Monetary Authority of Singapore

Recent Economic Developments in Singapore

4 Dec 2013

	2012			2013		
	Q3	Q4	Full Year	Q1	Q2	Q3
Real Sector						
Real GDP Growth, y-o-y %	0.0	1.5	1.3	0.3	4.4	5.8
Real GDP Growth, q-o-q saar %	-4.6	3.3	-	2.3	17.4	1.3
Index of Industrial Production, y-o-y %	-1.4	-0.2	0.3	-6.3	0.9	5.3
Non-oil Domestic Exports, y-o-y %	-3.2	-4.2	0.5	-12.5	-5.2	-3.3
Labour Market and Prices						
Unemployment Rate, sa, % (Average)	1.9	1.8	2.0	1.9	2.1	1.8
CPI Inflation, y-o-y %	4.2	4.0	4.6	4.0	1.6	1.8
Wage Growth, y-o-y %	3.1	2.5	2.3	4.9	4.0	3.3

The Singapore economy registered a small expansion in Q3 2013

The domestic economy grew by 1.3% q-o-q saar (quarter-on-quarter seasonally-adjusted annualised rate) in Q3 2013, down from the 17.4% expansion in the preceding quarter. The slowdown was broad-based, in part reflecting renewed uncertainties in the external environment.

Growth slowed in the G3 economies but picked up slightly in Asia ex-Japan

G3 growth eased in Q3 2013, as the Eurozone and Japan turned in weaker trade performances and private consumption in the US eased. In contrast, economic activity in Asia ex-Japan registered slightly firmer growth, particularly among the larger economies, following some improvement in both domestic and external demand conditions.

The Singapore economy is expected to grow modestly in 2013 and 2014

Notwithstanding the deceleration in Q3, the Singapore economy is expected to grow by 3.5–4% for the whole of 2013. For next year, the economy will likely advance along a mild upward trajectory, with the GDP growth outturn projected at 2–4%. The expansion is expected to be mainly supported by external-facing activities, although domestic demand should stay resilient. This however does not rule out bouts of volatility, until the global recovery is more assured.

MAS Core Inflation is expected to rise

Continuing wage pressures due to tightness in the labour market as well as a slight pick-up in cost pass-through will lead to a rise in MAS Core Inflation. For the whole of 2013 and 2014, MAS Core Inflation will average 1.5–2% and 2–3% respectively. CPI-All Items inflation is expected to be 2.5–3% this year and 2–3% in 2014.

Note: Labour market statistics were obtained from the Ministry of Manpower, while trade and index of industrial production (IIP) data were provided by IE Singapore and the EDB respectively. All other data in this document were obtained from the Building and Construction Authority, Department of Statistics, Ministry of Trade and Industry, unless otherwise stated.

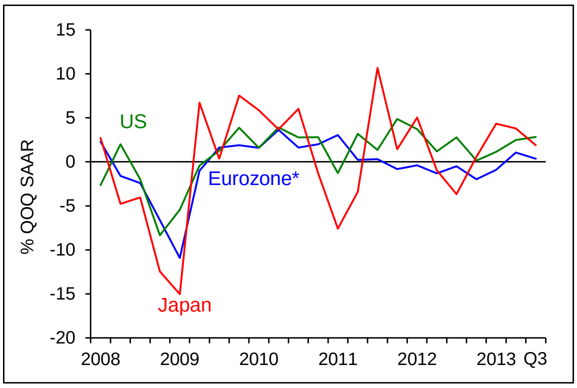
A. External Developments

Growth in the G3 economies eased in Q3

Sluggish external demand restrained growth in the Eurozone and Japan in Q3 2013, slowing the overall pace of expansion in the G3 to 1.7% q-o-q saar, from 2.2% in Q2. Although the US economy expanded at a faster clip, part of the growth came from a pick-up in inventories as private consumption growth moderated. Nonetheless, the pullback in G3 growth is expected to be temporary: the recovery should gain more traction in the first half of 2014, as the US labour market firms and as financial conditions in the Eurozone improve further.

US GDP growth improved to 2.8% q-o-q saar in Q3 2013 from 2.5% in the previous quarter. Much of the pickup came from an increase in inventories, while private residential investment growth stayed in the double-digits. In contrast, machinery and equipment investment fell for the first time since Q2 2012, by 3.7% q-o-q saar, as subdued final demand and fiscal uncertainty prompted firms to delay spending.

Growth in the Eurozone and Japan moderated in Q3.



Source: Datastream
* Based on 17 countries

US private consumption slowed in Q3 due to weak spending on services, particularly in the healthcare and housing sectors. Household expenditures grew by just 1.5% q-o-q saar in Q3—the slowest pace since Q2 2011—even though income growth was maintained, albeit at a relatively modest rate. Households had opted to save a little more, which lifted the savings rate by 0.2% point to 4.7%. Meanwhile, overall government spending reversed its falling trend, increasing by 0.2% q-o-q saar, largely due to higher state and local spending.

Incoming data suggests that the US economy will continue to expand at a moderate pace, notwithstanding the slight dent to economic sentiment caused by the partial government shutdown in October. Private demand appeared to have stayed resilient through this episode, while the ISM manufacturing PMI rose to 57.3 in November from 56.4 in October. Non-farm employment also surprised on the upside, with a total of 204,000 jobs added in October, compared with 163,000 in the previous month. Still, the unemployment rate edged up to 7.3%, reflecting a rise in the number of workers on temporary layoff due to the federal shutdown.

On balance, US GDP growth is expected to be 1.7% this year, before picking up to 2.6% in 2014.

The Eurozone economy recorded a second quarter of expansion in Q3 2013, after the region exited from recession in the previous quarter. Overall GDP growth came in at 0.4% q-o-q saar, a deceleration from the 1.1% rate in Q2, mainly on account of slower growth in Germany and output contraction in France. The pullback in Germany's growth came from the external sector, with imports outpacing exports. Meanwhile, aggregate output in France shrunk by 0.6% q-o-q saar, as both gross fixed capital formation and exports contracted. In Italy, Spain and Portugal, however, the reduced fiscal drag helped to stabilise domestic demand, while internal devaluations through lower wages and other business costs spurred exports. In the rest of the Eurozone, growth was broadly flat, and the dispersion of growth across countries has narrowed considerably.

