manufacturing (2.5%) and transport and communications (0.1%). The other sectors, however, registered declines in labour productivity, viz, business services (-6.7%), construction (-4.1%), hotels and restaurants (-2.8%), financial services (-0.4%) and other services (-1.2%).

**EXHIBIT 11  
LABOUR PRODUCTIVITY**

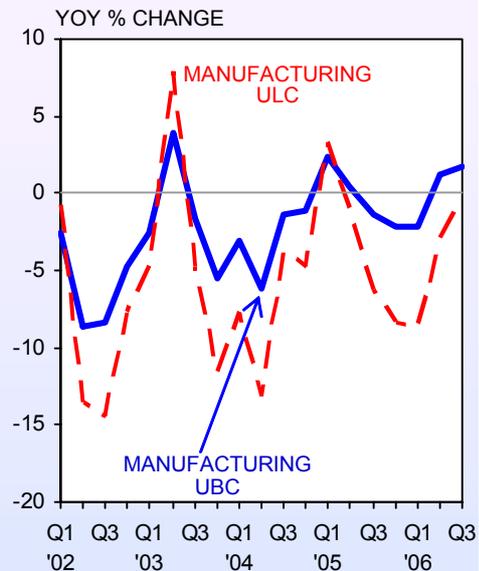


## Business Costs

Due to slower productivity growth, overall unit labour cost (ULC) edged up 1.9% in 3Q06, higher than the 0.3% gain in the previous quarter.

The unit business cost (UBC) of manufacturing also increased at a faster pace, from 1.2% in 2Q06 to 1.7% in 3Q06. This was mainly due to a smaller decline in the sector's ULC compared to 2Q06.

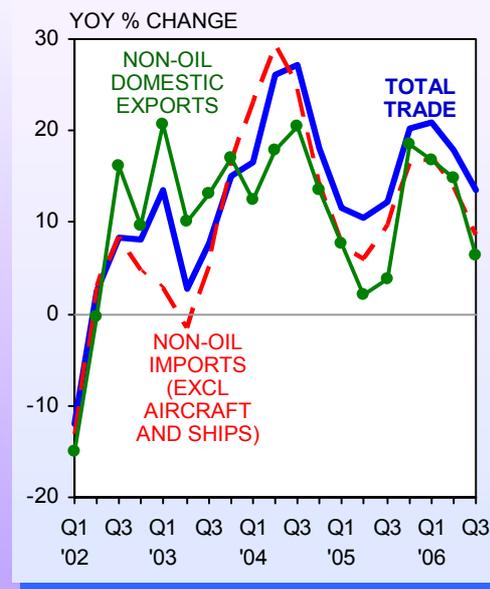
**EXHIBIT 12 UNIT BUSINESS COST &  
UNIT LABOUR COST**



## External Trade

Singapore's external trade expanded by 13% in 3Q06, down from 18% in 2Q06. Total exports grew 12% compared with 17% a quarter earlier. The increase in non-oil domestic exports moderated from 15% in 2Q06 to 6.3% in 3Q06, due to slower increases in both electronics and non-electronics domestic exports. Non-oil imports (excluding aircraft and ships) rose 8.6% after posting 14% growth in the preceding quarter. In volume terms, total trade increased by 11% compared to 15% in the previous quarter.

**EXHIBIT 13  
EXTERNAL TRADE**



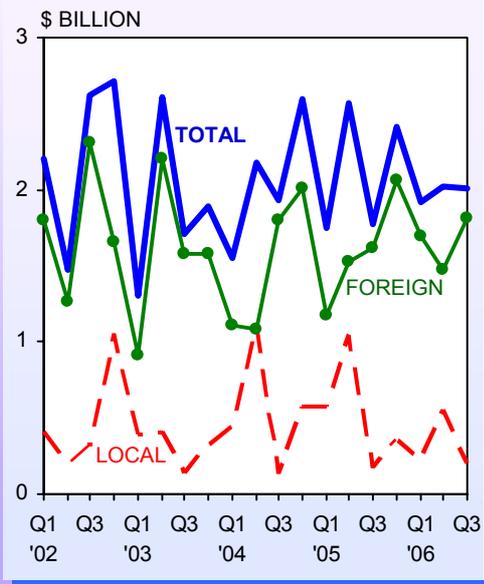
Prior to 2004, data excludes trade with Indonesia.

## Investment Commitments

Fixed asset investment amounting to \$2.0 billion were committed in the manufacturing sector in 3Q06, similar to the level in the previous quarter. When these commitments are fully operational, they would generate a value added of \$2.1 billion and create almost 3,200 jobs, of which 61% would be for skilled workers.

Total business spending commitments in services promoted by EDB amounted to \$605 million in 3Q06. When fully operational, these commitments would generate a value added of \$853 million and create over 1,600 jobs. Almost all of these jobs would be for skilled workers.

