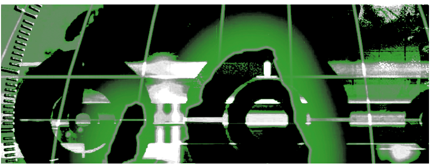


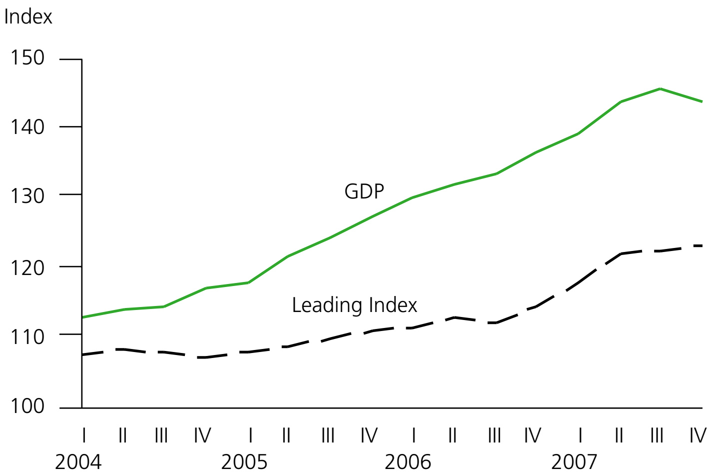
Chapter 8
ECONOMIC OUTLOOK

LEADING INDICATOR
[Table A8.1 and Chart 8.1]
CLI rose 0.7 per cent...

The composite leading index (CLI) rose in the last quarter of 2007. The index was up 0.7 per cent, following a 0.2 per cent increase a quarter earlier.

Of the nine components within the index, the money supply, US Purchasing Manager's Index, new companies formed, wholesale trade and domestic liquidity declined in the fourth quarter while other components (the stock of finished goods, stock price, non-oil sea cargo handled and non-oil retained imports) saw gains.

GROSS DOMESTIC PRODUCT AND COMPOSITE LEADING INDEX (2000=100)
[Chart 8.1]



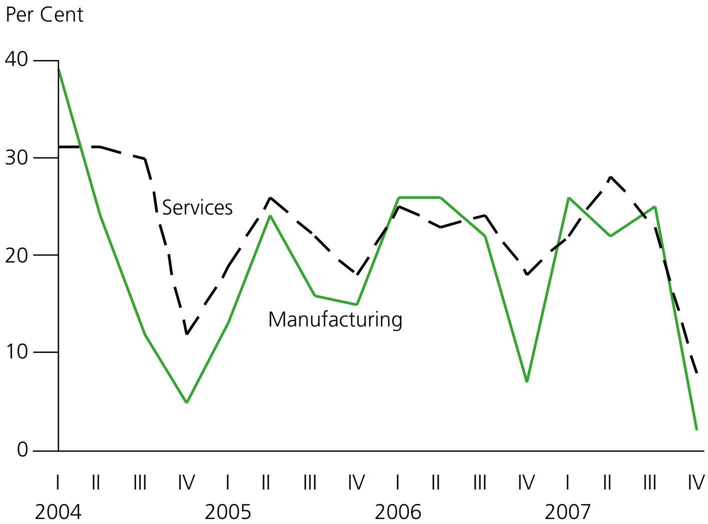
BUSINESS EXPECTATIONS
[Chart 8.2]
Cautious optimism amongst firms in the manufacturing and services sectors…

MANUFACTURING
[Table A8.2]

The manufacturing sector is cautious about business prospects in the first half of 2008. A net weighted balance of 2 per cent of manufacturers expects improved business conditions, lower than the 7 per cent registered in same period last year, and the 25 per cent recorded in the previous quarter.

The manufacturing sector is cautious about business prospects...

GENERAL BUSINESS SITUATION FOR THE NEXT SIX MONTHS (NET WEIGHTED BALANCE OF FIRMS)
[Chart 8.2]



A net weighted balance of 11 per cent of firms in the transport engineering cluster expects the business climate to improve, lower than the 33 per cent in the preceding quarter. The marine & offshore engineering segment foresees sustained demand for shipyard and conversion services, and a strong backlog of orders. The aerospace segment anticipates more repair and servicing jobs in the first quarter of the year as airlines send in their planes for maintenance following the peak travelling period in December.

Majority of firms in the chemicals cluster expect business conditions to remain unchanged for the first half of 2008, compared with the previous quarter. A net weighted balance of 6 per cent of firms in the cluster expects conditions to improve, compared with the 22 per cent recorded in the preceding quarter. The specialties and other chemicals segments expect output to rise in the first quarter of 2008, over the previous quarter, due to an anticipated increase in exports and orders. Refineries and petrochemical manufacturers expect throughput in the first quarter of the year to stay at levels similar to those in the fourth quarter of 2007.

