Monetary Authority of Singapore

RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

6 June 2014

	2013				2014
	Q2	Q3	Q4	Full Year	Q1
Real Sector					
Real GDP Growth, y-o-y %	4.0	5.0	4.9	3.9	4.9
Real GDP Growth, q-o-q saar %	10.2	0.7	6.9	-	2.3
Index of Industrial Production, y-o-y %	0.8	5.2	7.1	1.7	9.9
Non-oil Domestic Exports, y-o-y %	-5.2	-3.6	-2.1	-6.0	-1.0
Labour Market and Prices					
Unemployment Rate, sa, % (Average)	2.0	1.8	1.8	1.9	2.1
CPI-All Items Inflation, y-o-y %	1.6	1.8	2.0	2.4	1.0
Wage Growth, y-o-y %	4.0	3.3	4.7	4.3	3.2

The Singapore economy recorded slower growth in Q1 2014

GDP growth eased to 2.3% q-o-q saar (quarter-on-quarter seasonally-adjusted annualised rate) in Q1 2014, down from 6.9% in the preceding quarter. The moderation in growth was largely on account of a slowdown in the external-oriented services sectors, which reflected some weakness in regional demand and renewed uncertainties in global financial markets.

The global recovery is on track, despite a transitory setback in Q1

The G3 economies turned in a mixed performance in Q1 2014, due in part to one-off factors. While adverse weather conditions depressed economic activity in the US, the impending consumption tax hike in Japan brought forward spending and lifted growth. Asia ex-Japan saw varied outturns as well, partly on account of country-specific factors, such as ongoing reforms in China and political uncertainty in Thailand. Looking ahead, US growth is expected to pick up and underpin the global economic recovery.

Singapore's GDP growth is expected to come in at 2–4% in 2014

Notwithstanding the slowdown in Q1 2014, the Singapore economy is expected to grow by 2–4% in 2014 as a whole, supported by a gradual improvement in the global economy. Coupled with a pickup in the IT industry, this should bolster Singapore's external-oriented industries. Nonetheless, downside tail risks arising from vulnerabilities in the external environment remain. In addition, domestic supply-side constraints could cap the extent of the cyclical upturn.

MAS Core Inflation is likely to remain elevated

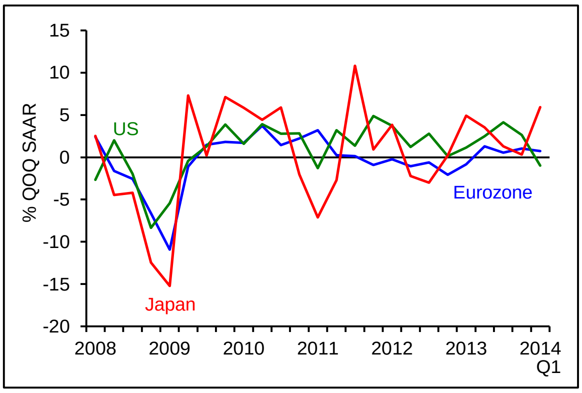
While external price developments should be relatively benign for the rest of the year, domestic cost pressures, particularly stemming from a tight labour market, are likely to remain strong. Taking these factors into account, MAS Core Inflation is expected to stay elevated at 2–3% in 2014. CPI-All Items inflation should be dampened by the weakness in car prices and accommodation cost, and is projected to come in at 1.5–2.5%.

A. External Developments

G3 growth moderated in Q1 2014, reflecting weak US economic activity

Growth in the G3 slowed to 1.1% q-o-q saar in Q1 2014, a step-down from the average pace of 1.8% over the four quarters of 2013. The lacklustre G3 performance was mainly attributable to an unexpectedly large contraction in the US, where a severe winter took its toll on economic activity. In contrast, the Japanese economy surged, boosted by a spike in spending ahead of a consumption tax hike of 3% points which took effect in April. Meanwhile, the Eurozone chalked up another quarter of modest growth, extending the current recovery phase to a full year. On the whole, the G3 economies are still on track to register stronger growth in the coming quarters, led by a rebound in the US economy.

Growth in the US and Japan diverged in Q1.



