

CHAPTER 1

ECONOMIC PERFORMANCE

OVERVIEW

In the fourth quarter of 2008, the economy contracted by 4.2 per cent, after posting flat growth in the third quarter. All major sectors, apart from construction, information and communications, and business services, saw contractions.

For the whole of 2008, the economy expanded by 1.1 per cent, down from 7.8 per cent in 2007.

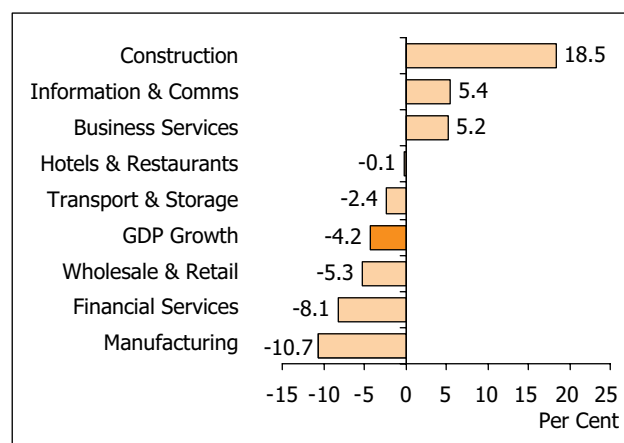
OVERALL PERFORMANCE

The economy contracted by 4.2 per cent in the fourth quarter, after posting flat growth in the third quarter ([Exhibit 1.1](#)). On a seasonally adjusted annualised quarter-on-quarter basis, real gross domestic product (GDP) declined by 16.4 per cent, following the 2.1 per cent contraction in the previous quarter.

The manufacturing sector declined by 11 per cent, similar to the preceding quarter. All clusters, with the exception of biomedical manufacturing, transport engineering and general manufacturing clusters, contracted. Growth in the construction sector slowed to 18 per cent, from 26 per cent in the third quarter, weighed down by a sharp slowdown in industrial building activity and the deferment of several private sector projects.

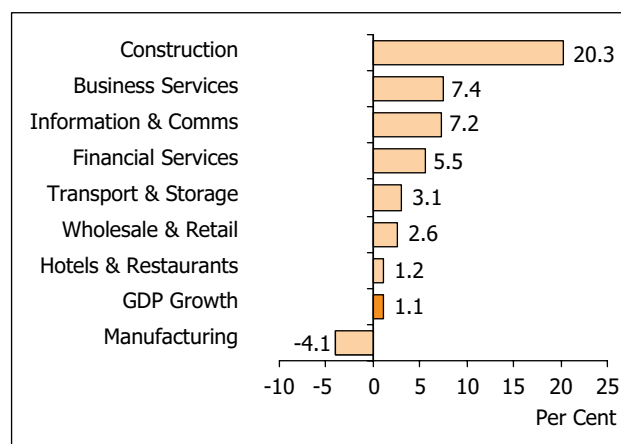
The services producing industries as a whole contracted by 1.3 per cent, down from the 5.5 per cent growth in the previous quarter. All major sectors, except information and communications and business services, contracted. Growth in the financial services sector fell by 8.1 per cent on the back of significant declines in trading activities in foreign exchange and stock brokerage, fund management and Asian Currency Units. The collapse in world trade also resulted in contractions in the wholesale and retail trade (-5.3 per cent) and the transport and storage (-2.4 per cent) sectors.

Exhibit 1.1: GDP and Sectoral Growth Rates in 4Q 2008



For the whole of 2008, the economy grew by 1.1 per cent, after a robust expansion of 7.8 per cent in 2007 (Exhibit 1.2). The construction sector led with growth of 20 per cent, following an 18 per cent growth in 2007. Growth in the services producing industries moderated to 4.7 per cent, down from 8.1 per cent in 2007, with all major sectors, except the information and communications sector, registering lower growth rates. The manufacturing sector contracted by 4.1 per cent, down from an expansion of 5.9 per cent in 2007.

Exhibit 1.2: GDP and Sectoral Growth Rates in 2008



Contribution to Growth

In the fourth quarter of 2008, the construction, business services and information and communications sectors contributed positively to growth (Exhibit 1.3). However, overall growth was dragged down by declines in the remaining sectors.