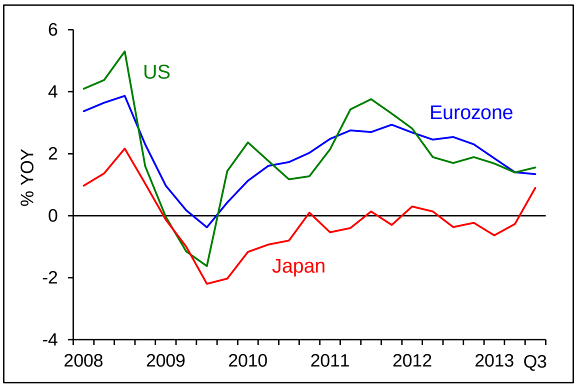
The risk of a renewed deterioration in economic conditions in the Eurozone has subsided, although the pace of recovery is likely to be modest. Survey indicators such as the Eurozone Economic Sentiment Indicator have improved over the last seven months, and are now consistent with a gradual return to trend growth. Within the Eurozone, economic prospects in Germany appear to be the most sanguine, with the IFO Business Climate Indicator firmly in expansionary territory. In addition, the fiscal withdrawal in several economies should fade further next year, while the ECB's decision to cut the main refinancing rate in November, along with its commitment to keep rates low for an extended period, would give healthy banks in the periphery easier access to interbank markets and support non-bank lending. Overall, the Eurozone region is envisaged to contract by 0.4% in 2013, before growing by 0.9% in 2014.

Japan's GDP growth moderated to 1.9% q-o-q saar in Q3 from 3.8% in the previous quarter, weighed by weak external demand. Household spending grew marginally by 0.4% q-o-q saar, as consumer sentiment softened from the buoyant levels in H1 which were triggered in part by a sharp rise in the stock market. In comparison, private residential investment posted an expansion of 11.3% on the back of front-loading of home purchases before the scheduled consumption tax hike in April 2014. The largest contribution to GDP growth came from public investment, which surged by 28.7% as fiscal spending kicked into high gear.

On an annual basis, Japan's GDP growth in 2013 is expected to be similar to the 1.9% recorded in 2012. The growth deceleration in Q3 was probably transitory, as domestic demand is expected to strengthen again ahead of the consumption tax hike in April. To cushion the adverse impact of the tax increase, the government is tipped to unveil a new fiscal package worth five trillion yen, which would include tax breaks for businesses and measures to support households. Nonetheless, consensus forecasts project overall GDP growth in Japan to slow slightly to 1.6% in 2014.

Headline inflation in the G3 ticked up in Q3 2013, chiefly due to price trends in Japan. In the US and Eurozone, the inflation rate was broadly unchanged, even as energy prices softened. In Japan, however, headline inflation turned positive for the first time since Q2 2012, as the weaker yen pushed up imported energy prices further. Moreover, inflation is gradually picking up across more CPI categories. Since Japan's inflation rate is expected to continue rising, overall CPI inflation in the G3 economies is projected to increase to 1.7% in 2014 from 1.2% in 2013.

Headline inflation in Japan turned positive.



Source: Datastream

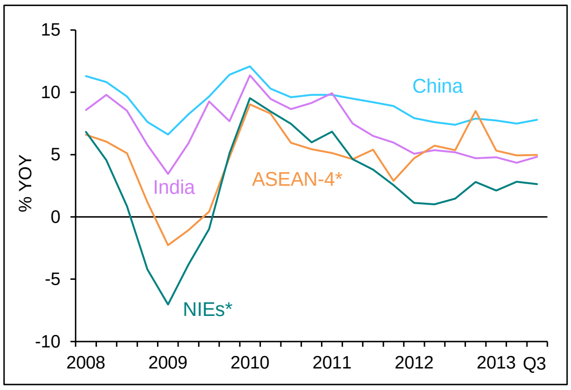
Economic activity in Asia ex-Japan rose slightly in Q3

Following the marked moderation in H1 2013, growth in Asia ex-Japan picked up slightly in Q3, supported by resilient domestic demand in China and stronger net exports in India. In ASEAN, however, domestic demand weakened somewhat amid tighter financial conditions brought about by a reversal in capital inflows and a rise in long-term interest rates. Looking ahead, growth prospects in Asia ex-Japan are expected to remain favourable. The incipient pick-up in exports in Q3 2013 should strengthen further in 2014 with improving final demand in the G3 economies.

China's GDP growth rose to 7.8% y-o-y in Q3 2013 from 7.5% in Q2, thus reversing two quarters of deceleration. Domestic manufacturing activity and infrastructure investments were the key growth drivers in Q3. New capital spending was stimulated by fiscal measures introduced in July, including accelerated railway construction and tax breaks for small businesses. At the same time, growth of industrial output accelerated to 10.1% y-o-y in Q3—the strongest pace in three quarters. Retail sales growth edged up to 12.9% y-o-y year-to-date, as consumer spending showed signs of recovery following the anti-extravagance campaign against Chinese officials early this year. Economic activity in China is likely to stay resilient into 2014, on account of continued fiscal support as well as an expected mild improvement in export demand.

High frequency data suggests that industrial production, fixed investment and retail sales in Q4 will maintain the firm growth seen in Q3. Consequently, China's GDP growth is projected to come in at 7.6% in 2013, before easing slightly to 7.5% next year. Beyond the near term, a comprehensive package of structural reforms approved at the Chinese Communist Party's Third Plenum in November will set the economy on a more sustainable growth path.

Growth in Asia ex-Japan picked up in Q3.



Source: CEIC

* Regional groupings are weighted by Singapore's non-oil domestic exports (average 2009-2011)

Note: NIEs refer to Hong Kong, Korea and Taiwan while ASEAN-4 refers to Indonesia, Malaysia, the Philippines and Thailand

India's Q3 GDP growth came in at 4.8% y-o-y, up from the 4.4% recorded in Q2. Net exports were the key driver, contributing 4% points to growth. Investment spending also provided some support, expanding by 2.6% y-o-y in Q3 after contracting by 1.2% in Q2 2013. High frequency indicators suggest that India's growth in the near term is likely to be modest. The PMI business services sub-index registered 47.1 in October, marking the fourth month it has ended in the contraction zone. Further, even though industrial production grew by 2% y-o-y in September, it remained weak and came in below expectations. Overall, the Indian economy is projected to grow by 4.6% this fiscal year, slower than the 5.0% registered in 2012.