Source: Datastream

US GDP growth contracted by 1.0% q-o-q saar in Q1 2014, after an expansion of 2.6% in Q4 2013. Activity slowed across the board, although private consumption continued to be relatively firm. Household spending growth came in at 3.1% q-o-q saar in Q1, a similar pace to the 3.3% recorded the quarter before, on the back of markedly higher expenditure on utilities and health services. Hindered by bad weather, however, purchases of durable and non-durable goods expanded at a much slower pace. Meanwhile, gross private investments fell by 11.7%, its first decline since Q4 2012, with the largest drag stemming from business inventories. Fixed investment was also weakened by a fall in capex spending across the board. After registering double-digit growth in Q4 2013, goods exports plunged by 9.8% q-o-q saar in Q1 2014, while imports expanded moderately, leading to a deterioration in the trade balance. Despite some increase in federal consumption, overall government spending also subtracted from growth slightly, due to weak state and local government expenditures.

The pace of economic activity is expected to pick up in Q2, on the back of stronger private spending. Leading indicators such as the ISM manufacturing PMI improved further to 55.4 in May from 54.9 in April, supported by higher production levels and new orders. Further, the May services PMI rose to its highest level of 56.3 since August 2013. At the same time, employment growth in April exceeded expectations—288,000 jobs were added to the labour market, with gains across all sectors, bringing the unemployment rate down to 6.3%. However, in the housing sector, the pace of recovery appears to have eased in the past few months as higher mortgage rates slowed new home sales and house price increases. Nevertheless, the lifting of uncertainty on the policy front contributed to improved economic sentiment—the Conference Board Consumer Confidence Index rose to 83.0 in May, from 81.7 the month before. Overall, US GDP growth is expected to pick up from 1.9% in 2013 to 2.5% in 2014 and 3.1% in 2015.

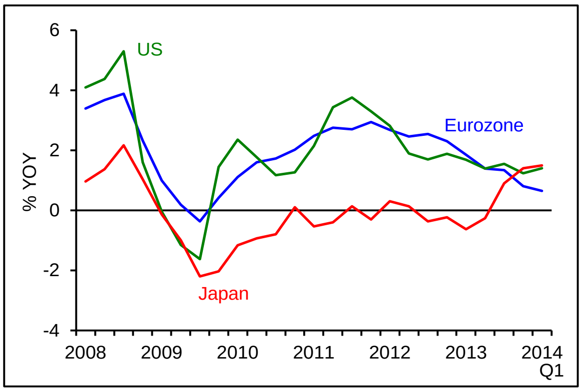
The Eurozone economy continued to expand in Q1, albeit at a more subdued pace. Growth slipped to 0.7% q-o-q saar in Q1 2014, slightly lower than the 1.0% expansion in the preceding quarter. The German economy strengthened further, propping up growth in the region. However, some of the other major economies in the monetary union experienced significant setbacks—growth came to a halt in France, while Italy relapsed into a sequential contraction as uncertainty surrounding the political transition weighed on sentiments. The rest of the Eurozone did not fare well either, with the Netherlands and Portugal experiencing particularly sharp declines after expanding at a healthy clip in the previous quarter.

The ECB has embarked on further monetary easing to encourage bank lending and ward off deflationary risks. In early June, the central bank reduced its main refinancing rate by 10 basis points and simultaneously cut the rate that banks receive on central bank reserves to below zero for the first time. To stimulate bank lending to businesses and households, the ECB also announced targeted longer-term refinancing operations (TLTROs) amounting to €400 billion. Under the TLTRO programme, banks can obtain funding for up to four years from the ECB at a concessionary interest rate, provided that they increase their lending by a stipulated amount during that period. Overall, the Eurozone is projected to grow by 1.1% in 2014, a marked improvement from the 0.4% contraction last year but well below the region's historical trend.

Japan's GDP growth surged in Q1 2014, as domestic demand was boosted by strong private spending ahead of the tax hike. GDP jumped by 5.9% q-o-q saar in Q1 2014, from a modest 0.3% in the preceding quarter. Households' frontloading of consumption expenditure intensified, bringing private consumption growth to 8.5% in Q1, from 1.5% in Q4 2013. Meanwhile, private non-residential investment rose by a robust 21%. However, the buoyancy in domestic demand was partly offset by a negative contribution from net exports, making it a drag on growth for the third consecutive quarter.

