

## Press Release

### **Improved Outlook for 2007 As Growth Broadens and Economy Diversifies**

10, August, 2007. The Ministry of Trade and Industry announced today that the economy is expected to grow by 7.0-8.0 per cent in 2007, riding on the momentum of the second quarter and supported by a favourable external environment and broad-based growth across the major sectors.

#### Performance in Second Quarter

Growth picked up pace in the second quarter, with GDP expanding by 8.6 per cent year-on-year following 6.4 per cent in the previous quarter. Growth on a seasonally-adjusted quarter-on-quarter annualised basis increased to 14 per cent from 8.8 per cent in the first quarter. Overall, the Singapore economy grew by 7.6 per cent in the first half of 2007.

Growth has become more broad-based in the second quarter, with the financial services and construction sectors registering double-digit growth, and the manufacturing sector remaining healthy despite a slowdown in electronics.

Financial services expanded by 17 per cent in the second quarter, up from 14 per cent growth in the first quarter. The banking cluster was supported by strong growth in both the domestic segment and offshore Asian Dollar Market, with loans to non-bank customers rising by 10 per cent. The wealth advisory cluster remained buoyant, riding on growing affluence in the region and continued demand domestically for professional fund management services.

The construction sector grew by 18 per cent, the strongest growth in almost 10 years. Private construction was supported by robust growth in the residential, commercial and industrial segments while public construction was led by housing projects.

Growth in the manufacturing sector picked up pace to 8.3 per cent, with strong growth in biomedical manufacturing and transport engineering more than making up for the slack in electronics. Increased diversification within the manufacturing sector – with electronics, chemicals, biomedical manufacturing, transport engineering and precision engineering acting as the main growth engines – has made the sector more resilient to industry-specific shocks.

Continued strong economic growth has supported job creation. Employment grew strongly by 61,900, higher than 49,400 in the first quarter. The seasonally adjusted unemployment rate fell to 2.4 per cent in June 2007 from 2.9 per cent

March 2007. The number of workers retrenched declined to 1,600, from 2,000 in the previous quarter.

Labour productivity increased by 0.4 per cent following a 1.3 per cent decline in the previous quarter. This helped to moderate the increase in unit labour cost, which rose by 5.7 per cent in the second quarter after a 5.9 per cent increase in the preceding quarter. The unit business cost of manufacturing also improved, rising by 1.9 per cent compared to 3.3 per cent the first quarter.

Stronger economic growth has also led to some cost pressures but they are well contained. The consumer price index rose by 1.0 per cent in the second quarter compared with a 0.5 per cent gain in the first quarter. Even so, consumer price inflation for the year as a whole is not expected to average higher than 1.5 per cent, which is low by international standards.

### Outlook for 2007

The Ministry of Trade and Industry has raised the full-year GDP growth forecast for 2007 from 5.0-7.0 per cent to 7.0-8.0 per cent, taking into account a healthy external environment, the broad-based growth momentum across major sectors, continued growth in the composite leading index and strong business expectations.

The global economic environment continues to be healthy. Growth in the US has moderated but remains intact in the face of problems in the sub-prime credit markets. The Japanese and EU economies continue to recover on the back of strong domestic demand and firm business sentiment. Prospects in Asia remain robust, with the Chinese economy growing at a rapid pace. The chief downside risk to this favourable external outlook is the potential for current problems in US credit markets spreading to other financial markets and possibly dragging down consumption and investment.

From a sectoral perspective, growth in financial and business services, manufacturing, and construction is expected to be higher than earlier envisaged. The driving factors underpinning this higher growth are broad-based: strong global demand in the biomedical, aerospace and marine industries, robust regional demand for financial services, and a buoyant domestic property market and construction industry with a steady pipeline of contracts awarded. The latest surveys of business expectations show that both manufacturing and services firms expect better business conditions in the coming half of the year.

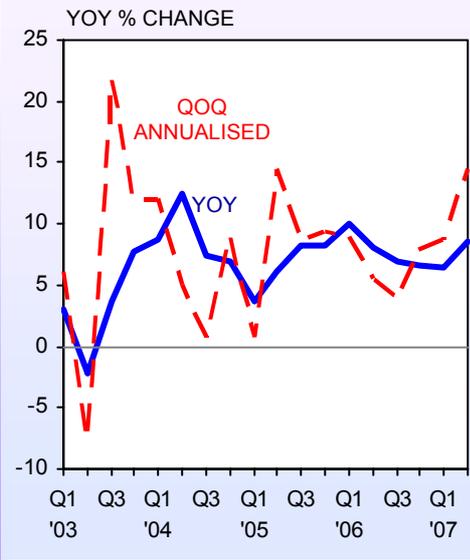
Ministry of Trade and Industry  
10 August 2007

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

## Overall Performance

The Singapore economy expanded by 8.6% in 2Q07 following 6.4% in 1Q07. Growth on a seasonally-adjusted quarter-on-quarter annualised basis increased to 14% in 2Q07 from 8.8% a quarter earlier.