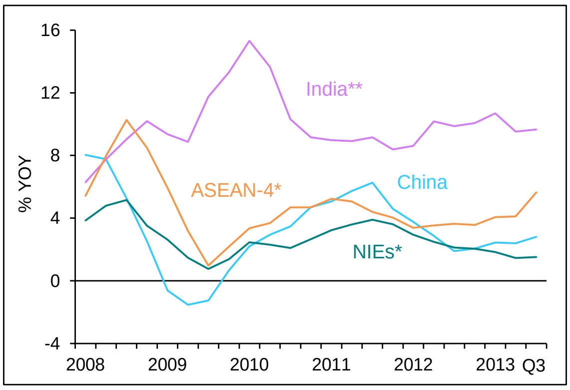
Growth in the Asian NIEs fell to 2.3% q-o-q saar in Q3 2013 from 3.3% in Q2, as the fiscal stimulus which propped up economic activity in the preceding quarter waned. Taiwan's economy was also weighed down by a decline in exports to China, in part due to rising market competition from the latter. In Hong Kong, economic activity slackened somewhat, with private consumer spending falling alongside a deceleration in tourist arrivals from China. However, Korea's economy maintained a steady, albeit slightly slower, pace of expansion in Q3 2013, as robust consumer and business spending compensated for stagnant government consumption. The trade-oriented NIEs are on the whole well-positioned to benefit from an anticipated upswing in the G3 economies. As a result, GDP growth is expected to accelerate to 3.5% in 2014 from 2.7% this year.

In the ASEAN region, most of the larger economies registered weaker growth due to a continued slowdown in domestic demand, even though the drag from net exports has dissipated. Among the ASEAN economies, only Malaysia saw a pickup in GDP growth to 5.0% y-o-y in Q3, compared to 4.4% in the previous quarter. In contrast, the pace of expansion in the Philippines eased to 7% in Q3, from 7.6% in Q2. Election-related government spending tapered off, even as private investment and consumption remained highly resilient on the back of firm business and consumer confidence. Meanwhile, Thailand's growth dipped to 2.7% y-o-y in Q3, from 2.9% in the previous quarter, as high levels of household debt and delays in public infrastructure projects kept domestic demand subdued. The drag from domestic spending was also evident in Indonesia, where GDP growth inched lower to 5.6% y-o-y, from 5.8% in the previous quarter, reflecting a slowdown in private investment amid tighter credit conditions.

ASEAN GDP growth is expected to slip to 4.8% in 2013, before picking up to 5.3% in 2014. Exports are expected to improve next year as global conditions pick up, while an accelerated rollout of infrastructure projects will also bolster growth. The current investment upswing in the Philippines could be extended by the government's drive to accelerate Public-Private Partnership (PPP) projects, while Malaysia has a healthy pipeline of infrastructure and investment projects under its Economic Transformation Programme (ETP). Further, the impact of typhoon Haiyan on growth in the Philippines is expected to be temporary and localised, since major manufacturing and business hubs were not badly damaged by the typhoon. In addition, rebuilding efforts in the affected regions would support economic activity in 2014.

Inflation in Asia ex-Japan trended up in Q3 2013. While headline inflation increased only slightly in China and the NIEs, the rise was more significant in the ASEAN region. ASEAN inflation rose to 5.6% in Q3 2013, from 4.1% in the previous quarter, largely on account of the cutback in fuel subsidy in Indonesia in late June. Going forward, cost-push pressures from ongoing subsidy rationalisation in Malaysia and the damage inflicted on agricultural output in the Philippines by the typhoon could keep inflation in the ASEAN region elevated in the next few quarters. On the whole, however, inflation in Asia ex-Japan is still expected to be broadly stable, at 4.1% in 2014 compared to 4.0% in 2013.

Inflation ticked up in Asia ex-Japan.



Source: CEIC
* Regional groupings are weighted by 2011 nominal GDP
** India's series uses CPI (Industrial Workers) prior to 2012

Table 1: Consensus Forecasts of GDP Growth

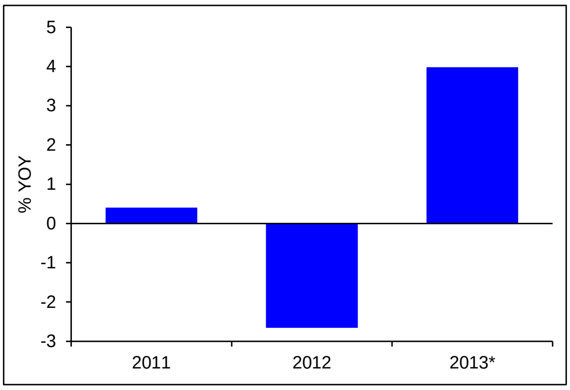
	2011	2012	Forecast 2013	Forecast 2014
	Percent			
Industrial				
US	1.8	2.8	1.7	2.6
Japan	-0.6	1.9	1.9	1.6
Eurozone	1.6	-0.6	-0.4	0.9
UK	1.1	0.1	1.4	2.3
NIE				
Hong Kong	4.9	1.5	3.0	3.6
Korea	3.7	2.0	2.7	3.5
Taiwan	4.2	1.5	2.1	3.4
ASEAN				
Indonesia	6.5	6.2	5.6	5.6
Malaysia	5.1	5.6	4.4	5.1
Thailand	0.1	6.5	3.4	4.4
Philippines	3.6	6.8	7.0	6.3
China	9.3	7.7	7.6	7.5
India*	6.2	5.0	4.6	5.6

Source: CEIC and Consensus Economics, Nov 2013

*Refers to fiscal year ending March

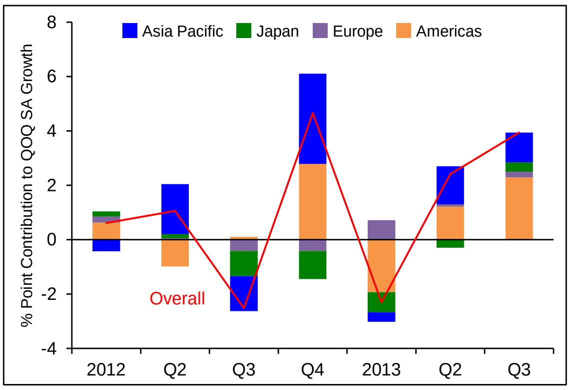
Global IT growth picked up in Q3 this year

Global chip sales performance in 2013 has improved from the preceding two years.