The consumption tax hike is likely to cause a fall-off in Japan's growth in Q2 2014, although a reversion to potential in H2 is possible. Past experience suggests that the spurt in spending in Q1 will be followed by a retrenchment in the immediate aftermath of the tax increase. In the latter half of the year, growth should regain some momentum, supported by a tight labour market and positive impulses from a fiscal stimulus package which will offset part of the effects of the tax hike. For 2014 as a whole, the Japanese economy is expected to grow by 1.3%, slightly slower than the 1.6% posted in 2013.

Eurozone inflation continues to fall.

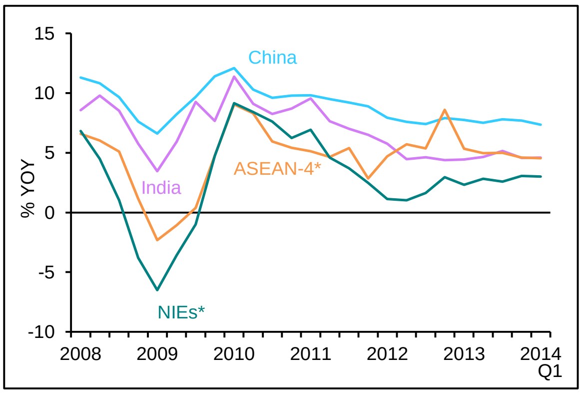


Source: Datastream

Headline CPI inflation in the G3 was little changed in Q1 2014, although it masked divergences across countries. While the Eurozone continued to face mild disinflationary pressures from excess capacity and low energy costs, CPI inflation in both the US and Japan edged up slightly. In the US, higher transport costs drove headline inflation to 1.4% in Q1. Japan's inflation rate rose from 1.4% in Q4 2013 to 1.5%, as the core component of the CPI trended upwards, reflecting a further narrowing of the output gap. As the consumption tax hike will raise Japan's headline inflation over the course of the year, average CPI inflation in the G3 economies is projected to come in higher at 1.6% this year, compared to 1.3% in 2013.

Asia ex-Japan turned in a mixed performance in Q1 2014

Growth in Asia ex-Japan moderated in Q1.



Source: CEIC

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

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

Asia ex-Japan's economic performance was impacted by a host of idiosyncratic factors. While export growth either remained firm or picked up in Taiwan, Korea, Malaysia and the Philippines, other countries did not do as well—Indonesia, for example faced the negative effects of the ban on mineral ore exports. Apart from exports, GDP growth was also impacted by domestic factors such as economic restructuring in China and political unrest in Thailand. The slowdown in Chinese economic activity spilled over to Hong Kong, given the latter's strong linkages to the mainland. Although sluggish investment kept GDP growth below 5% for a second straight financial year in India, there is rising confidence that the newly-elected government would enact policies which will bolster the country's economic prospects.

The Chinese economy continued to lose steam in Q1 2014, amid external and domestic headwinds. Consequently, China's GDP increased by a slower 7.4% y-o-y in the quarter, from 7.7% the previous quarter. In sequential terms, growth momentum eased from 1.7% q-o-q sa to 1.4% in Q1. Notably, industrial output expanded by 8.7% y-o-y—the slowest pace in five years, as the heavy industry sector was buffeted by weak orders and excess capacity. Concurrently, fixed asset investment was weighed down by sluggish business spending in the manufacturing and construction sectors, even as retail sales was dented by China's ongoing anti-corruption campaign. Meanwhile, net exports shrank for a third consecutive quarter, subtracting 1.4% points from GDP growth in Q1. In H2 2014, China's economy is expected to stabilise as implementation of fiscal and monetary easing measures will provide a modest offset to the drags stemming from intensifying reforms and curbs on shadow banking. On balance, China's economic output is projected to increase by 7.3% this year, before moderating slightly to 7.2% in 2015.