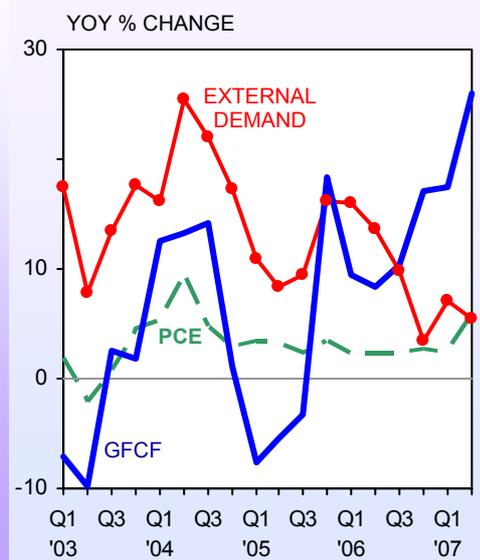
**EXHIBIT 1  
REAL GDP GROWTH**



## Sources of Growth

Total demand growth moderated to 6.8% from 7.7% in the previous quarter. Domestic demand grew by 12% due to stronger growth in private consumption and investments. External demand growth eased to 5.4%, due to slower growth in goods exports.

**EXHIBIT 2  
SOURCES OF GROWTH**

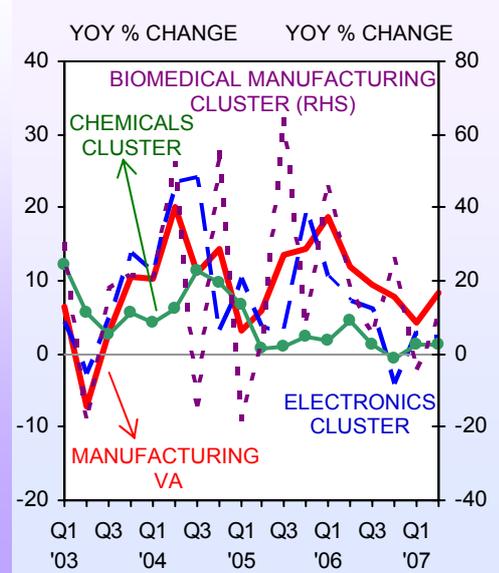


## Sectoral Performance

Growth in the second quarter was led by the financial services and construction sectors which experienced double-digit growth in 2Q07 (see Annex).

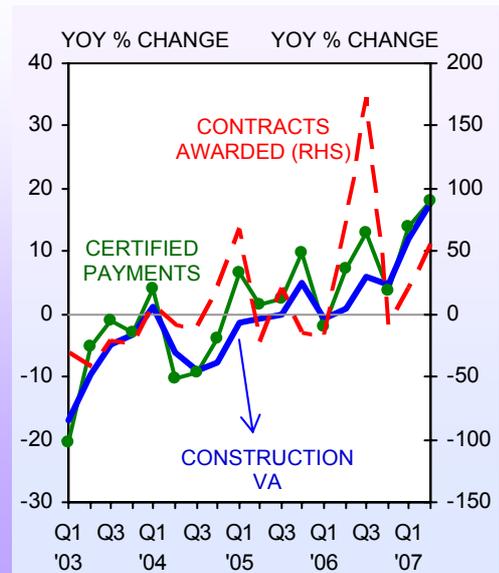
**THE MANUFACTURING SECTOR** grew by 8.3% in 2Q07, up from 4.4% in the previous quarter. The transport engineering cluster continued to expand strongly at 31% following a 23% increase in 1Q07. The biomedical manufacturing cluster also recovered from a 5.1% contraction in 1Q07 to register an increase of 11% in 2Q07. Precision engineering, however, fell by 2.0% while electronics and chemicals grew by 2.5% and 1.4% respectively during the quarter.