Source: Semiconductor Industry Association
* Data is based on readings from Jan–Sept 2013.

Both the developed and emerging market economies contributed to chip sales growth in Q3.



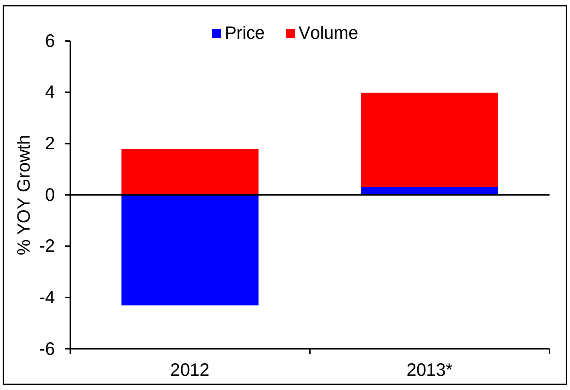
Source: Semiconductor Industry Association and EPG, MAS estimates

Global chip sales grew by 3.9% q-o-q sa in Q3, following a 2.4% increase in the preceding quarter. Year-to-date, semiconductor revenues have risen by 4.0% y-o-y, an improvement from the lacklustre outturns over the last two years. The turnaround stemmed from more favourable demand and supply factors.

On the demand side, a decomposition of global chip sales growth reveals that for the first time since late 2010, both the advanced and emerging market blocs contributed positively to growth in Q3. While the US and Asia ex-Japan remained as key growth drivers, sales in Japan picked up following four consecutive quarters of contraction. In the US, retail sales volumes of electronics products rose by 3.4% q-o-q sa in Q3, following a 2.4% increase in Q2. On the corporate front, private investment spending on IT equipment held up in Q3, alongside an improvement in business sentiment. Meanwhile, in China, both consumer and corporate spending on electronics saw modest sequential growth during the same quarter.

Supply-side developments similarly provided more conducive conditions for growth. According to Gartner, the global overhang in semiconductor stockpiles dissipated further in Q3. Notably, US semiconductor stockpiles fell for a fourth consecutive quarter and are now 13% below their peak in Q3 last year. This correction in inventories was likely due to an increase in orders in the run-up to the year-end holiday season.

The growth in global chip sales thus far in 2013 was on account of positive price and volume effects.



Source: WSTS and EPG, MAS estimates
* Data is based on readings from Jan–Sept 2013.

The improvement in demand and supply conditions has in turn provided support to global semiconductor prices. Significantly, the drag to global chip sales from falling prices has dissipated over the first three quarters of this year, in part on account of healthy price gains in the DRAM segment. This provided a boost to the operating margins of major memory players. Aside from the recovery in prices, semiconductor sales volume also chalked up stronger growth this year. The contribution from volume effects in Q1–Q3 2013 was more than twice that for the whole of last year.

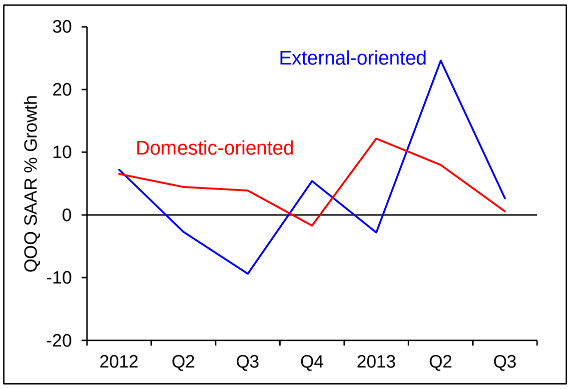
The turnaround in the global IT industry is expected to gain traction through the rest of 2013 and into next year. Notably, retail spending on electronics should gather pace as the year-end holiday season draws near. Corporate IT demand should also see some expansion ahead, as evidenced for instance by a continued pick-up in the Empire State Manufacturing Future Technology Spending index, a forward-looking indicator for IT expenditure among firms in the US. An uptick in the business climate index among IT firms in China during Q3 likewise bodes well for IT sales. In addition, Microsoft's withdrawal of support for Windows XP early next year could incentivise firms to adopt updated versions of the Windows platform, thereby facilitating the corporate refresh cycle. All in, worldwide chip sales are expected to register moderate growth in 2013 and 2014, averaging around 5%.

B. Domestic Developments

The domestic economy recorded modest growth in Q3 2013

The pace of activity in the Singapore economy slowed in Q3 this year, with GDP growing by 1.3% q-o-q saar, compared to the 17.4% expansion in the previous quarter. This reflected both a cyclical pullback in growth momentum following the strong Q2 performance, as well as fresh concerns over the durability of the global recovery. The GDP outturns were muted across both the external- and domestic-oriented sectors, with financial services and construction recording sequential contractions during the quarter.

The Singapore economy slowed in Q3.



Source: EPG, MAS estimates

Manufacturing output was largely flat in Q3, following a 33.5% q-o-q saar surge in the previous quarter. In particular, the performance of the chemicals cluster was buoyed by a double-digit increase in petrochemicals output, which likely reflected a ramp-up of activity in Exxon Mobil's new steam cracker plant. Nonetheless, these gains were offset by a steep contraction in pharmaceuticals production of 19.4% q-o-q sa, as well as a modest dip in electronics output.

As overall manufacturing activity plateaued, the trade-related services industries concomitantly saw some moderation in Q3 2013. Following strong gains of 13.3% q-o-q sa in the previous quarter, growth of re-exports—a proxy of wholesale trade activity—slowed in Q3. The transport & storage sector likewise ceded momentum, reflecting a more tepid expansion in sea cargo volumes.