Sentiments in the electronics cluster are muted, with a net weighted balance of 1 per cent of electronics manufacturers expecting business conditions in the first half of 2008 to improve, lower than the 33 per cent recorded in the preceding quarter. Seasonal demand for electronic goods is expected to soften after the year end festive peak, and whilst a general deceleration is not anticipated, firms envisage global dynamics to continue exerting competitive pressures on the cluster. Nevertheless, a net weighted balance of 5 per cent of electronics manufacturers expect production to increase in the first quarter of the year, over the previous quarter, in tandem with their forecasts for direct exports and orders.

Business conditions in the biomedical manufacturing cluster are expected to remain the same, with a net weighted balance of 0 per cent of firms in the cluster expecting the business situation to improve in the next six months, compared to 22 per cent a quarter ago. In the pharmaceuticals segment, output is anticipated to rise in the first quarter of the year, after a lull in the previous quarter. Accordingly, finished goods stocks are expected to rise in the same period, for export later in the year.

A net weighted balance of 8 per cent of firms in the precision engineering cluster expects the business environment to worsen in the first half of 2008, compared to the 11 per cent of firms anticipating better conditions in the preceding quarter. This is due to a seasonal slowdown, as well as rising production and raw material costs and fluctuations in the US dollar. Whilst the output of the cluster is expected to fall on a quarter-to-quarter basis, a net weighted balance of 5 per cent of firms in the machinery & systems segment expects production to increase on the back of an anticipated rise in export orders and shipments.

SERVICES

[Table A8.3]

A net weighted balance of 8 per cent of firms in the services sector expects better business conditions for the period from January to June 2008 compared with the preceding six months. This is smaller than the 18 per cent recorded at the same juncture in 2007 and the 23 per cent recorded for the period from October 2007 to March 2008 in the previous quarter's survey.

Sentiments are the strongest in the tourism market…

Sentiments in the tourism market remain strong. A net weighted balance of 35 per cent of hoteliers expects their businesses to improve, due to expected increases in room rates as well as higher occupancy rates. Similarly, a net weighted balance of 27 per cent of firms in the catering industry, especially food caterers, anticipates better business conditions in the coming months.

A net weighted balance of 19 per cent of firms in the business services industry is positive about the business outlook. These include firms engaged in the renting of transport equipment, renting of construction & industrial machinery and accounting, book-keeping and auditing services.

The outlook is also positive for the financial services industry, with a net weighted balance of 19 per cent of firms anticipating higher levels of business activity. These include insurance companies and firms providing credit card services.

A net weighted balance of 17 per cent of firms in the real estate industry forecasts a positive outlook for the period from January to June 2008 over July to December 2007.

In the information and communications industry, a net weighted balance of 9 per cent of firms is optimistic about business conditions ahead. In particular, network operators expect brisk business for the 6 month-period ending June 2008.

Among wholesalers, a net weighted balance of 4 per cent of firms expects better business prospects. Majority of wholesalers of petroleum and petroleum products, chemicals and chemical products, industrial machinery and equipment and computers and accessories expect the business outlook to remain the same in the first half of 2008 compared with the second half of 2007.

Within the transport and storage industry, a net weighted balance of 5 per cent of firms projects lower levels of business activity for the coming months ending June 2008. Shipping lines generally expect slower business in the first half of the year, while land transport firms are concerned over rising diesel costs.

As for retailers, a net weighted balance of 12 per cent predicts less favourable business conditions for the period from January to June 2008. Retailers of motor vehicles are especially concerned with the reduced Certificate of Entitlement quota.

CONCLUSION

Since the last review in November 2007, the outlook for external demand in 2008 has deteriorated and downside risks have increased. Compared to three months ago, there is broad consensus now that the US economy is entering a slowdown. The key uncertainty is over the length and severity of the slowdown, which will in turn influence how the rest of the world and key industries are affected.

In view of the increased downside risks, the Ministry of Trade and Industry has lowered the 2008 GDP forecast range from 4.5–6.5 per cent towards the economy's underlying potential rate of growth of 4.0–6.0 per cent. Current conditions suggest that the US will likely enter a mild recession in the first half but its strong fundamentals, coupled with fiscal and monetary stimulus, will help to support recovery in the second half. Growth in the region will moderate but remain healthy. Singapore's GDP growth will then be in the upper half of the forecast range. However, if the US slips into a more severe recession, the region will be more significantly affected. The effects on Singapore will also be stronger, particularly in the sentiment-sensitive and external-oriented sectors like electronics, wholesale trade, and financial services. In this environment, the Singapore economy will grow at a slower pace, nearer the lower end of the forecast range.

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