**EXHIBIT 3  
MANUFACTURING SECTOR**



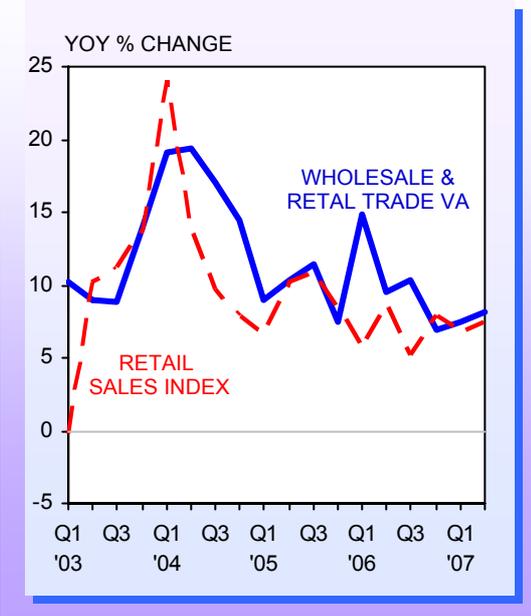
**THE CONSTRUCTION SECTOR** expanded by 18% in 2Q07, its strongest growth since 3Q97. Growth momentum was robust, at 15%. Certified payments increased by 18% in 2Q07, supported by strong growth in the private residential, commercial and industrial segments as well as public residential segment. Contracts awarded increased 55% in 2Q07, due mainly to the rise in the private commercial and public institutional segments.

**EXHIBIT 4  
CONSTRUCTION SECTOR**



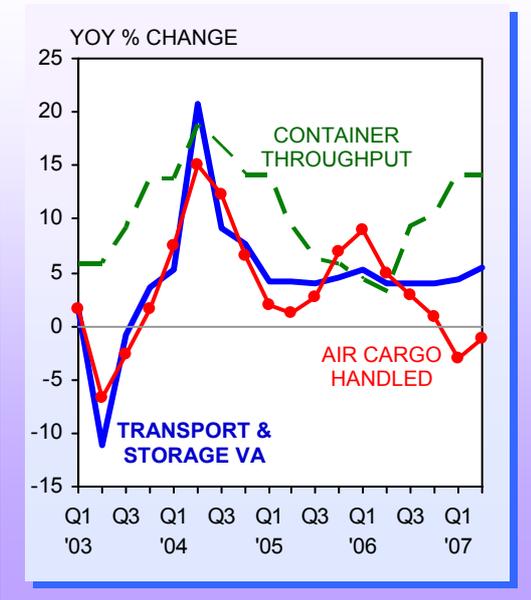
**THE WHOLESALE AND RETAIL TRADE SECTOR** expanded 8.2% in 2Q07 compared with 7.5% in 1Q07. Retail sales grew by 7.5% in 2Q07, up from 6.8% in 1Q07. While motor vehicles and food and beverage sales registered weaker growth, better performance was seen in the furniture and household equipment, optical goods and books, and watches and jewellery segments. Excluding motor vehicles, retail sales rose by 11%, up from 6.9% in 1Q07. In the wholesale segment, growth of non-oil re-exports moderated to 1.3%, down from 5.8% in 1Q07.

**EXHIBIT 5 WHOLESALE AND RETAIL TRADE SECTOR**



**THE TRANSPORT AND STORAGE** sector grew 5.5% in 2Q07, up from 4.3% a quarter earlier. The sea transport segment saw faster growth on the back of robust container throughput. However, growth of sea cargo moderated from 10% in 1Q07 to 6.8% in 2Q07.

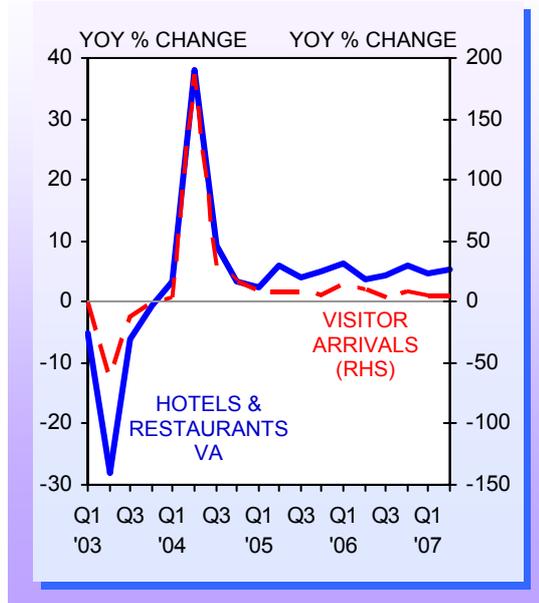
**EXHIBIT 6 TRANSPORT AND STORAGE SECTOR**



Growth in air transport activity was more subdued, slowing down in 2Q07. This was mainly due to a moderation in air passenger traffic growth, from 6.9% to 5.5%. Air cargo contracted by 1.1%, a slight improvement over the 3.0% contraction in 1Q07.