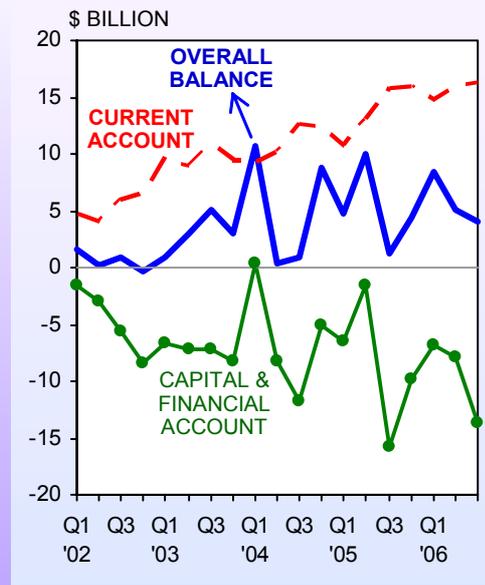
**EXHIBIT 14 MANUFACTURING  
INVESTMENT COMMITMENTS**



## Balance of Payments

Singapore's overall balance of payments registered a smaller surplus of \$4.0 billion in 3Q06, down from \$5.1 billion in 2Q06. This reflected larger net outflows from the capital and financial account while the current account surplus remained at \$16 billion. Consequently, Singapore's official foreign reserves rose to \$206 billion, which is equivalent to 6.6 months of merchandise imports.

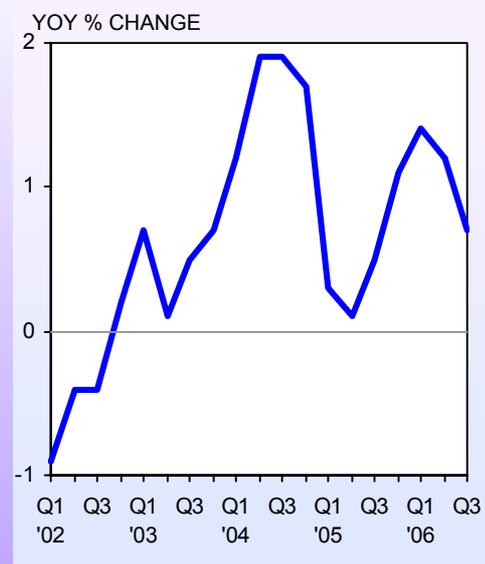
**EXHIBIT 15  
BALANCE OF PAYMENTS**



## Consumer Price Inflation

The CPI rose by 0.7% year-on-year in 3Q06, down from 1.2% in 2Q06. Two categories posted higher price increases, viz, clothing and footwear (2.3%) and food (1.8%). Costs of housing (2.1%), education and stationery (1.6%) and healthcare (0.9%) also rose but at a slower pace. Costs of transportation and communications fell (-1.7%) as a result of lower car prices while costs of recreation and other items declined marginally (-0.1%).

**EXHIBIT 16  
CONSUMER PRICE INDEX**



## Outlook for 2006 and 2007

The Singapore economy continued to grow strongly at 7.2% in 3Q06, bringing growth for the first nine months to 8.6%. The robust growth was led by manufacturing and wholesale and retail trade sectors on the back of strong external demand.

Going forward, the global economic prospects are expected to moderate. In the US, the pace of growth is slowing, due partly to a correction in the housing market. This will pose a drag on other economies given the weaker demand for their exports. The outlook of the EU economy will also be dampened somewhat by the hike in value added tax in Germany although this will be mitigated by strong business investment growth. In Asia, Japan's growth is expected to remain resilient, underpinned by continued strength from the corporate sector and labour market. The rapid expansion in China and India are expected to ease slightly due to slower export growth and the impact of higher interest rates.

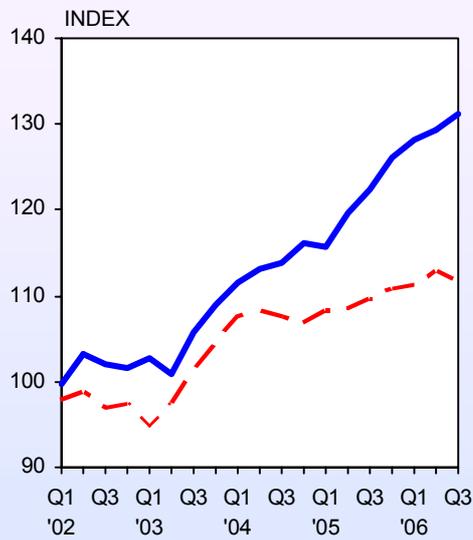
In the semiconductor industry, inventory levels have increased, which will have a dampening effect on production in the short term. But the industry is expected to continue its growth trajectory. Research house Gartner has forecast worldwide semiconductor sales to grow by 9.2% in 2007, just a notch lower than the 10.4% forecast for 2006.

Domestically, forward-looking indicators paint a mixed picture. The composite leading index fell in the third quarter, its first decline in seven quarters. On the other hand, the business expectations surveys show that firms in both the manufacturing and services sectors expect business conditions to improve.