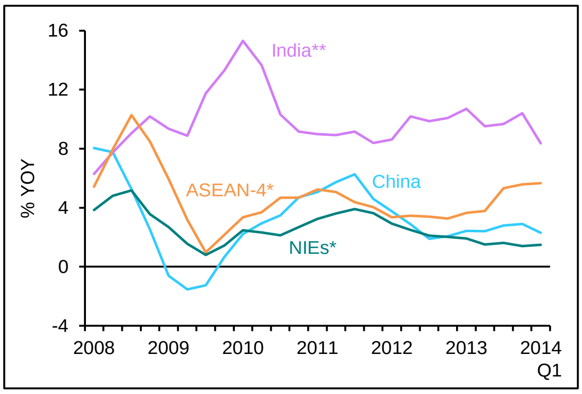
India's growth remained anaemic in Q1 2014, but a turnaround in business sentiment with the election of the new government may revive domestic investment. The economy expanded 4.6% y-o-y, the same as the previous quarter, as a pickup in agricultural activity was offset by slower government spending. In the near term, the economic outlook is hemmed in by a tight monetary policy stance to bring down inflation and fiscal consolidation efforts. Nevertheless, the strong mandate secured by the new government has lifted hopes of structural reforms, which could improve India's growth trajectory in the medium term. For the fiscal year ending March 2015, overall GDP growth is projected to rise to 5.4% compared to 4.7% in the previous year.

The NIEs continued to expand at a healthy clip in Q1 2014, despite a hesitant export recovery. Economic growth in Korea accelerated further to 3.9% y-o-y in the first three months of the year, from 3.7% in Q4 2013, marking the fourth straight quarter of expansion. The cyclical upturn took place alongside a continued rise in exports, especially to Europe, as well as resilient domestic demand due to supportive policies. Similarly, Taiwan's economy gained some traction at the start of the year, with GDP growth rising slightly to 3.1% y-o-y in Q1 2014, from 2.9% in Q4 2013. Hong Kong's economic performance, however, slipped in Q1, on account of a contraction in merchandise exports to China and reduced tourism spending from Chinese visitors. Nonetheless, the NIEs are poised to benefit from a modest recovery in the G3 and an upswing in the global electronics cycle. GDP growth for the region is projected to rise to 3.4% this year, and further to 3.6% next year.

Growth in the ASEAN-4 economies eased to 4.6% y-o-y in Q1. In Indonesia, domestic demand was restrained by tighter monetary policy even as a partial ban on mineral ore exports crimped activity in the mining sector. As a result, growth eased to 5.2% y-o-y in Q1, from 5.7% in Q4 2013. In Thailand, economic activity contracted by 0.6% y-o-y, as heightened political instability stalled infrastructure projects and led to lower consumer and business spending. While external and domestic demand remained firm in the Philippines, this was met primarily through a sharp drawdown in inventories. Consequently, the increase in GDP was more moderate at 5.7%, compared to 6.3% in the previous quarter. Bucking the regional trend, growth in Malaysia picked up from 5.1% to 6.2% y-o-y, supported by strong exports and robust private investment.

Growth in the ASEAN-4 economies is expected to moderate to 4.8% this year, from 5.0% in 2013, with the anticipated pickup in external demand only partially offsetting the downshift in domestic demand. In Indonesia, domestic demand will remain subdued amid a tight monetary policy, while the anticipated pickup in exports may be capped by weak commodity prices. Economic activity in Malaysia will continue to be underpinned by the ongoing export upturn and a strong pipeline of investments under the Economic Transformation Programme, which will help to counteract the dampening effects of higher inflation and tighter financial conditions on domestic demand. While the rollout of infrastructure projects and currently flush liquidity conditions should sustain economic activity in the Philippines, rising inflation and concerns over financial imbalances could lead to a tighter monetary policy that will in turn temper growth. In Thailand, military intervention has restored a functioning government administration, which could pave the way for a tentative economic recovery. However, the country is still expected to underperform relative to the region, and the risk of a further escalation in political tension remains.

Headline inflation dipped in India and China.



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

CPI inflation in Asia ex-Japan moderated to 3.4% in Q1 2014, from 4.2% in the previous quarter. In China and the NIEs, inflation remained subdued, amid stable commodity prices and limited demand-side pressures. While still elevated, inflation in India eased in Q1 as a result of lower food inflation. In ASEAN, however, adverse weather conditions in the Philippines as well as unfavourable base effects arising from subsidy rationalisation efforts led to a higher inflation print. Overall, inflation in Asia ex-Japan is expected to moderate slightly to 3.7% in 2014 from 3.9% last year, as the effects of lower food production due to El Niño and narrowing output gaps in the NIEs are offset by downward price pressures arising from excess capacity in China.