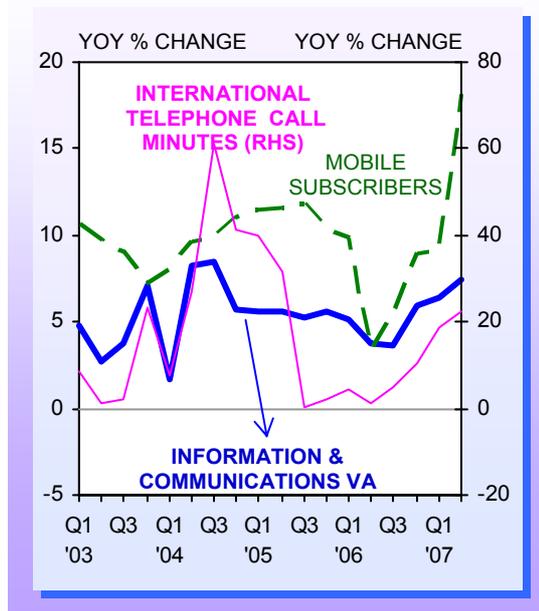
**THE HOTELS AND RESTAURANTS SECTOR** rose by 5.2% in 2Q07, slightly higher than 4.8% in the previous quarter. Visitor arrivals for the quarter grew by 4.9% compared with 5.5% in the first quarter. The increase in hotel room revenue moderated from 22% in 1Q07 to 16% in 2Q07. The average occupancy rate of hotels remained high at 86%, which is 2.5 percentage-points higher than the corresponding period last year.

**EXHIBIT 7 HOTELS AND RESTAURANTS SECTOR**



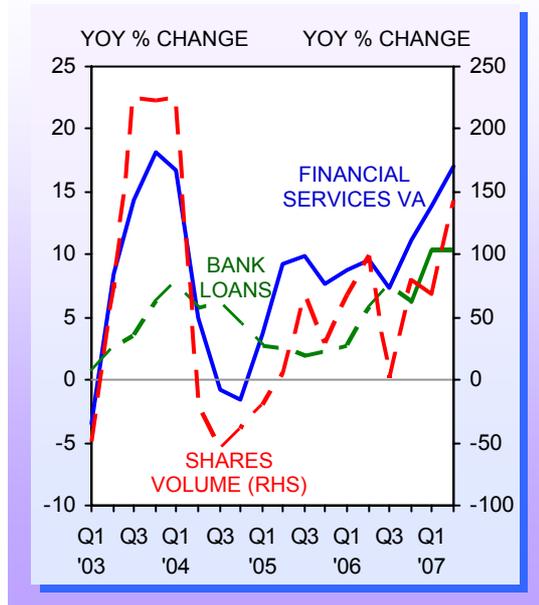
**THE INFORMATION AND COMMUNICATIONS SECTOR** grew 7.5% in 2Q07, up from 6.4% in the previous quarter. This was driven mainly by the telecommunications segment while the IT segment saw some moderation in activities. International telephone call duration grew by 22% compared with 19% in 1Q07. The number of mobile subscribers also expanded strongly by 18% in June, up from 9.2% in March.

