

SINGAPORE

ECONOMIC OUTLOOK MARCH 2003 – WEAK NEAR-TERM OUTLOOK, MODEST GROWTH FORECAST

March 25, 2003

SUMMARY

Singapore's near and medium term economic outlook remains subdued. Advance estimates pegged GDP growth for the first quarter of 2003 at 2.7%, ahead of the 2.2% registered for 2002 as a whole. Official and private sector estimates put 2003 growth in the 2-4% range: the government forecasts growth of between 2-5% in 2003, while the latest private sector consensus forecast is for 3.8% growth this year. Most estimates see Singapore lagging much of Asia. The near term outlook remain clouded by uncertainty over Iraq, the economic outlook in key markets, and the outlook for a recovering in IT demand, and the mood on the street is somber, as Singapore faces its longest period of low growth since Independence in 1965. In comments March 6, Prime Minister Goh Chok Tong warned Singaporeans that "we should expect worse to come in the months ahead." Unemployment in Singapore, 4.2% as of end-December 2002, is expected to increase further in 2003 if the economy worsens; several large state enterprises and government agencies recently announced unprecedented layoffs.

The outlook for manufacturing in H1 2003 is uncertain; the Purchasing Managers' Index (PMI) dropped by 0.6 points to 50.4 in February, indicating only a marginal expansion. Manufacturing output in recent months has been bolstered by hefty jumps in output in the biomedical sector (mainly pharmaceuticals), overshadowing the near-stagnant electronics sector. Unlike electronics, the pharmaceutical sector has few linkages to the local economy, so that increased exports have little spillover to the rest of the economy. The services sector continues to underperform relative to its large share of GDP (around 75%), with logistics and transport providing the principal bright spots.

Structural unemployment from the loss of low-end manufacturing and other jobs, shrinking property values, a misallocation of retirement savings, and adjusting popular expectations to fit more modest GDP growth in the future are among the biggest challenges facing policymakers. Government initiatives addressing these challenges are being put in place, but many focus more on microeconomic issues rather than the larger macro policy framework.

This survey is also posted on the Internet at: <http://singapore.usembassy.gov/politics/reports.html>

RECOVERY REMAINS WEAKLY, NARROWLY-BASED

According to advance estimates released by the Singapore Government on March 12, Singapore's GDP rose by 2.7% in the first quarter of 2003 (Q1 2003). Officials noted that the result was encouraging, and follows better-than-expected final data for Q4 2002, when the economy grew by 0.4% q/q, narrowly averting a double-dip recession. GDP rose 2.2% for 2002 as a whole; this compares favorably to the 2.4% fall in GDP seen in 2001, Singapore's worst recession since Independence in 1965.

The positive estimates for Q1 2004 are based largely on an upturn in manufacturing. After declining during most of the June-November 2002 period (and registering a 3.8% q/q drop in Q4 2002), manufacturing output picked up in December and January, on a seasonally-adjusted month-on-month basis. However, the increase has a narrow base and results primarily from impressive growth in pharmaceutical and specialty chemical output, sectors where production is generally batch oriented and operations fluctuate greatly on a month/month basis. *(Note: Robust pharmaceutical exports – and strong growth in overall trade with China – provided much of the 3.4% increase in Singapore's total trade in 2002.)*

In contrast, the electronics sector, which accounts for over 30% of manufacturing value-added and 50% of manufactured exports -- has been flat, with marginal increases coming from a low base, largely due to weak IT demand in key foreign markets. Electronics exports shrank by 1.5% for 2002 as a whole. The stagnant electronics sector has had ripple effects in other sectors which supply the electronics industry. Unlike electronics, pharmaceutical exports provide few linkages back to the domestic economy; almost all the raw materials are imported, there is little local input, and the sector employs relatively few workers.

Singapore's service sector, accounting for 75% of Singapore's GDP, has been very weak as an alternative driver of growth, generally underperforming relative to manufacturing, apart from some areas, such as transport and logistics. Q4 2002 was an exception: the services sector grew 3.1% q/q, beating manufacturing, and follows a slight contraction in the third quarter.