The financial services sector contracted by 10.5% q-o-q saar in Q3 2013, a sharp reversal from the robust growth seen in the previous quarter. The sentiment-sensitive cluster saw some retrenchment in activity amid expectations of the US Federal Reserve's taper of bond purchases in September and fears of military intervention in Syria. The local bourse was on a downward trajectory, with the STI coming in at 3167.9 points at end-September, some 8.3% lower than its intra-year peak in May. The forex market, meanwhile, saw a 13.6% q-o-q decline in daily turnover volumes in Q3, after two consecutive quarters of expansion. The Fed's subsequent decision to delay the start of QE tapering, however, provided some respite to financial markets towards the end of the quarter. On the financial intermediation front, growth in non-bank loans to the domestic corporate sector abated slightly in Q3, as credit demand from the manufacturing sector waned in line with its sluggish performance.

Growth momentum for the domestic-oriented sectors also softened on a sequential basis, with cyclically-sensitive consumer activities bearing the brunt of the slowdown. Aside from vehicle sales which declined sharply owing to tighter financing rules, non-vehicle domestic retail expenditure fell by 0.8% q-o-q sa in Q3 as consumers cut back on discretionary purchases including that of electronic products, watches and jewellery. Food and beverage receipts also decreased, mainly on account of lacklustre takings of restaurateurs. In comparison, the corporate-facing clusters fared better. For instance, IT services and professional business services—particularly legal, business as well as management consultancy services—remained in expansionary mode.

Meanwhile, the construction sector posted its first contraction this year, with its output declining by 2.5% q-o-q saar in Q3 after a strong 20.3% outturn in the previous quarter. The retraction was from a high base in Q2, during which major projects—such as the Jem shopping mall and Oxley Biz Hub 2—were completed. Notwithstanding this sequential pullback, the level of underlying activity remained firm, as building activities related to the Sports Hub complex and commercial developments such as South Beach and Westgate continued apace. Civil engineering works linked to the Marina Coastal Expressway and Downtown Line also held steady during this period.

The domestic economy should register a modest pace of expansion in 2013 and 2014

Global growth remains in low gear but is projected to pick up modestly over the rest of this year and in 2014. Barring unexpected shocks, the recovery in the advanced countries should continue to gain traction. Meanwhile, activity in Asia ex-Japan has stabilised somewhat, with the China and India economies picking up slightly in Q3 2013. The prospects for the region could improve into next year, particularly in view of the expected lift to its export performance from a gradual rise in G3 final demand.

The external environment is therefore broadly supportive of a moderate upturn in the Singapore economy. For instance, the domestic electronics industry—which is considerably tied to demand in the advanced countries—should stand to gain as the turnaround in the G3 gathers momentum. Activities with sizable exposure to emerging Asia could likewise see some upside to their growth performance next year should activity in the region strengthen. Meanwhile, the domestic-oriented industries would be supported by supply-side driven expansions especially in the construction, business services and community, social and personal services sectors.

Nonetheless, downside risks remain, both externally and domestically. Several legacies from the Global Financial Crisis remain unresolved even as new pressure points have emerged. For example, the global recovery could be jettisoned by a disorderly market response to the unwinding of unconventional monetary policies in the advanced economies. On the domestic front, supply-side constraints could translate into higher business costs and limit the extent of the cyclical upturn.

Against this backdrop, the Singapore economy should experience a modest pace of expansion over the next few quarters. GDP growth is projected at 3.5–4% for the whole of 2013, and 2–4% in 2014. This assessment nonetheless does not preclude some degree of fluctuations around the mild uptrend, especially in view of the remaining risks in the external environment.

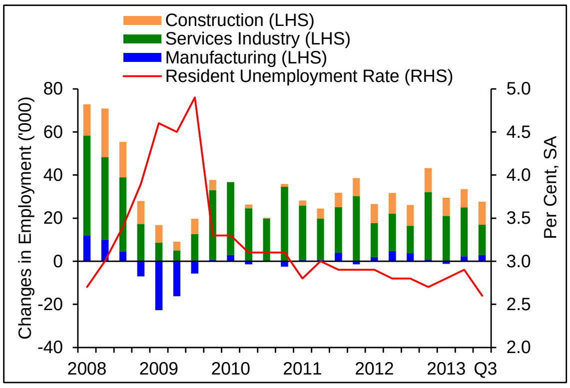
C. Labour Market and Consumer Prices

Job creation slowed in Q3 2013

Preliminary figures show that overall employment gains moderated to 28,100 in Q3 2013, from 33,700 in Q2. The services sector saw a slowdown in job creation, adding 14,000 to headcount compared with the 22,700 increase a quarter earlier. This could have in part reflected the foreign worker tightening measures that came into effect in the services sector in July this year. The slower job growth in services more than offset the pickup in employment gains in construction, from 8,500 in Q2 to 10,600 in Q3, due to a strong pipeline of residential and commercial projects. Job gains in the manufacturing sector also rose from 2,300 in Q2 to 3,000 in Q3.

With firms turning to local workers following the tightening of foreign worker policy, the seasonally-adjusted resident unemployment rate fell to 2.6% in Q3 from 2.9% in Q2. Correspondingly, the overall unemployment rate also eased to 1.8% from 2.1% over the same period.

The resident unemployment rate fell in Q3.



Resident wage growth eased to 3.3% y-o-y in Q3, from 4.0% in Q2, mainly because of a more moderate pay rise in the community, social and personal services sector. Wage increases remained firm in most other sectors, notably manufacturing, wholesale & retail trade and business services.

Both CPI-All Items inflation and MAS Core Inflation were higher in Q3

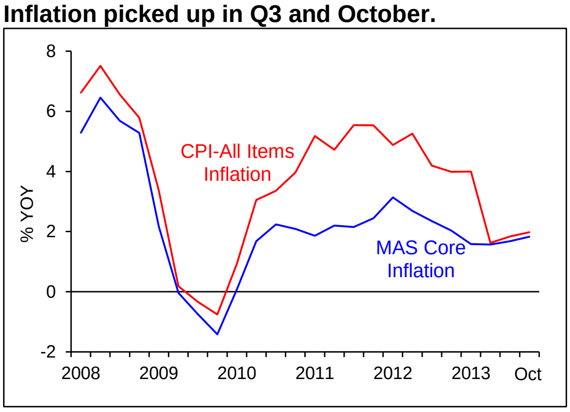
CPI-All Items inflation, measured on a year-ago basis, rose to 1.8% in Q3 2013 from 1.6% in Q2, reflecting higher contributions from all major categories, except accommodation cost. MAS Core Inflation, which excludes the cost of accommodation and private road transport, also inched up from 1.6% in Q2 to 1.7% in Q3.

