It has been a roller-coaster ride for the economy since the Asian crisis in 1997-98. Just when the economic assessment was looking more favourable after the recession in 2001 and a mild recovery in 2002, prospects were clouded by the Iraq conflict and expectations of higher oil prices. The SARS outbreak, however, proved to be a greater shock to the system. Having been declared “SARS-free” by the World Health Organisation on 30 May, the country can now focus on the business of growth.

Real GDP rose by 1.6% over the year to Q1 2003, a slower rate than the 3% recorded in Q4 2002. Output in the second quarter is forecast to decline, underscoring the severity of the SARS impact and sluggish external demand affecting manufacturing output. However, a recession is not predicted with the economy expected to pick up in the second half.

Manufacturing activity has slowed down. Output fell by 5% over the year to April 2003, dragged down by a 5.3% decline in electronics. On a 3-month moving average basis, output growth slowed to 0.2% over the same period in 2002 and is expected to remain weak in the current quarter before an upturn in the second half. Diversification of the manufacturing base should help to reduce wide swings in activity over the medium term. Electronics accounts for 32.3% of industry value-added (47.8% in 2000), with the biomedicals and chemicals clusters accounting for 31.4% collectively (15.8%).

New investment commitments in manufacturing slowed to S$1.1 bn in Q1 2003 (the foreign component constituted 66% of the total) in contrast to an average of S$2.3 bn worth of commitments per quarter over the past two years. The Economic Development Board had, at the start of the year, already projected a fall in investment commitments to S$8 bn (S$9 bn in 2002) in 2003. While this now appears to be optimistic, Singapore is likely to benefit over the long term from the way it managed the SARS crisis.

While the quick and decisive action by the government has contained the crisis, tourist flows are not expected to resume to normal levels anytime soon. Tourist arrivals fell by 14.8% and 67% over the year to March and April respectively and the number of visitors was down 75% year-on-year in the period 29 April to 5 May. For 2003, the Singapore Tourism Board projects a decline in inbound traffic of 30-40% against 2002. Travel receipts represent about 5% of GDP and tourist spending accounts for around 10-12% of retail sales.

A relief package worth S$230 mn was announced in April 2003 mainly targeting tourism-related industries. Another package cannot be ruled out if the downturn in economic activity in Q2 2003 proves to be steeper than expected.

According to the World Travel and Tourism Council, SARS will sap Singapore’s travel & tourism industry GDP of some US$1.1 bn vis-à-vis the original forecast for 2003 and cost as many as 17,000 jobs. The impact is much greater when taking into account its effect on the broader economy.
4. Business expectations

Business expectations in the six months to September 2003 remain weak, with a greater proportion of firms in the commerce sector and services sector as a whole, more pessimistic about business conditions than firms in the manufacturing sector.

Overall, a sharp downward revision to economic growth has been made with real GDP forecast to expand by 1½% in 2003 instead of 3½% projected at the start of this year. The official forecast is for growth to range between 0.5% and 2.5%.

The more upbeat picture has been postponed to 2004, barring unforeseen circumstances. Real GDP is forecast to grow by 6% in 2004, reflecting a pick-up in external demand and coming off a weak base. With goods exports measuring 144% of GDP, a lot is riding on a recovery in global demand for electronics (which accounts for about 60% of non-oil domestic exports) and faster growth in major export markets, particularly the US. Malaysia and the US are Singapore’s top two export markets, absorbing 32.1% of total exports collectively in 2002.

5. Unemployment rate

The SARS outbreak and cautious investor sentiment as a result of the Iraq conflict has exacerbated the unemployment problem. Unemployment edged up to 4.5% in March 2003 from 4.2% in December 2002 and a further deterioration is expected. Estimates indicate that the unemployment rate could reach 5½% this year. A slow recovery in tourism-related sectors and the lag effect on the labour market of weak economic conditions are likely to see the rate stay relatively high but some improvement is expected in 2004.

The large swings in economic activity over the past few years have highlighted structural issues in the labour market that continue to be difficult to address. Some of these include a less flexible workforce in terms of job aspirations and remuneration, and employers’ reluctance to employ older workers.

6. Trade position

The trade surplus widened in Q1 2003, underpinned by a 17% year-on-year increase in exports against a 9.8% rise in imports. Exports in April, however, slowed dramatically to just 3.9% compared with the same month in 2002.

The current account posted a surplus of S$33.5 bn in 2002 (21.5% of GDP), up 15.8% from 2001. The surplus for Q1 2003 was S$11.7 bn, up by more than 50% from the same quarter in 2002 and reflected a hefty rise in the merchandise trade surplus. This has helped to lift foreign reserves, which stood at S$148 bn as of March 2003, sufficient for about 8 months of imports.

Singapore has stepped up its bid to establish bilateral free trade agreements. The most recent free trade deal, signed in May 2003 and due to come into effect in January 2004, between Singapore and the US, marks a significant step towards expanding trade and investment ties and raising Singapore’s profile as a regional business hub.
The stockmarket was weak for the most part of 2002 in line with many international equity markets. As of 2 June, the Straits Times Index had risen by 3\% since the beginning of the year, the poorest performer among the East Asian stockmarkets, amidst concerns over domestic economic prospects.

Uncertainty over the impact of SARS on the economy prompted renewed weakness in the Singapore dollar in March and April. The Singapore dollar has since regained some ground but this is due largely to weakness in the US dollar. The outlook is for a mild appreciation of the Singapore dollar, supported by an improving economy.

Inflation has edged up this year reflecting the rise in oil prices, an increase in the Goods & Services Tax of 1 percentage point to 4\%, the weaker currency and a brief shortage of fresh vegetables in April due to the temporary closure of a major wholesale market. The CPI rose by 0.9\% over the year to April.

However, the inflation environment is still benign, with annual inflation averaging 0.7\% during January-April 2003 and is expected to stay under 1\% for 2003. Wage pressures are expected to be subdued with calls to freeze or cut wages amidst sluggish economic conditions. The outlook for 2004 is for a mild increase in consumer prices to around 1\% following an anticipated recovery in domestic demand.

The outlook for a pick-up in economic activity in the second half of 2003 and much stronger growth in 2004 is premised on an upturn in main trading partner economies and strengthening in global demand for electronics goods. Singapore’s high trade intensity makes it more vulnerable than its neighbours and the challenges of greater competitive pressures for trade and investment in the region and maintenance of regional security underscores the much tougher environment the economy finds itself operating in.
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