Other indicators reinforce the somber mood about economic prospects. Consumer sentiment hit a five-year low in the latest consumer confidence survey in December. Unemployment remains high by historical standards, at 4.2% as of December 2002 and expected to rise to over 5% in 2003. Many of the job losses are structural, as remaining lower-skilled assembly operations move overseas, and as other firms cut jobs. Several state-owned enterprises and Singapore's housing authority also announced big layoffs. New investment in the manufacturing sector is in capital-intensive areas that require few line workers. As one analyst noted, Singapore is moving up the value-added ladder, and the workers laid off are those with lower value-added skills.

The weak growth environment since mid-2002 has also taken its toll on government revenue, which initial estimates suggest fell to S\$25.3 billion for FY2002 (April 2002-March 2003) from an estimated S\$28.8 billion for FY2001. Income tax revenue and revenue from taxes on assets and vehicles registered the sharpest declines.

Depressed property prices – and the over-concentration of retirement assets in property – continue to be another critical challenge for policymakers. Sliding housing costs contributed to the marginal 0.4% fall in the Consumer Price Index in 2002; the last time Singapore saw CPI deflation was in 1998 during the Asian Financial Crisis. Recent policy changes have provided mixed signals on the over-investment in property – while the proportion of savings dedicated to retirement has been increased, lending conditions on residential properties have been relaxed. Some analysts say not enough is being done to address the problem. A clear oversupply of residential and office space exists – yet construction continues. Approximately 3.7 million sq. feet of new office space was constructed in 2003; eight million sq. feet of office space is vacant, the biggest glut in over ten years, according to one property consultant. Office rents fell 16.5% in 2002, on top of a 15.7% decline in 2001.

OUTLOOK

Overall, the economic outlook remains challenging. The Government projects full year growth in 2003 in 2-5% range; officials say growth will most likely register at the lower end of that range, if present trends continue. The latest private sector consensus forecast, based on a survey by the Monetary Authority of Singapore (MAS), forecasts 2003 growth at 3.8%, slightly down from a similar survey in December. One large U.S. investment bank in late March downgraded its forecast for Singapore growth from 3.7% to 3.0%, in line with cuts in its forecast for GDP growth in the U.S., saying lengthy uncertainty over Iraq during most of Q1 had dampened consumer spending and business sentiment. Academics from Singapore's two main universities offer diverging views, ranging from 3.3% from one university's economists to 4.5% from those at the other university. Officials and private sector analysts agree that Singaporeans should expect future growth rates to be considerably below the 8% average growth rate enjoyed for most of its 37 years as an independent country, given Singapore's status as a mature, developed economy.

The consensus GDP growth forecast is predicated largely on a sustained recovery gaining momentum in the second half of 2003, driven by a strong rebound in external demand. The Government is projecting that exports will grow 2-6% in 2003, but this is based on improved demand for global electronics and growth in the economies of Asia, and China in particular. Initial export data for January and February provide a mixed picture; few analysts expect robust export growth in H1.

The immediate outlook for Q2 2003 is clouded by uncertainty over the implications on global growth and petroleum prices of conflict in the Middle East, by continued mixed economic data in Singapore's key markets, and by continued weakness in IT demand. The Ministry of Trade and Industry notes that forward-looking economic indicators point to weak growth for Singapore's economy: the composite leading indicator, which tracks economic activity about three quarters ahead rose by just 1.5% in Q4 2002, after a dip of 1.4% in Q3 2002. But there is considerable downside risk.

The Singapore Purchasing Managers' Index (PMI) has been trending downwards since April 2002, and has fallen more sharply since Q4 2002. February's PMI of 50.4 was down 0.6 points from January, which itself was down from December's PMI, and is the weakest reading since March 2002. The electronics PMI declined 0.8 points to 50.8. The overall import index fell to 49.1 points, indicating a contraction, and suggesting firms are less optimistic about future sales. While the February data may have been skewed by the Chinese New Year holiday, the Singapore Institute of Purchasing & Materials Management, which compiles the PMI, says the first two months of the year suggest a "very negative trend."