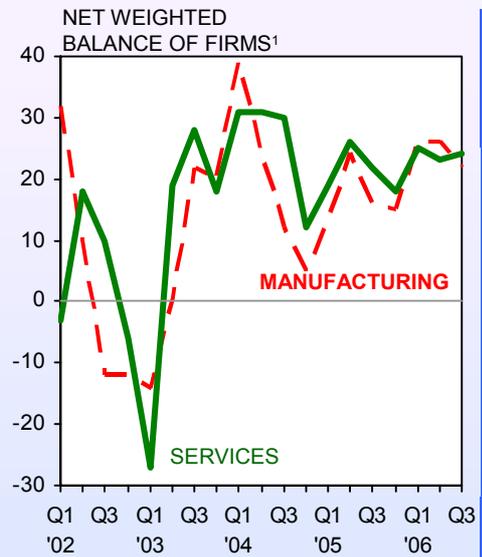
Overall, the economic outlook remains benign. But there are several downside risks. First, a sharp correction in the US housing market could have knock-on repercussions on the US economy and rest of the world. Second, inventory adjustments in the semiconductor industry could pose a drag on the electronics industry. Third, although oil prices have retreated from the record levels in July, they remain high and vulnerable to supply shocks. Other risks include the huge global imbalances, Avian flu pandemic and terrorism.

Taking into account the above factors, the Ministry of Trade and Industry has revised the 2006 economic growth forecast from 6.5-7.5% to 7.5-8.0%. Economic growth in 2007 is expected to be 4.0-6.0%.

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



**EXHIBIT 18  
BUSINESS EXPECTATIONS**



<sup>1</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.

## Sectoral Growth Rates

Per Cent

| <u>Sector</u>  | <u>3Q05</u> | <u>4Q05</u> | <u>2005</u> | <u>1Q06</u> | <u>2Q06</u> | <u>3Q06</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| <b><u>Percentage Change Over Corresponding Period of Previous Year</u></b> |             |             |             |             |             |             |
| <b>Total</b>   | <b>7.6</b>  | <b>8.7</b>  | <b>6.4</b>  | <b>10.7</b> | <b>8.2</b>  | <b>7.2</b>  |
| <b>Goods Producing Industries</b>  | 10.7        | 12.0        | 7.7         | 16.5        | 10.9        | 9.4         |
| <b>Manufacturing</b>   | 13.1        | 14.2        | 9.3         | 20.2        | 12.7        | 10.6        |
| <b>Construction</b>  | -1.4        | -0.8        | -1.1        | -0.8        | 0.4         | 2.3         |
| <b>Services Producing Industries</b>                                       | 6.8         | 7.2         | 6.0         | 8.2         | 7.0         | 6.5         |
| <b>Wholesale &amp; Retail Trade</b>  | 10.7        | 12.1        | 10.5        | 15.1        | 10.1        | 10.6        |
| <b>Hotels &amp; Restaurants</b>  | 4.7         | 6.2         | 4.6         | 6.7         | 5.1         | 4.7         |
| <b>Transport &amp; Communications</b>                                      | 4.3         | 5.1         | 4.5         | 4.9         | 3.6         | 3.4         |
| <b>Financial Services</b>  | 8.5         | 7.4         | 6.5         | 8.7         | 9.4         | 8.4         |
| <b>Business Services</b>   | 6.6         | 6.3         | 4.9         | 6.2         | 6.2         | 5.1         |
| <b><u>Annualised Growth Rate – Seasonally-adjusted</u></b>                 |             |             |             |             |             |             |
| <b>Total</b>   | <b>9.6</b>  | <b>12.5</b> | <b>6.4</b>  | <b>7.0</b>  | <b>3.9</b>  | <b>5.7</b>  |
| <b>Goods Producing Industries</b>  | 20.0        | 24.6        | 7.7         | 4.3         | -3.2        | 14.1        |
| <b>Manufacturing</b>   | 25.6        | 28.1        | 9.3         | 2.2         | -1.8        | 16.6        |
| <b>Construction</b>  | -9.9        | 5.6         | -1.1        | 26.9        | -15.6       | -3.0        |
| <b>Services Producing Industries</b>                                       | 6.6         | 7.1         | 6.0         | 6.4         | 7.8         | 4.7         |
| <b>Wholesale &amp; Retail Trade</b>  | 11.3        | 13.0        | 10.5        | 19.4        | -2.3        | 13.5        |
| <b>Hotels &amp; Restaurants</b>  | -0.7        | 4.6         | 4.6         | 6.4         | 10.3        | -2.3        |
| <b>Transport &amp; Communications</b>                                      | 4.3         | 5.9         | 4.5         | 2.6         | 1.6         | 3.7         |
| <b>Financial Services</b>  | 2.1         | 10.7        | 6.5         | -3.1        | 30.7        | -1.6        |
| <b>Business Services</b>   | 8.5         | 2.5         | 4.9         | 4.8         | 9.2         | 4.2         |

Source: Singapore Department of Statistics