Table 1: Consensus Forecasts of GDP Growth

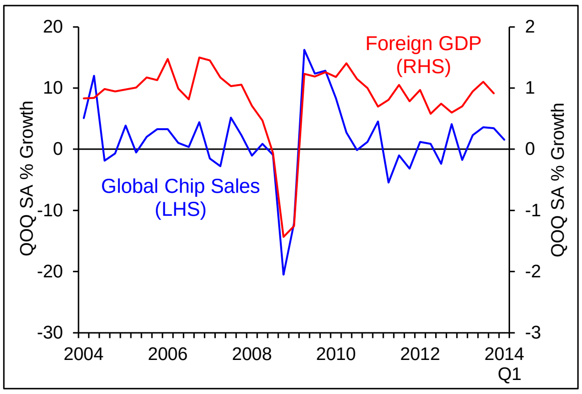
	2012	2013	Forecast 2014	Forecast 2015
	Percent			
Industrial				
US	2.8	1.9	2.5	3.1
Japan	1.4	1.6	1.3	1.3
Eurozone	−0.6	−0.4	1.1	1.4
UK	0.3	1.7	2.9	2.5
NIEs				
Hong Kong	1.5	2.9	3.4	3.5
Korea	2.3	3.0	3.6	3.7
Taiwan	1.5	2.1	3.2	3.6
ASEAN				
Indonesia	6.3	5.8	5.3	5.8
Malaysia	5.6	4.7	5.1	5.0
Thailand	6.5	2.9	2.3	4.2
Philippines	6.8	7.2	6.4	6.3
China	7.7	7.7	7.3	7.2
India*	4.5	4.7	5.4	6.0

Source: CEIC and Consensus Economics, May 2014
*Refers to fiscal year ending Mar

Growth in the global IT industry slowed in Q1 2014 on the back of weak US demand

Global chip sales rose by 1.5% q-o-q sa in Q1 2014, less than half the pace of expansion in the preceding two quarters. Notwithstanding this moderation, growth in semiconductor sales appear to be on a continued, if modest, uptrend since the trough in mid-2011. Amid broadly supportive global economic conditions, semiconductor sales are expected to pick up more briskly towards the end of the year.

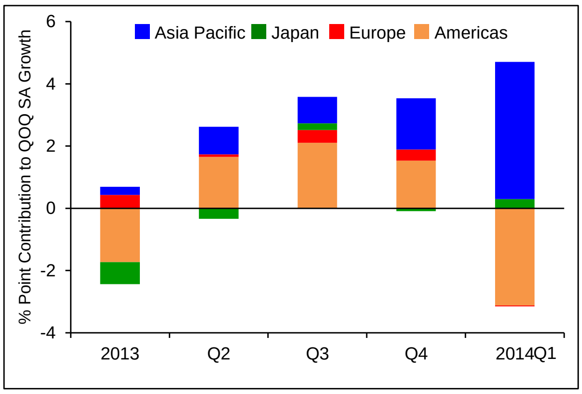
Global chip sales growth slowed in Q1 2014.



Source: Semiconductor Industry Association, CEIC and EPG, MAS estimates

The Q1 2014 slowdown in chip sales reflected mainly the steep decline in the US market. This was due in part to inclement weather conditions, which dampened production activity and weighed on business confidence. As a result, electronics spending—particularly in the corporate segment—retracted significantly. In contrast, demand in Asia accounted for the bulk of the growth in chip sales early this year. However, the increase stemmed mainly from demand in Asian countries outside China, as the latter saw a slowdown in retail sales of IT products.

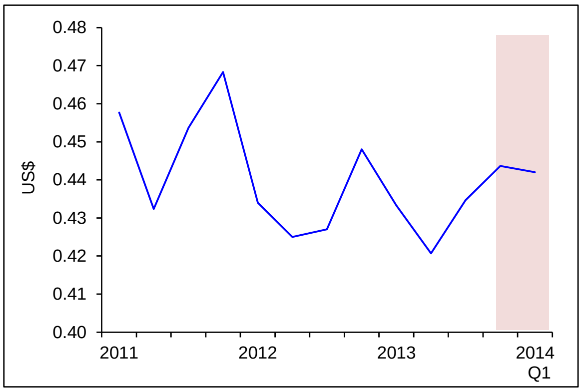
Demand in Asia remained strong, which offset the decline in revenues in the US.