Services inflation edged up to 2.6% in Q3 from 2.4% in the previous quarter amid continuing upward pressures on business costs. Food prices were 2.3% higher, compared with the 2.0% increase in Q2, driven by pricier non-cooked food and prepared meals. At the same time, prices of oil-related items fell by a smaller magnitude of −0.9% from −3.6% in Q2, as the rise in petrol pump prices partially offset the decline in electricity tariffs.[1]

Meanwhile, COE premiums for cars resumed their upward trend from June to October this year, following their decline immediately after the introduction of the motor vehicle-related policy measures in February. Accommodation cost inflation, however, continued to slow in Q3, reflecting softer conditions in the housing rental market.

In October, CPI-All Items inflation edged up to 2.0% mainly due to the climb in COE premiums. MAS Core Inflation was also higher at 1.8% as a result of steeper food price increases and a further moderation in the decline of prices of oil-related items.

Both CPI-All Items inflation and MAS Core Inflation picked up in Q3 and October.



Overall imported inflation is expected to remain subdued, given spare production capacity in the advanced economies and ample supply buffers in the commodity markets. However, the pass-through of domestic costs to prices of consumer services could intensify as a result of the rising cost pressures that firms are facing from business rentals and labour costs. Taking these factors into account, MAS Core Inflation is expected to rise over the next few quarters, and average 1.5–2% in 2013 and 2–3% in 2014.

[1] The electricity tariff rate is computed quarterly based on the average fuel oil price in the previous three months. In comparison, petrol pump prices adjust to global oil price movements more frequently.

Imputed rentals on owner-occupied accommodation (OOA) will increase at a slower pace, given the greater supply of housing units coming on stream. Car COE premiums could continue to be volatile in the short term as the market adjusts to the pending re-categorisation of COEs.[2] CPI-All Items inflation is projected to come in at 2.5–3% in 2013 and 2–3% in 2014.

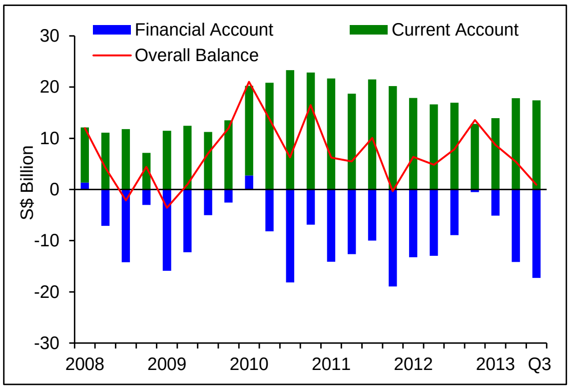
[2] In early September, the LTA announced that in addition to the current criterion of engine capacity of 1,600 cc or less, the engine power of Category A cars also cannot exceed 97 kilowatts. This will come into effect from the first COE bidding exercise in February 2014.

D. Balance of Payments

The overall balance of payments recorded a smaller surplus

The overall balance of payments moderated for the third consecutive quarter this year, recording a surplus of $0.9 billion in Q3, compared to $5.4 billion in the preceding quarter. This was in part due to a slightly narrower current account surplus, as imports of goods picked up by more than exports. At the same time, the deficit in the financial account widened, reflecting a reduction in net "other investment" inflows to the non-bank private sector, as well as larger net outflows from the domestic banking sector.

The current account surplus narrowed in Q3, while net capital outflows increased.



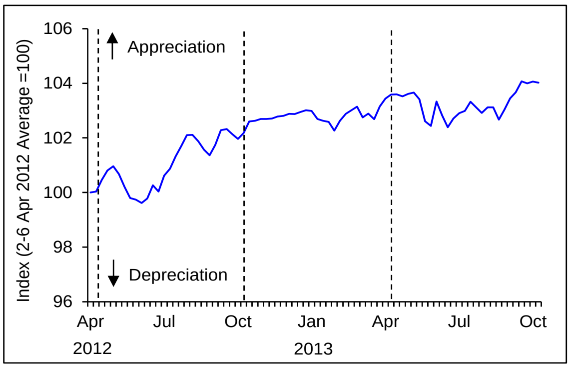
E. Macroeconomic Policies

In October 2013, MAS maintained the prevailing monetary policy stance

i) Monetary Policy

Since the last policy review in April, short-term uncertainties in the external environment have emerged, such as the recurring fiscal impasse in the US and potentially disorderly market adjustments to the Fed's tapering of asset purchases. Nevertheless, the recovery in the global economy is expected to continue. Against this backdrop, the Singapore economy is projected to remain on a broad expansion trend in the quarters ahead, although growth rates could be volatile.

MAS maintained the monetary policy stance in October 2013.



---- indicates release of Monetary Policy Statement

The labour market should remain at full employment. Core inflationary pressures could thus pick up, as the pace in which labour and other business costs are passed through to consumer prices is expected to intensify with the expansion in economic activity.

MAS thus kept the S$NEER policy band on a modest and gradual appreciation path in October 2013, with no change to its slope, level or width. This policy stance is assessed to be appropriate, taking into account the balance of risks between external demand uncertainties and rising domestic inflationary pressures.

The FY2013 Budget focused on supporting the economy's restructuring process and achieving more equitable growth over the longer term

ii) Fiscal Policy

The overall budget for FY2012 is estimated to have recorded a surplus position of $3.9 billion (1.1% of GDP), which was higher than the $1.3 billion projected in last year's Budget. This was largely due to higher revenue from stamp duties and vehicle quota premiums, as the housing market remained firm while COE prices reached record highs during the year.