The latest Economic Development Board survey of business expectations suggests most manufacturing firms expect conditions to remain weak in H1 2003. Firms in the electronics and engineering sectors foresee tough conditions, while the shipbuilding and aerospace segments, which enjoyed buoyant growth in 2002, expect business to slowdown. Only the biomedical sector expects stable business conditions. Business sentiments in the services sector are also mixed. Firms in the hotel, wholesale, retail, real estate and transportation sectors are all pessimistic in their outlook; only financial sector and professional services businesses expect business to improve.

The outlook for the Singapore dollar (SGD) is for a slight weakening through the end of 2003. With the weak economic outlook and with inflation expected to remain low, the MAS said in its January semi-annual monetary policy statement that it intends to maintain its neutral policy stance based on zero percent appreciation for the SGD, with no change in the level at which the policy band is centered and in the width of the band. In response to opinions that the Singapore Dollar could depreciate more, MAS asserts that the present policy will provide sufficient flexibility to support the recovery while keeping inflation low.

ECONOMY IN Q4 2002/CY2002: POCKETS OF GROWTH AMID DOWNTURN

Sectoral Performance

The manufacturing sector pulled the rest of Singapore's economy along in 2002, posting 8.3% increase for the year as a whole. On the three-month moving average basis, manufacturing output increased by 10.3% (y/y) in January 2003. On a seasonally-adjusted m/m basis, January output posted a 9.7% increase.

- Electronics (38% of manufacturing value-added): Output for 2002 increased by 4.1% y/y. January production increased by 7.9% y/y on account of higher output of semiconductors and modules/components.
- Biomedical sciences (12.3% of manufacturing value-added): Output for 2002 grew by 45.6% y/y for 2002, and a hefty 83.2% y/y increase in output for January 2003, due to the higher pharmaceuticals output.
- Engineering, comprising precision, process and transport engineering (27.4% of manufacturing value-added): Output grew by 3.3% y/y for 2002. Output in January 2003 dropped by 3.6% y/y due to lower output in all three sub-segments.
- Chemicals (11.9% of manufacturing value-added): Output for 2002 posted an increase of 10.9% y/y. January 2003 output rose by 12% due to higher petroleum products and specialty chemicals.

Singapore's bellwether non-oil domestic exports (NODX), of which electronics accounted for 58% in 2002, remained essentially flat given faltering global electronics demand. Total trade in Q4 2002 edged up by 0.9% q/q, but the increase stemmed mostly from October's performance; December's NODX registered a nine-month low.

Services-producing industries posted 3.1% q/q growth in Q4 2002 and 1.5% growth for CY2002. The marginal expansion for the year was attributed mainly to logistics, transport and communication services. The last quarter saw tourist arrivals picking up, culminating in a 5.8% increase y/y in December due mainly to tourists diverting from Indonesia, especially Bali. The Department of Statistics revealed that business receipts index for services industries shrank marginally by 0.1% y/y in 2002. But excluding financial and insurance services, the index rose by 0.7%. Similarly, on a q/q basis, the index dipped by 0.6% over Q3 2002, but excluding financial and insurance services, the index was 0.6% higher. Receipts from air transport services, IT services and medical services enjoyed double-digit growth in Q4 2002 compared to that of Q3 2002.

The construction sector (6.0% of real GDP) has yet to bottom out since the 1997 Asian economic crisis. The sector shrank by 18% in Q4 2002, and 11% for CY2002. The slowdown in reclamation works, the completion of major infrastructure projects and the decrease in construction of public housing contributed to the contraction in public construction activities. Private developers cut back non-residential projects in the face of weak economic conditions. However, residential projects enjoyed robust expansion after four years of consecutive decline due to the government's change of rules relating to the use of savings from the Central Provident Fund for purchases of new homes.