Source: Semiconductor Industry Association and EPG, MAS estimates

Turning to supply-side developments, semiconductor inventories rose further in Q1 2014, following an uptick in Q4 2013. The increase in stockpiles likely occurred as a result of over-production for the year-end holiday season and weaker-than-expected consumption appetite, alongside tepid investment demand. Nonetheless, barring severe negative shocks in demand conditions, concerns over a significant inventory overhang is unlikely to materialise. Notably, consolidation among major DRAM players in

The average global selling price of semiconductors was flat in Q1 2014.



Source: WSTS

the sector should help stabilise supply conditions. Against this backdrop, semiconductor prices levelled off in Q1 2014 following two straight quarters of gains.

Despite a weak start to the year, the global IT industry is expected to see some recovery in the quarters ahead. For the year as a whole, worldwide chip sales are expected to grow by slightly over 5% in 2014. The advanced economies, led by the US, should provide incremental support, even as growth in Asia remains relatively firm. Retail spending on electronics is projected to gather pace, as newer versions of Apple's iPhone and iPad series, alongside much anticipated low-cost smartphone models, are launched. The expected rise in business confidence and tightening capacity utilisation should lend some support to corporate spending as well. Nonetheless, the road to recovery would be unevenly paced. In the US, for instance, the latest Empire State Manufacturing Survey registered some retraction in technology spending in May following strong growth in the earlier part of the year.

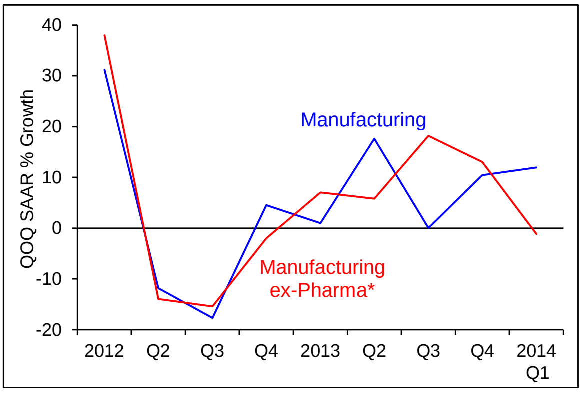
B. Domestic Developments

The Singapore economy posted a moderate expansion in Q1 2014

The Singapore economy slowed in Q1 2014, with GDP rising by 2.3% q-o-q saar, compared to 6.9% in the previous quarter. Most of the trade-related industries saw some pullback in Q1 2014. Concomitantly, sectors dependent on domestic demand slowed, partly reflecting weaker activity in private sector construction and softer demand for real estate services.

The manufacturing sector recorded strong gains in Q1 2014, rising by 11.9% q-o-q saar, following an increase of a similar magnitude in the preceding quarter. The robust performance was largely on account of a surge in pharmaceutical output. Abstracting from this typically volatile segment, there were broad-based retractions across the rest of the manufacturing sector. In particular, the domestic electronics cluster shrank in Q1, following four straight quarters of sequential expansion, due in part to inclement weather conditions in the US which dampened both consumer and corporate demand. Sharp contractions were seen in the data storage, PC peripherals and info-communication & consumer electronics segments. Within the transport engineering cluster, marine & offshore engineering also experienced a pullback in output even as order books remained healthy for the year. In contrast, the chemicals cluster grew at a healthy clip, largely on the back of capacity expansion within the petrochemicals segments.

Manufacturing sector buoyed by a surge in pharmaceutical output.



* EPG, MAS estimates

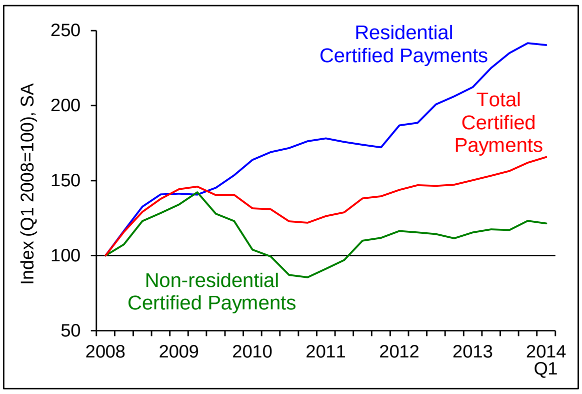
Notwithstanding the stellar performance of the manufacturing sector, the trade-related services industries weakened. The slowdown in the US and China had taken a toll on the wholesale trade sector in Q1 2014, as reflected by the contraction in re-exports to these two economies. The moderation in wholesale activity in turn weighed on the transport and storage sector.