Budget 2013 builds on the restructuring efforts put in place since Budget 2010, with additional initiatives for businesses to upgrade, create better jobs, and raise wages under the "Quality Growth Programme". Foreign worker policies were tightened further via higher foreign worker levies, lower dependency ratio ceilings, and tighter eligibility requirements for S Pass, with the least productive sectors that relied most heavily on low-skilled foreign workers being hit the hardest. To ease the burden of restructuring for businesses, a three-year Transition Support Package was put in place. A key feature of this package is the Wage Credit Scheme, whereby firms are encouraged to share the benefits of productivity gains with workers in the form of wage increases co-funded by the government. Firms were also given rebates on corporate income taxes and road taxes on commercial vehicles. More generally, the Productivity and Innovation Credit scheme was expanded to include more small and medium enterprises, and programmes to help match the needs of firms and trade associations with productivity solution providers were introduced.

In order to promote more inclusive growth, the 2013 Budget contained measures to enhance social mobility and reduce income inequality. It provided for comprehensive reforms to the pre-school sector, such that interventions to level the playing field for all school-going children can be made as early as possible. The Workfare Income Supplement Scheme was enhanced, with wider coverage and larger payouts, to offer targeted assistance to the elderly and low-income workers. The property tax structure was also made more progressive, while a tiered Additional Registration Fee (ARF) system was put in place such that purchasers of more expensive cars pay higher rates. Finally, the Budget had measures to ease the cost of living for households, with one-off special increases in GST Voucher payments, S&CC rebates, Medisave top-ups, and personal income tax rebates.

For FY2013, the government has projected a small basic surplus of $0.3 billion (0.1% of GDP), and an overall budget surplus (which include top-ups to trust and endowment funds and net investment returns contribution) of $2.4 billion (0.7% of GDP).

Summary of Fiscal Position

	FY 2011		FY 2012 Revised		FY 2013 Budgeted	
	$billion	% of GDP	$billion	% of GDP	$billion	% of GDP
Operating Revenue	51.1	15.2	55.2	15.9	55.0	14.9
Total Expenditure	46.6	13.8	50.1	14.4	53.4	14.5
Operating Expenditure	35.2	10.4	37.2	10.7	40.6	11.0
Development Expenditure	11.4	3.4	12.9	3.7	12.8	3.5
Primary Surplus/Deficit (-)	**4.5**	**1.3**	**5.1**	**1.5**	**1.6**	**0.4**
Less: Special Transfers Excluding Top-ups to Endowment and Trust Funds	2.9	0.9	1.5	0.4	1.3	0.4
Basic Surplus/Deficit (-)	**1.6**	**0.5**	**3.6**	**1.0**	**0.3**	**0.1**
Less: Top-ups to Endowment and Trust Funds	5.5	1.6	7.4	2.1	5.6	1.5
Add: NIR Contribution	7.9	2.4	7.7	2.2	7.7	2.1
Budget Surplus/Deficit (-)	**4.0**	**1.2**	**3.9**	**1.1**	**2.4**	**0.7**

Note: Figures may not tally due to rounding
Source: Ministry of Finance

Selected Indicators

GENERAL INDICATORS, 2012			
Land Area (Sq km), 2013	716.1	Literacy Rate* (%)	96.4
Total Population ('000), 2013	5,399.2	Real Per Capita GDP (US$)	45,973
Labour Force ('000)	3,361.8	Gross National Savings (% of GNI)	46.1
Resident Labour Force Participation Rate (%)	66.6		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2012		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2012	
Manufacturing	20.7	Private Consumption	39.2
Finance & Insurance	11.9	Public Consumption	9.7
Business Services	14.6	Private Gross Fixed Capital Formation	20.0
Construction	4.4	Public Gross Fixed Capital Formation	4.1
Transportation & Storage	7.7	Increase in Stocks	2.9
Information & Communications	3.8	Net Exports of Goods & Services	22.2
Wholesale & Retail Trade	17.0	Statistical Discrepancy	1.9
Accommodation & Food Services	2.5		

MAJOR EXPORT DESTINATIONS (% SHARE), 2012		MAJOR ORIGINS OF IMPORTS (% SHARE), 2012	
Total Exports (S$ Billion)	510.3	Total Imports (S$ Billion)	474.6
Malaysia	12.3	Malaysia	10.6
Hong Kong	11.0	China	10.3
China	10.8	US	10.2
Indonesia	10.6	South Korea	6.7
US	5.4	Taiwan	6.7
ASEAN	31.8	ASEAN	21.0
NIEs	18.6	NIEs	14.2
EU	8.9	EU	12.5

Source: IE Singapore

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2012		MAJOR IMPORTS BY COMMODITY (% SHARE), 2012	
Domestic Exports (S$ Billion)	285.1	Total Imports (S$ Billion)	474.6
Mineral Fuels	37.5	Mineral Fuels	32.6
Electronics	21.0	Electronics	24.8
Chemicals	17.8	Machinery & Transport Equipment (ex. Electronics)	16.6
Machinery & Transport Equipment (ex. Electronics)	9.7	Manufactured Articles	7.2
Manufactured Articles	8.2	Chemicals	6.8
Manufactured Goods	2.1	Manufactured Goods	6.2