Table: Real GDP Growth

(Quarter/Quarter Percentage Change)

	<u>Q1 02*</u>	<u>Q2 02*</u>	<u>Q3 02*</u>	<u>Q4 02*</u>	<u>CY 02</u>
Overall GDP Growth Rate	7.0	12.1	(6.6)	0.4	2.2
Manufacturing (24%)	20.8	53.9	(18.4)	(3.8)	8.3
Construction (6%)	(2.1)	(16.3)	(10.1)	(18.0)	(10.8)
Wholesale & Retail Trade (13%)	12.0	20.9	(13.0)	6.5	2.7
Hotels & Restaurants (2%)	12.0	(3.3)	(5.3)	(1.7)	(2.9)
Transport & Communications (14%)	19.6	4.0	(0.6)	(5.4)	5.0
Financial Services (11%)	(19.1)	(16.3)	6.7	12.4	(4.8)
Business Services (14%)	0.0	1.1	(2.4)	2.9	0.4

Notes:

* - Annualized Growth Rate - Seasonally-adjusted q/q

Figures in parentheses denotes negative values

Percentage after respective sectors denotes share of GDP (at 1995 prices, seasonally-adjusted) in Q4 2002

For more information, please refer to the Ministry of Trade and Industry's quarterly economic survey, at:

www.mti.gov.sg

Extensive GDP data can be found at the Department of Statistics Internet site: <http://www.singstat.gov.sg/>

Trade

(unless otherwise stated, percentage comparisons in this section are on a nominal Singapore dollar basis)

Total trade in 2002 expanded by 3.4% over that of 2001 to reach US\$243.3 billion. Total exports posted US\$126 billion, with non-oil domestic exports (NODX) rising 3.9% and domestic exports of electronics dipping 1.5%. Total annual imports increased to US\$117.3 billion or 2.2% higher than in over that of 2001. Total exports posted US\$33.9 billion in Q4 2003, an increase of 1.9% q/q; NODX rose 3.1% q/q and electronics domestic exports by 1.3% q/q (NODX accounted for 44% of total exports and domestic electronics accounted for 58% of NODX in 2002). Imports reached US\$30.7, up 1.9% q/q.

Singapore's top five trading partners in 2002 were Malaysia, the U.S., the E.U., Japan and China/Hong Kong, accounting collectively for 67% of total trade. Compared with 2001, trade with the U.S. continued to contract in 2002, imports by 13.6%, exports by 1.8% and NODX by 1.0%. The U.S. remained as Singapore's largest export market for domestic exports of electronics (25% of total NODX), although it is no longer Singapore's top trading partner, Malaysia having taken over that position in 2000. China continues to increase its share of Singapore's total trade. Combined, China and Hong Kong became Singapore's third largest trading partner in 2002.

International Enterprise Singapore (the government's trade promotion agency) projects total trade to grow between 2-6% for 2003, based on an expected upturn in demand for global electronics later this year as well as improvement in the economies of Asia, especially that of China.

Electronics Trade
(Percent Share)

	<u>2001</u>	<u>2002</u>
Electronics Exports:		
As a percentage of Total Exports	52.6	52.1
To U.S. as percentage of Total Exports	11.6	10.9
To U.S. as percentage of NODX	26.2	24.7
To U.S. as percentage of Electronics Exports	22.1	20.9
Electronics NODX as percentage of NODX	61.0	57.9

Source: IE Singapore (formerly Trade Development Board)

Table: Trade Data (Nominal Value, US\$ Billion)