**EXHIBIT 8 INFORMATION AND COMMUNICATIONS SECTOR**



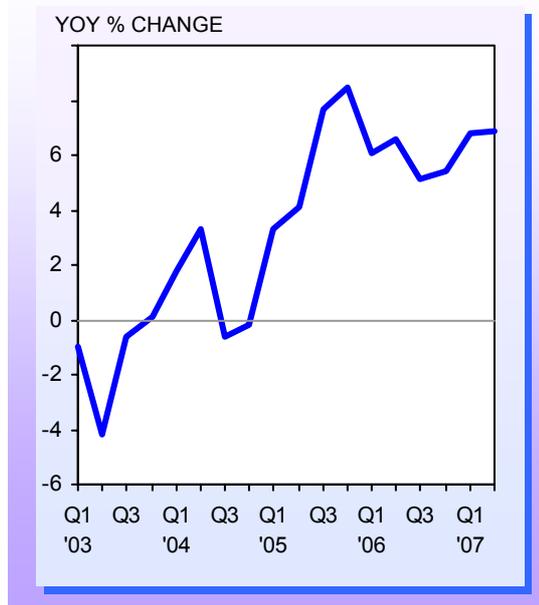
**THE FINANCIAL SERVICES SECTOR** saw robust expansion of 17% in 2Q07, up further from 14% in 1Q07. Broad-based growth in the sector was led by sentiment-sensitive clusters such as the stocks, shares and bond brokers segment. Against the backdrop of the property boom, the domestic banking industry continued to benefit from higher loans for building and construction activities. The offshore banking sector was also bolstered by robust regional demand for financial services.

**EXHIBIT 9  
FINANCIAL SERVICES SECTOR**



**THE BUSINESS SERVICES SECTOR** expanded by 6.9% in 2Q07, similar to the 6.8% in 1Q07. The sector was well supported by healthy performances in business representative offices and professional services. The broadening of growth in the real estate segment also contributed to growth of the sector.

**EXHIBIT 10  
BUSINESS SERVICES SECTOR**

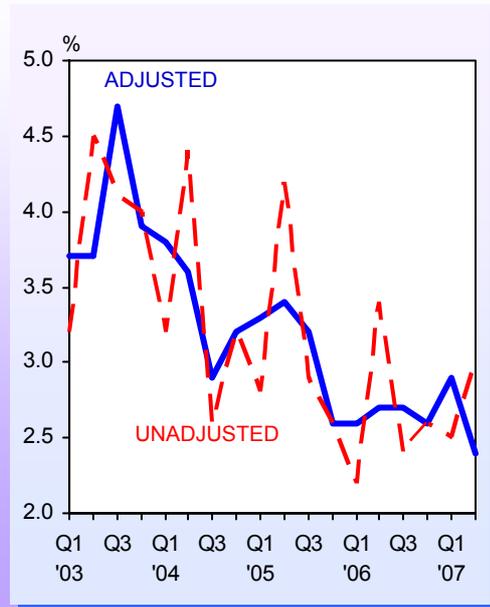


## Labour Market

Total employment continued to grow strongly by 61,900 in 2Q07, higher than 49,400 in 1Q07. All sectors added workers, led by services with gains of 33,600 workers. Manufacturing and construction also posted strong increases of 16,600 and 11,400 respectively.

Reflecting the favourable economic conditions, the seasonally adjusted unemployment rate fell to 2.4% in June 07 from 2.9% March 07. The number of workers retrenched in 2Q07 also dropped to 1,600, from 2,000 in the previous quarter.

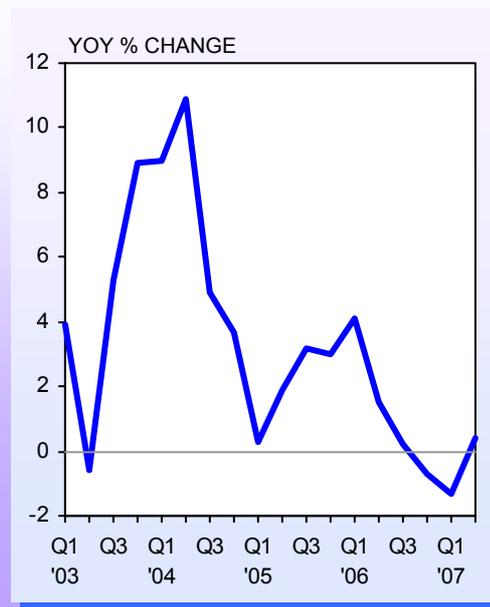
**EXHIBIT 11  
UNEMPLOYMENT RATE**



## Labour Productivity

Overall labour productivity improved by 0.4% following a 1.3% drop in the previous quarter. At the sectoral level, declines were seen in hotels & restaurants (-5.4%), business services (-5.2%), information & communications (-2.1%), other services (-1.4%) and manufacturing (-1.0%). The sectors that saw positive productivity growth were construction (6.4%), financial services (4.1%), transport & storage (2.5%) and wholesale & retail trade (2.4%).