Source: IE Singapore

OVERALL ECONOMY	2011	2012	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Sep-13	Oct-13
GDP at current prices (S$ bil)	334.1	345.6	86.2	85.2	88.3	87.3	90.8	90.6	na	na
GDP (US$ bil)	265.6	276.5	68.2	68.3	72.2	70.5	72.7	71.4	na	na
Real GDP Growth (YOY % change)	5.2	1.3	2.3	0.0	1.5	0.3	4.4	5.8	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	0.1	-4.6	3.3	2.3	17.4	1.3	na	na
By Sector (YOY % change):										
Manufacturing [1/]	7.8	0.1	4.1	-1.4	-1.1	-6.0	1.3	5.5	9.2	8.0
Electronics [2/]	-12.8	-11.3	-8.4	-8.3	-10.6	-11.0	0.7	8.3	17.7	22.8
Non-electronics [2/]	22.3	6.2	10.5	1.8	4.4	-4.3	1.0	4.1	5.7	2.0
Finance & Insurance	8.9	0.5	0.7	-2.9	3.3	10.6	13.7	10.5	na	na
Business Services	3.0	3.9	4.8	4.0	3.3	3.4	3.9	3.9	na	na
Construction	6.3	8.2	11.4	6.7	5.8	5.4	6.9	5.3	na	na
Transportation & Storage	3.8	2.7	1.7	1.7	3.2	-0.8	2.7	5.4	na	na
Information & Communications	3.6	2.6	1.8	1.1	3.8	3.0	4.6	5.0	na	na
Wholesale & Retail Trade	1.6	-0.7	-0.7	-0.2	-1.5	0.2	5.5	7.9	na	na
Accommodation & Food Services	8.2	2.8	2.7	2.1	2.2	2.5	3.3	3.0	na	na
By Expenditure Component (YOY % change):										
Consumption	3.7	0.9	1.1	-0.1	0.7	4.6	4.0	4.0	na	na
Private	4.6	2.2	1.6	0.5	2.0	1.3	2.5	3.3	na	na
Public	0.5	-3.6	-2.0	-2.4	-4.6	13.8	12.6	6.8	na	na
Gross Fixed Capital Formation	6.3	6.6	3.7	-3.8	5.8	-5.8	-2.6	4.7	na	na
Private	5.2	6.9	3.0	-5.5	5.2	-7.4	-3.0	6.4	na	na
Public	12.3	5.3	7.8	5.9	9.2	2.1	-0.9	-4.0	na	na
External Demand	3.5	0.3	2.7	-2.1	-1.9	-4.0	3.1	6.2	na	na
TRADE										
Total Exports, fob (YOY % change)	7.5	-0.9	1.4	-4.2	-5.1	-8.7	-0.2	6.1	9.2	11.2
Non-Oil Domestic Exports	2.2	0.5	3.7	-3.2	-4.2	-12.5	-5.2	-3.3	-1.2	2.8
Re-Exports	1.4	-3.5	-4.1	-0.2	-8.1	-6.1	9.1	8.3	8.8	22.3
Total Imports, cif (YOY % change)	8.6	3.2	4.6	-1.3	-0.4	-9.3	-4.0	5.9	8.6	4.3
WAGE-PRICE INDICATORS										
Unemployment Rate (SA,%)	2.0	2.0	2.0	1.9	1.8	1.9	2.1	1.8	na	na
Average Nominal Wages (S$ per month)	4,334	4,433	4,162	4,078	4,773	4,948	4,329	4,212	na	na
Consumer Price Index Inflation (YOY % change)	5.2	4.6	5.3	4.2	4.0	4.0	1.6	1.8	1.6	2.0
MAS Core Inflation (YOY % change)	2.2	2.5	2.7	2.4	2.0	1.6	1.6	1.7	1.7	1.8
FINANCIAL INDICATORS [3/]										
S$ Exchange Rate Against: (end-period)										
US Dollar	1.3007	1.2221	1.2737	1.2254	1.2221	1.2436	1.2652	1.2572	1.2572	1.2394
100 Japanese Yen	1.6777	1.4214	1.6056	1.5799	1.4214	1.3205	1.2797	1.2834	1.2834	1.2585
Euro	1.6835	1.6151	1.6023	1.5844	1.6151	1.5892	1.6535	1.6975	1.6975	1.6996
Interest Rates (end-period, % p.a.)										
3-month Fixed Deposit Rate	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
3-month Domestic Interbank Rate	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.42	0.42	0.40
Prime Lending Rate	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38
Money Supply (end-period)										
Broad Money, M2 (YOY % change)	10.0	7.2	6.5	6.1	7.2	8.5	9.1	7.5	7.5	7.1
Straits Times Index (end-period)	2,646.4	3,167.1	2,878.5	3,060.3	3,167.1	3,308.1	3,150.4	3,167.9	3,167.9	3,210.7
YOY % change	-17.0	19.7	-7.8	14.4	19.7	9.9	9.4	3.5	3.5	5.7
GOVERNMENT BUDGET [4/]										
Operating Revenue (S$ mil)	50,986	54,284	14,700	14,554	13,030	13,531	15,522	15,475	na	na
Total Expenditure (S$ mil)	46,771	47,271	9,149	10,745	11,787	17,323	9,738	11,645	na	na
Operating Expenditure	35,011	34,810	6,055	8,113	8,555	13,698	6,788	9,240	na	na
Development Expenditure	11,761	12,461	3,094	2,632	3,232	3,625	2,949	2,405	na	na
Primary Surplus/Deficit (S$ mil)	4,214	7,013	5,551	3,809	1,243	-3,792	5,785	3,831	na	na
% of GDP	1.3	2.0	6.4	4.5	1.4	-4.3	6.4	4.2	na	na
BALANCE OF PAYMENTS										
Current Account Balance (% of GDP)	24.6	18.6	19.3	19.9	14.5	16.0	19.6	19.2	na	na
Goods Balance	27.4	22.0	23.3	24.2	18.4	19.3	23.9	23.8	na	na
Services Balance	0.3	0.1	-0.5	0.1	-0.1	1.1	-0.3	0.0	na	na
Primary Income Balance	-0.8	-1.1	-1.3	-1.9	-1.1	-1.8	-1.4	-1.8	na	na
Secondary Income Balance	-2.2	-2.4	-2.2	-2.5	-2.6	-2.6	-2.6	-2.8	na	na
Capital & Fin Account Balance (% of GDP)	-16.6	-10.3	-15.0	-10.4	-0.6	-5.9	-15.6	-19.1	na	na
Direct Investment	11.2	12.1	10.7	13.5	11.9	13.4	8.1	9.5	na	na
Portfolio Investment	-4.8	-17.8	-10.3	-20.4	-26.3	-14.0	-5.5	-2.3	na	na
Financial Derivatives	-4.5	-5.8	-5.0	-6.2	-6.9	-5.7	-8.1	-6.1	na	na
Other Investment	-18.5	1.1	-10.4	2.7	20.6	0.5	-10.1	-20.3	na	na
Overall Balance (% of GDP)	6.4	9.4	5.6	9.2	15.3	10.0	5.9	1.0	na	na
Official Foreign Reserves (US$ mil) [5/]	237,737	259,307	243,383	252,148	259,307	258,186	259,816	268,103	268,103	271,779
Months of Imports	7.8	8.2	7.7	8.1	8.2	8.3	8.4	8.6	8.6	8.7

Source:

[1/] Monthly data from Index of Industrial Production, EDB

[2/] Data from Index of Industrial Production, EDB

[3/] Straits Times Index from SGX. All other indicators from MAS.

[4/] Ministry of Finance

[5/] MAS

na: Not available