	% change (S\$ Value)		
	<u>2001</u>	<u>2002</u>	<u>2001/2002</u>
Total Exports	120.5	126.0	2.7
Total Imports	114.8	117.3	0.3
NODX	53.4	55.3	1.9
NODX Electronics	32.6	32.1	(3.2)
Imports from U.S.	18.9	16.6	(13.6)
Exports to U.S.	18.5	18.5	(1.8)
NODX to U.S.	11.9	12.0	(1.0)
Imports from Malaysia	19.9	21.4	5.5
Exports to Malaysia	20.9	22.0	3.1
NODX to Malaysia	6.5	6.2	(6.3)
Imports from Hong Kong	2.8	3.6	1.7
Exports to Hong Kong	10.7	11.6	5.8
NODX to Hong Kong	3.3	3.8	13.7
Imports from China	7.1	8.9	22.9
Exports to China	5.3	6.9	28.5
NODX to China	2.5	3.5	39.5
Imports from China/Hong Kong	9.9	12.5	17.0
Exports to China/Hong Kong	16.0	18.5	13.3
NODX to China/Hong Kong	5.8	7.4	24.7
Imports from E.U.	13.5	13.9	0.6

Exports to E.U.	16.1	15.8	(3.8)
NODX to E.U.	9.6	9.0	(13.0)
Imports from Japan	15.9	14.7	(9.4)
Exports to Japan	9.3	9.0	(4.4)
NODX to Japan	5.3	5.0	(7.4)

() – Denotes negative values

TABLE: Trade
(Percentage Change Quarter-on-Quarter*, Nominal S\$)

	<u>Q4 01*</u>	<u>Q1 02*</u>	<u>Q2 02*</u>	<u>Q3 02*</u>	<u>Q4 02</u>	<u>Feb 03</u>
Total Exports	3.4	(5.7)	11.6	2.3	1.9	(16.2)
NODX	9.1	(7.7)	10.4	4.6	3.1	(18.1)
NODX Electronics	11.9	(9.7)	5.7	6.6	1.3	(20.1)
Exports to U.S.	5.4	(6.1)	12.7	4.3	(5.0)	(13.4)
NODX to U.S.	11.2	(9.0)	12.9	6.6	(1.0)	(20.7)
Exports to Malaysia	(6.2)	17.4	0.0	5.9	(9.8)	(14.2)
NODX to Malaysia	2.0	(12.5)	14.7	(2.7)	(8.7)	(18.8)
Exports to E.U.	15.6	(12.6)	1.0	3.5	8.3	(13.5)
NODX to E.U.	13.9	(17.9)	2.3	6.7	11.2	(8.6)
Exports to Japan	3.0	1.8	7.2	(5.0)	6.6	(21.3)
NODX to Japan	11.8	1.0	(0.5)	(3.6)	3.8	(23.5)
Exports to China & Hong Kong	(3.9)	(5.4)	18.1	7.0	14.0	(21.2)
NODX to China & Hong Kong	9.9	(4.6)	23.6	5.1	10.2	(19.8)
Total Imports	(1.1)	(4.5)	12.1	(0.5)	(0.1)	(7.0)
Imports from U.S.	1.1	(11.4)	9.2	(10.0)	1.9	21.2

() - Denotes negative values

* - Percent change from previous quarter

** - Percent change from previous month

Notes: Monthly trade data for Singapore is posted on the internet at: <http://www.iesingapore.com/>

Investment

Singapore attracted US\$5.2 billion in manufacturing investment commitments in 2002, down a marginal 1.8% from 2001. Foreign investors continued to contribute the lion's share of new commitments, totaling US\$4 billion. The U.S. was the leading source of new investment commitments, accounting for US\$1.4 billion (-13% y/y), followed by Europe, with US\$1.2 billion (+11% y/y); commitments from Japan totaled US\$1.0 billion (-11% y/y). Singapore domestic firms made US\$1.13 billion (+30% y/y) in new investment commitments in manufacturing. EDB has set a lower target for new investment commitments in manufacturing in 2003 - S\$8 billion (US\$4.6 billion).