**EXHIBIT 12  
LABOUR PRODUCTIVITY**

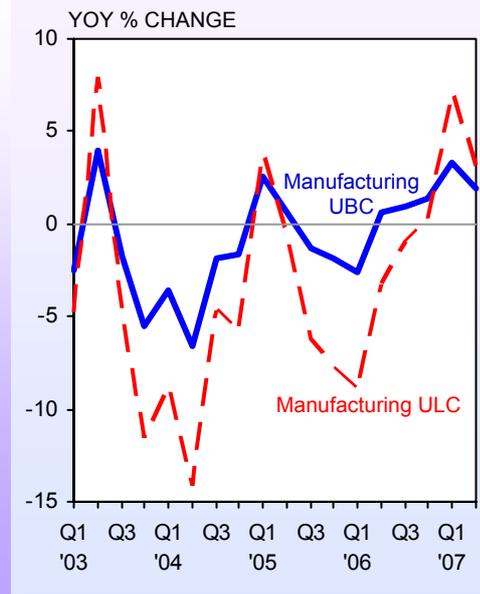


## Business Costs

Overall unit labour cost (ULC) rose 5.7% in 2Q07, following a 5.9% increase in the preceding quarter.

The unit business cost (UBC) of manufacturing rose by 1.9% in 2Q07, following 3.3% the previous quarter. All three components rose, viz. manufacturing ULC, services cost and government rates and fees.

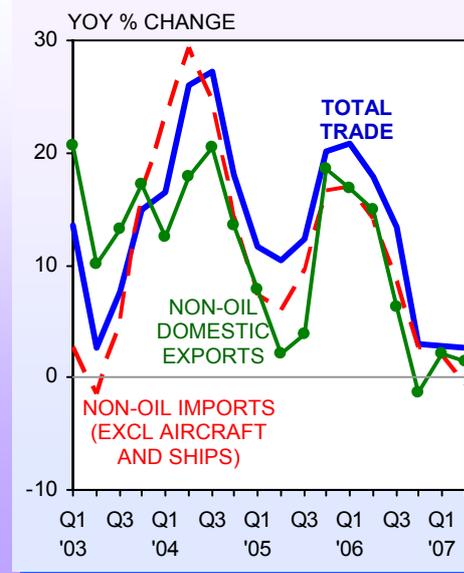
**EXHIBIT 13 UNIT BUSINESS COST & UNIT LABOUR COST**



## External Trade

External trade expanded by 2.6% in 2Q07, slightly lower than the 2.9% gain in the previous quarter. Total exports grew 2.9% following 3.4% in the previous quarter while non-oil domestic exports (NODX) rose by 1.5% in 2Q07, down from 2.1% in the last quarter. The growth in NODX was due to higher non-electronics NODX growth offsetting the drop in domestic exports of electronics. Non-oil imports (excluding aircraft and ships) fell by 0.9%, down from a growth of 2.0% in the preceding quarter. In volume terms, total trade grew by 6.5% in the second quarter compared with 8.1% in the first quarter.

**EXHIBIT 14 EXTERNAL TRADE**



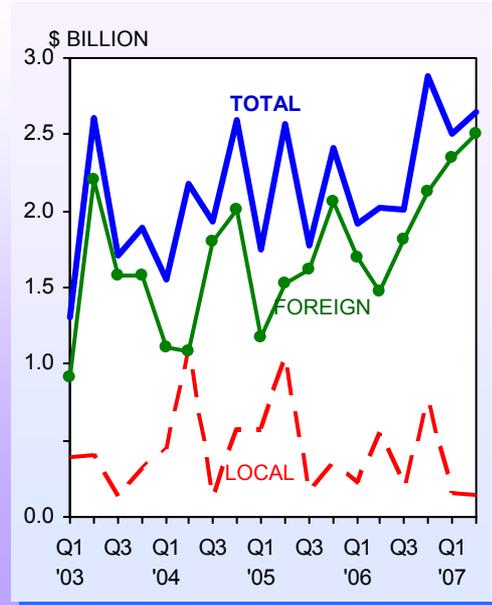
Prior to 2004, data excludes trade with Indonesia.

## Investment Commitments

Fixed asset investment of \$2.6 billion was committed in the manufacturing sector in 2Q07, up from \$2.5 billion in 1Q07. The largest investments were in the electronics sector (\$1.4 billion), followed by chemicals (\$861 million) and transport engineering (\$167 million) respectively.

In terms of the local-foreign breakdown, foreign investments amounted to 95% of the total amount while local investments made up the rest.