For the whole of 2008, all sectors, except manufacturing, contributed positively to growth (Exhibit 1.4). The business services, construction and financial services sectors were the largest contributors.

Exhibit 1.3: Percentage Contribution to Growth in Real GDP in 4Q 2008 (By Industry)

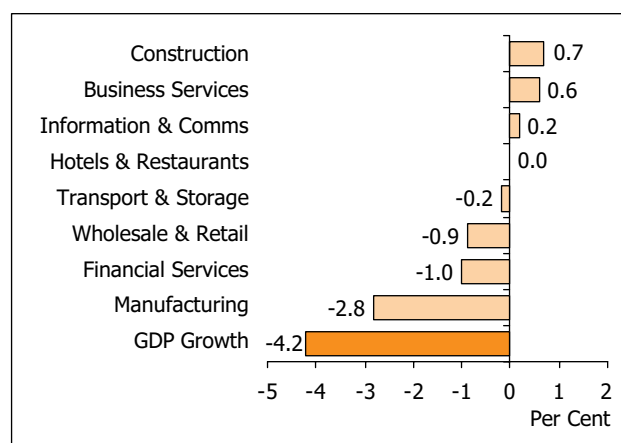
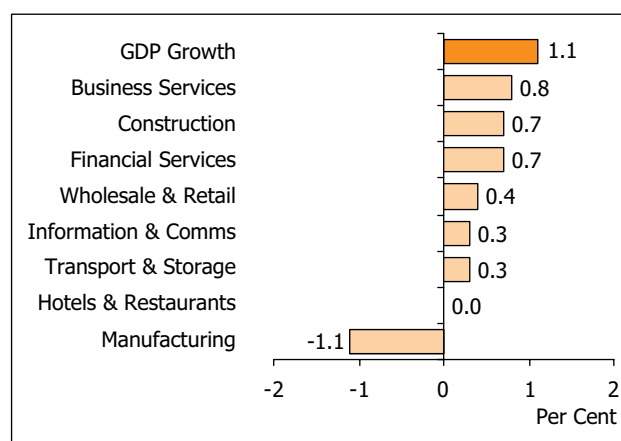


Exhibit 1.4: Percentage Contribution to Growth in Real GDP in 2008 (By Industry)



SOURCES OF GROWTH

Total demand declined by 5.6 per cent in the fourth quarter of 2008, reversing the 5.3 per cent increase in the preceding quarter (Exhibit 1.5). The decline in total demand was led by a sharp 9.6 per cent contraction in external demand. Private consumption expenditure and private sector investments fell by 1.2 per cent and 13 per cent respectively.

For the whole of 2008, total demand grew by 4.4 per cent, slower than the 8.3 per cent expansion in 2007. All demand components posted a moderation in growth in 2008 compared to the levels in 2007.

External Demand

External demand contracted by 9.6 per cent in the final quarter, compared to growth of 2.1 per cent in the preceding quarter (Exhibit 1.6). For the whole of 2008, external demand grew by 1.3 per cent, slower than the 8.7 per cent growth registered in 2007. The slowdown in external demand growth was mainly due to slower growth in exports of chemicals and chemical products and transportation services.

Domestic Demand

Total domestic demand growth slowed to 7.3 per cent, compared to an 18 per cent increase in the preceding quarter. Total domestic demand was dragged down by a decline in private consumption expenditure and private sector business investments.

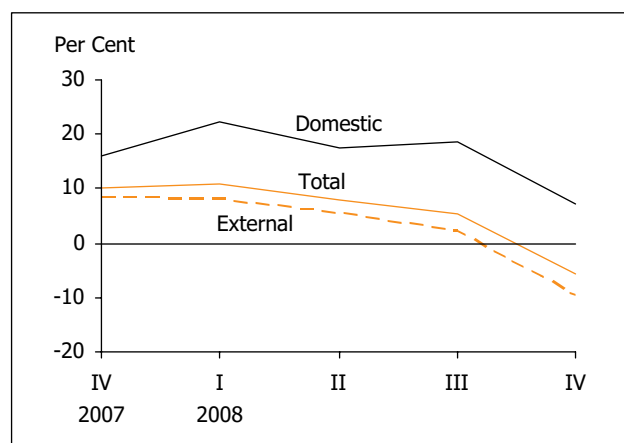
For the year as a whole, total domestic demand increased by 16 per cent, compared to 6.9 per cent in 2007. The growth in total domestic demand was mainly due to an increase in inventories.