Exchange Rate

The Singapore Dollar appreciated by an average of 6.6% in 2002 against the US Dollar. It fell to a five-year low of S\$1.8536 in October 2002 but has since returned to a more stable level, closing at US\$1.7535 on March 14, 2003. On average in 2002, the Singapore Dollar weakened 9.9% against the Euro, 3.4% against the UK Pound, and 3.6% against the Yen in 2002. It appreciated 6.6% for both the Hong Kong Dollar and the Malaysian Ringgit,

Balance of Payments

Singapore's overall balance of payments registered a surplus of US\$1.3 billion in CY2002, but posted a US\$251 million deficit in Q4 2002.

Financial Markets

Turnover on the Singapore Exchange (SGX) in 2002 posted a drop of 12% in value over that of 2001. However, the volume of trading grew 6.1%. Trading in January 2003 declined by 1% from that of December 2002 to US\$164 million. Stock market capitalization as of end-2002 dived 13%, compared to that of end-2001, to US\$166 billion. Thirty IPOs were launched on the Singapore market in 2002, down from 35 in 2001. Government-linked mobile phone operator MobileOne Asia chalked up the largest IPO in 2002, raising US\$448 million.

29. Interests rates in 2002 were lower than those of 2001 due to ample liquidity in the banking system and the soft global interest rate environment. The 3-month interbank rate fell from a high of 1.25% on October 11, 2002 to 0.8% in late December 2002. The 3-month interbank rate dropped further in Q1, and was 0.75% as of March 14, 2003. Singapore government securities (SGS) yields fell progressively in 2002, reflecting poor expectations of a strong U.S. and global economic recovery. As of March 5, 2003, the 2-year and 5-year yields dropped further to 0.82% and 1.36%, respectively.

Inflation

The consumer price index (CPI) registered 102.2 in January 2003, a slight increase over December. For 2002, the CPI dipped by 0.4% over that of 2001. According to MAS' analysis of the CPI in 2002, the sharp decline of prices of items with significant oil content in the first half of 2002, of housing, and a reduction in various administrative-related charges combined to offset increases in retail prices and wage-related items. MAS expects the CPI to rise in 2003 as the economy emerges from its cyclical weakness, together with the impact of the 1% rise to 4% for the Goods & Services Tax.

Note: More Singapore Dollar, balance of payments and financial sector and inflation information is available in the MAS Internet site: www.mas.gov.sg

KEY ECONOMIC INDICATORS

(US\$ Million)

	<u>CY 2001</u>	<u>CY2002</u>	<u>Q1 02</u>	<u>Q2 02</u>	<u>Q3 02</u>	<u>Q4 02</u>
GDP at current market prices	82,904	89,679	20,321	22,150	21,524	22,564
GDP growth rates*	-2	2.2	7	12.1	-6.6	0.4
GDP growth rates**	-2	2.2	-1.5	3.8	3.8	3
Per Capita GNI	20,223	21,255	n.a.	n.a.	n.a.	n.a.
Per Capita GDP	20,068	21,538	n.a.	n.a.	n.a.	n.a.
Total trade	235,352	248,899	53,487	62,450	62,605	64,643
Imports	114,836	119,961	25,993	30,422	30,059	30,718
Exports	120,516	128,938	27,494	32,028	32,546	33,925
Imports from US	18,710	16,997	3,940	4,493	4,012	4,179
Exports to US	18,538	18,966	4,049	4,766	4,934	4,795
Unemployment Rate (s.a.) (%, year-on-year)	3.3	4.4	4.5	4.3	4.6	4.2
CPI (Nov 97 - Oct 98 = 100)	102.1	101.7	101.5	101.8	101.8	101.8
Balance of Payments	-865	1,317	851	116	522	-251
Official Foreign Reserves	75,800	82,189	75,938	80,400	80,685	82,189
Exchange Rate - (S\$/US\$)						
Average for Period	1.7917	1.7906	1.8330	1.8040	1.7576	1.7679
End of Period	1.8510	1.7365	1.8425	1.7645	1.7770	1.7365

Footnote:

* - quarter-on-quarter

** - year-on-year

Source: <http://www.mti.gov.sg/>