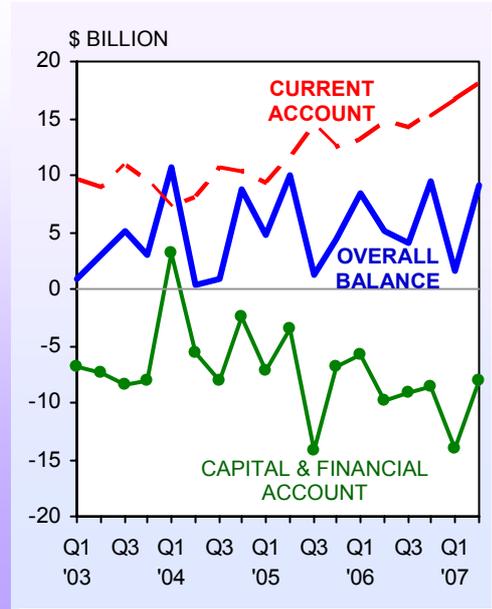
**EXHIBIT 15 MANUFACTURING INVESTMENT COMMITMENTS**



## Balance of Payments

Singapore's overall balance of payments surplus rose \$7.6 billion in 2Q07 to reach \$9.1 billion. This was due to an increase in the current account surplus and a reduction in net outflows from the capital and financial account. Consequently, Singapore's official foreign reserves rose to \$221 billion, equivalent to 6.9 months of merchandise imports during the quarter.

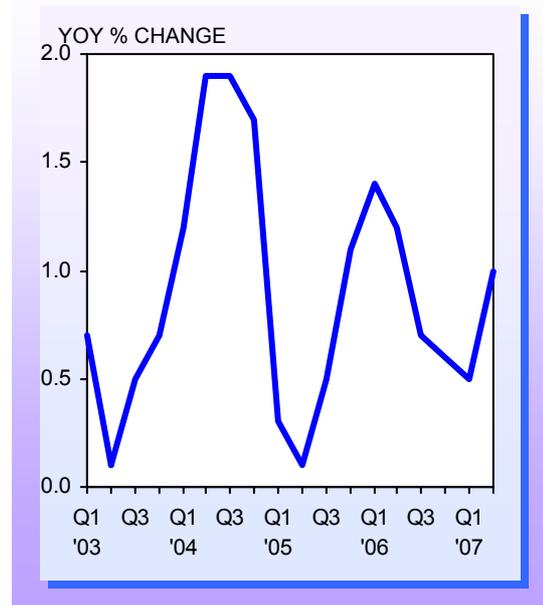
**EXHIBIT 16 BALANCE OF PAYMENTS**



## Consumer Price Inflation

On a year-on-year basis, the CPI was 1.0% higher in 2Q07, compared with a 0.5% gain in the last quarter. Among the major categories of consumer expenditure, recreation costs posted the largest gain (3.1%) due to higher holiday travel costs. This was followed by healthcare (3.0%), food (1.4%), and transport & communications (1.1%). Both education & stationery and clothing & footwear saw a 0.2% increase in prices. Meanwhile, housing costs declined by 1.4%, reflecting lower electricity tariffs and housing maintenance charges.

