

MTI Revises Forecasts for 2009 GDP Growth to -5.0 to -2.0 Per Cent and CPI Inflation to -1.0 to 0 Per Cent

21 January 2009. The Ministry of Trade and Industry (MTI) announced today that Singapore's GDP growth is likely to be -5.0 to -2.0 per cent in 2009, lower than the -2.0 to +1.0 per cent growth range it had forecast on 2 January 2009. The forecast for inflation in 2009 is also revised downwards to -1.0 to 0 per cent.

Singapore Economy Grew by 1.2 Per Cent in 2008

Preliminary estimates for the Singapore economy show that real gross domestic product (GDP) contracted by 3.7 per cent in the fourth quarter of 2008, following the decline of 0.2 per cent in the preceding quarter¹. On a seasonally adjusted, annualised quarter-on-quarter basis, real GDP fell by 16.9 per cent, compared to a decline of 5.1 per cent in the third quarter of 2008. The manufacturing, wholesale & retail trade, transport & storage, information & communications, and financial services sectors registered further slowdowns compared to the third quarter of 2008.

For 2008 as a whole, the economy is estimated to have grown by 1.2 per cent, compared with 7.7 per cent in 2007.

The manufacturing sector is estimated to have contracted by 4.1 per cent, down from an expansion of 5.8 per cent in 2007. Several clusters – electronics, precision engineering, and chemicals – were affected by the rapid decline in demand in Singapore's key export markets, especially in the last quarter of 2008. Industry-specific factors also exerted a negative impact. Biomedical manufacturing was affected by drug efficacy issues and the switch to the production of pharmaceuticals ingredients with lower values during several months of 2008, while the electronics cluster was also impacted by restructuring within the information-communications and consumer electronics industries.

The construction sector grew by 17.9 per cent in 2008, compared to 20.3 per cent in 2007. The healthy level of construction output in 2008 was sustained by robust activity in the residential, industrial and civil engineering building segments. Construction demand was also supported by an upswing in the number of public housing and infrastructural projects committed.

¹ The release of the preliminary estimates has been brought forward to coincide with Budget 2009. The estimates are intended to provide an early indication of GDP growth in the fourth quarter of 2008, and are subject to revision when more comprehensive data become available.

Growth in the services producing industries moderated from the strong growth rates in 2007. Growth in the wholesale & retail trade and the transport & storage sectors moderated to 2.6 per cent and 3.2 per cent respectively in 2008, from 7.3 per cent and 5.1 per cent in 2007. After a robust 16.9 per cent growth in 2007, the financial services sector grew by 7.1 per cent in 2008. As a result of the global financial crisis, there was a significant decline in fund management and stock broking activities in the second half of 2008. In the fourth quarter, growth of the Asian Dollar Market (ADM) slowed while trading in the foreign exchange market fell sharply. The business services sector grew by 7.3 per cent, compared to 7.8 per cent in 2007, although segments such as real estate, legal services and accounting services slowed down in the last two quarters of the year.

Sharper Downturn Expected in 2009

MTI expects the economic downturn to continue in 2009. The weaker outlook for the Singapore economy compared to earlier forecasts reflects two factors: global economic activity has declined faster and deeper, and the spillover effects on key sectors of the economy will be stronger.

Data releases in the past two weeks for retail sales and unemployment in the US, industrial production in Europe, and exports by Asian economies suggest that external demand conditions have weakened to a greater extent than earlier estimated. In January, the consensus forecasts for GDP growth of the G3 economies and Asia (ex-Japan) were downgraded by at least a further 50 basis points from December last year.

These developments will have a major impact on Singapore. The electronics purchasing managers' index for Singapore posted a record low in December 2008. The chemicals cluster is expected to weaken with lower oil prices and lower global demand for other manufactured goods. Global trade is expected to contract in 2009, which will affect trade-related sectors such as wholesale & retail trade and transport & storage. The weak economic performance in the fourth quarter of 2008 reflects these spillover effects, and suggests that growth will weaken further in 2009.

Taking into account the above factors, MTI is revising the economic growth forecast for 2009 to **-5.0 to -2.0 per cent**.



Inflation to Ease in 2009

The forecast for CPI inflation in 2009 has been revised to **-1.0 to 0 per cent**. This is largely in expectation of a continued downward correction of commodity prices from the peaks in 2008, in line with the weakening global economy. These global developments will ease upward pressures on domestic retail prices. The decline in 2009 CPI inflation also reflects an adjustment from the high base recorded in 2008, when food, electricity tariffs, transport and accommodation costs rose significantly.

MINISTRY OF TRADE AND INDUSTRY
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Sectoral Growth Rates

Per Cent

Sector	4Q07	2007	1Q08	2Q08	3Q08	4Q08	2008
Percentage Change Over Corresponding Period of Previous Year							
Total	5.4	7.7	6.9	2.2	-0.2	-3.7	1.2
Goods Producing Industries	2.9	7.2	12.6	-2.0	-6.6	-7.1	-1.2
Manufacturing	0.2	5.8	12.6	-5.5	-10.9	-10.7	-4.1
Construction	24.3	20.3	16.9	21.0	20.3	14.1	17.9
Services Producing Industries	7.7	8.1	7.7	7.1	5.4	-0.1	5.0
Wholesale & Retail Trade	6.0	7.3	5.5	6.0	4.4	-5.4	2.6
Transport & Storage	5.4	5.1	5.4	5.8	3.7	-2.1	3.2
Hotels & Restaurants	2.5	4.4	3.2	2.1	-0.1	0.1	1.3
Information & Communications	6.1	6.3	6.8	7.8	7.4	5.6	6.9
Financial Services	15.9	16.9	14.0	10.6	6.0	-1.8	7.1
Business Services	8.7	7.8	8.6	7.6	7.7	5.5	7.3
Annualised Growth Rate – Seasonally Adjusted							
Total	-4.8	7.7	15.8	-5.5	-5.1	-16.9	1.2
Goods Producing Industries	-18.6	7.2	47.4	-34.1	-4.5	-19.1	-1.2
Manufacturing	-24.9	5.8	59.1	-43.5	-7.5	-23.2	-4.1
Construction	27.3	20.3	3.2	44.2	11.0	2.3	17.9
Services Producing Industries	5.8	8.1	11.5	10.5	-5.5	-14.5	5.0
Wholesale & Retail Trade	0.4	7.3	10.9	11.6	-4.7	-31.9	2.6
Transport & Storage	7.3	5.1	8.6	7.3	-7.2	-14.9	3.2
Hotels & Restaurants	-0.5	4.4	4.6	1.6	-5.6	0.1	1.3
Information & Communications	6.7	6.3	4.5	11.6	7.0	-0.4	6.9
Financial Services	10.3	16.9	28.0	14.1	-21.6	-18.9	7.1
Business Services	8.8	7.8	5.1	12.1	4.7	0.2	7.3

Source: Singapore Department of Statistics