Exhibit 1.5: Percentage Contribution to Total Demand Growth

Per Cent

	2007	2008			2008
		II	III	IV	
Total Demand	8.3	8.0	5.3	-5.6	4.4
External Demand	6.8	4.2	1.7	-7.3	1.0
Total Domestic Demand	1.5	3.8	3.6	1.7	3.4
Consumption Expenditure	0.7	0.7	0.6	-0.1	0.5
Private	0.6	0.5	0.3	-0.1	0.3
Public	0.1	0.2	0.3	0.1	0.2
Gross Fixed Capital Formation	1.3	1.9	1.1	-0.8	1.1
Changes in Inventories	-0.5	1.2	2.0	2.6	1.8

Exhibit 1.6: Changes in Total Demand at 2000 Market Prices



Consumption Expenditure

Total consumption expenditure declined marginally by 0.4 per cent in the fourth quarter, compared to a 4.0 per cent increase in the preceding quarter.

For the whole of 2008, total consumption expenditure grew by 3.6 per cent, compared to 4.6 per cent in 2007. Public consumption expenditure grew by 8.1 per cent, compared to 2.2 per cent in 2007. Private consumption expenditure slowed to 2.4 per cent, from 5.2 per cent in the preceding year.

Gross Fixed Capital Formation

Gross fixed capital formation (GFCF) declined by 9.9 per cent, compared to a 15 per cent growth in the preceding quarter. The fall in GFCF was mainly due to a smaller increase in non-residential buildings construction, and declines in transport equipment and machinery, equipment and software investments. For the whole of 2008, GFCF grew by 14 per cent, slower than the 19 per cent growth in the preceding year ([Exhibit 1.7](#)). GFCF growth in 2008 was supported by growth in transport equipment and construction and works ([Exhibit 1.8](#)).

NATIONAL SAVING

Singapore's nominal GDP amounted to \$257 billion in 2008, a 2.3 per cent increase over 2007. With factor income outflows exceeding inflows by \$7.0 billion, the Gross National Income (GNI) came up to \$250 billion, compared to \$234 billion in 2007.

Gross National Savings (GNS) rose by 5.8 per cent to \$118 billion. The national savings rate declined marginally to 47 per cent from 48 per cent in 2007. Of the \$118 billion, a net \$38 billion was lent or invested abroad while \$80 billion went to gross capital formation.

Exhibit 1.7: Annual Changes in Gross Fixed Capital Formation at 2000 Market Prices, 2008 Per Cent

	Total	Public	Private
TOTAL	13.7	13.3	13.7
Construction & Works	12.5	12.8	12.5
Transport Equipment	49.0	68.3	48.6
Machinery, Equipment & Software	0.8	6.2	0.6

Exhibit 1.8: Percentage Distribution of Gross Fixed Capital Formation at Current Market Prices, 2008 Per Cent

	Total	Public	Private
TOTAL	100.0	12.4	87.6
Construction & Works	50.5	11.0	39.5
Transport Equipment	20.1	0.3	19.8
Machinery, Equipment & Software	29.4	1.1	28.3

GNI AND THE EXTERNAL ECONOMY

Factor income from abroad reached \$80.8 billion, similar to the \$81.2 billion reached in 2007 (Exhibit 1.9). The contribution of our overseas operations to the total economy in 2008 declined marginally to 23.9 per cent, compared to 24.4 per cent in 2007. Based on the Survey of Singapore's Investment Abroad, the stock of direct investment increased from \$232 billion in 2006 to \$260 billion in 2007.

Singapore companies continued to venture overseas in 2008 to look for new markets for their products and services despite the uncertain global economic environment. China remained one of Singapore's key markets for many sectors such as electrical components and healthcare. Closer ties with Latin America, the Middle East and regional countries such as Vietnam were also fostered.

Exhibit 1.9: Singapore's Earnings from External Economy as Proportion of Total Income