**EXHIBIT 17**  
**CONSUMER PRICE INDEX**

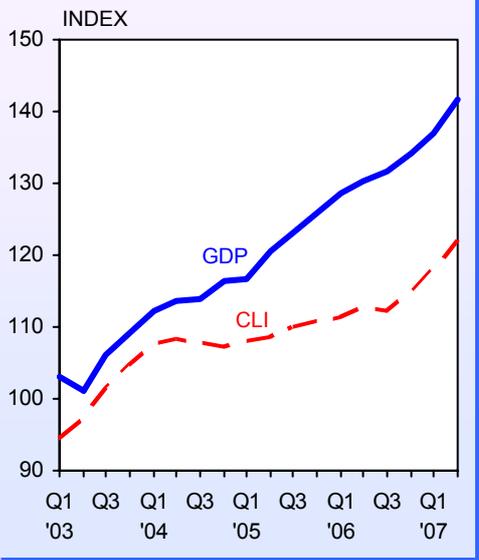


## Outlook for 2007

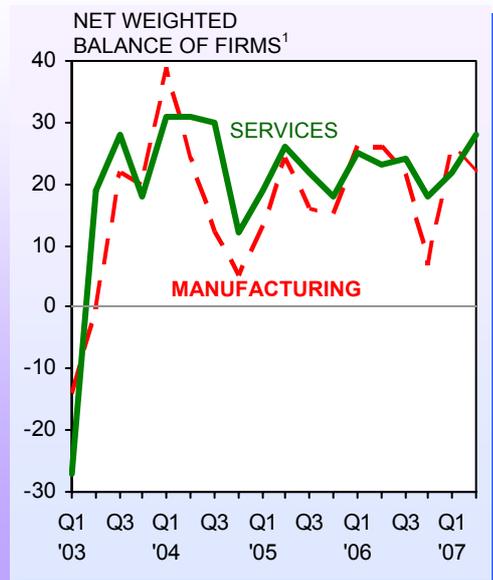
The global economic environment continues to be healthy. Economic growth in the US remains intact. The Japanese and EU economies continue to recover on the back of strong domestic demand and firm business sentiment. Prospects in Asia remain robust, with the Chinese economy growing at a rapid pace. But some downside risks remain, such as a large negative spillover from the US housing market and potential negative supply shocks in oil. Reflecting the favourable external environment, both manufacturing and services firms continue to expect better business conditions in the next half of the year. The consensus forecasts in the market for Singapore's GDP growth are creeping upwards while the composite leading index continues to increase.

Taking into account the above factors, the Ministry of Trade and Industry has raised the full-year GDP growth forecast for 2007 from 5.0-7.0% to 7.0-8.0%. The improved outlook reflects higher growth in financial and business services, manufacturing, and construction. The driving factors underpinning the higher growth forecast are broad-based: strong global demand in the biomedical, aerospace and marine industries, robust regional demand for financial services, and a buoyant domestic property market.

**EXHIBIT 18**  
**GROSS DOMESTIC PRODUCT &**  
**COMPOSITE LEADING INDEX (2000=100)**



**EXHIBIT 19**  
**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

Sector	2Q06	3Q06	4Q06	2006	1Q07	2Q07
<b>Percentage Change Over Corresponding Period of Previous Year</b>						
<b>Total</b>	<b>8.0</b>	<b>7.0</b>	<b>6.6</b>	<b>7.9</b>	<b>6.4</b>	<b>8.6</b>
<b>Goods Producing Industries</b>	10.3	8.9	7.2	10.2	5.2	8.9
<b>Manufacturing</b>	11.9	9.5	7.7	11.5	4.4	8.3
<b>Construction</b>	0.9	5.8	4.7	2.7	12.0	17.6
<b>Services Producing Industries</b>	6.9	6.3	6.6	7.0	7.3	8.4
<b>Wholesale &amp; Retail Trade</b>	9.5	10.4	6.9	10.3	7.5	8.2
<b>Transport &amp; Storage</b>	4.0	4.0	4.0	4.3	4.3	5.5
<b>Hotels &amp; Restaurants</b>	3.8	4.4	6.1	5.1	4.8	5.2
<b>Information &amp; Communications</b>	3.7	3.6	6.0	4.6	6.4	7.5
<b>Financial Services</b>	9.6	7.4	11.1	9.2	13.8	17.0
<b>Business Services</b>	6.6	5.1	5.4	5.8	6.8	6.9
<b>Annualised Growth Rate – Seasonally adjusted</b>						
<b>Total</b>	<b>5.4</b>	<b>3.9</b>	<b>7.9</b>	<b>7.9</b>	<b>8.8</b>	<b>14.4</b>
<b>Goods Producing Industries</b>	1.5	11.9	11.1	10.2	-2.1	15.8
<b>Manufacturing</b>	2.3	12.3	11.5	11.5	-6.2	17.2
<b>Construction</b>	-6.9	12.5	12.2	2.7	32.8	15.0
<b>Services Producing Industries</b>	8.6	0.8	7.9	7.0	12.3	13.0
<b>Wholesale &amp; Retail Trade</b>	0.8	8.2	-3.5	10.3	26.0	5.0
<b>Transport &amp; Storage</b>	2.9	2.9	6.1	4.3	5.2	7.7
<b>Hotels &amp; Restaurants</b>	5.7	1.5	9.7	5.1	2.3	7.3
<b>Information &amp; Communications</b>	7.4	6.8	11.6	4.6	1.0	10.7
<b>Financial Services</b>	25.1	-16.2	28.2	9.2	24.7	39.7
<b>Business Services</b>	9.9	4.0	7.9	5.8	5.7	10.2

Source: Singapore Department of Statistics