Meanwhile, the financial services sector ceded some momentum in Q1 2014 and expanded by 3.5% q-o-q saar, down from a buoyant 26.0% in the previous quarter. The marked step-down in growth was largely due to a pullback in the sentiment-sensitive clusters, as global financial markets retracted on a resurgence of jitters over possible risk events. These included a sharper-than-expected slowdown in China triggered by a crisis in the shadow banking sector, a disorderly unwinding of quantitative easing and the attendant effects on global liquidity conditions, and an escalation of the conflict in Ukraine. Alongside muted investor appetite, trading activity in the local bourse was largely flat in the quarter and fund raising activities by corporates dwindled. There were only three IPOs with a total market capitalisation of $412 million in Q1, compared with the six IPOs worth $718 million in the quarter before. In the intermediation segments, domestic loan growth eased to 2.3% q-o-q, from 5.1% the quarter before, in part due to a slowdown in property-related lending amid a cooling housing market. Robust activity in the general insurance segment, however, provided some support and anchored overall growth for the financial sector.

The domestic tourism industry posted a slight sequential improvement in early 2014. Following a weak performance in Q4 2013, visitor arrivals recovered somewhat in Q1 2014 driven by MICE (Meetings, Incentives, Conferences and Exhibitions) events like the Singapore Airshow. Consequently, demand for accommodation services remained firm, with hotel occupancy rates rising to 87.0% sa in Q1 2014, higher than the 86.0% registered in the preceding quarter.

Activities reliant on domestic demand witnessed a slowdown in Q1 2014. Construction output registered marginal growth of 0.6% q-o-q saar, significantly lower than the average expansion of 7.4% over the preceding four quarters. The deceleration in Q1 mainly reflected weaker private sector construction activities following recent completions of various commercial complexes—such as the Westgate and Metropolis—in Q4 2013. Meanwhile, other construction activities continued apace, supported by the progressive roll-out of infrastructural works at Changi Airport as well as the final-stage building works of the Sports Hub complex and South Beach mixed-use development. Corporate-facing services saw a moderation in growth, weighed by softer demand for real estate business services. Nonetheless, IT and professional business services—particularly legal and management consultancy services—remained resilient and continued to expand in Q1 2014.

Activity in the construction sector softened.



Source: EPG, MAS estimates

Consumer-facing services showed tentative signs of turning around. After two consecutive quarters of decline, overall retail sales volume registered an increase of 1.7% q-o-q sa in Q1 2014, underpinned by a recovery in vehicle sales. At the same time, non-motor vehicle retail expenditure rose on the back of a pickup in discretionary spending on electronic gadgets, watches & jewellery. Food and beverage services, with the exception of the food catering segment, also saw modest gains over the same period.

The domestic economy is expected to expand by 2–4% in 2014

The global economy remains on track for a stronger pick-up this year, underpinned by growth momentum in the advanced economies. While there was some slippage in Asia ex-Japan exports in Q1 2014, this was due in part to a temporary weather-related retraction in US demand.

Notwithstanding the slowdown in growth momentum in Q1 2014, conditions are broadly supportive of a modest growth trajectory for the Singapore economy for the rest of the year. GDP growth in Singapore is forecast to come in at 2–4% in 2014. Gradual improvements in the global economy, alongside a pickup in the IT industry, should provide support to Singapore's external-oriented industries. In particular, sectors that are closely tied to demand in the advanced economies, such as the manufacturing and transport-related services, are expected to be the largest recipients of positive spillovers from the G3-led recovery. Services industries with sizable exposure to emerging Asia, such as tourism[1] and general insurance[2], could also be supported by steady growth in the ASEAN economies. Meanwhile, the domestic-oriented sector is expected to be resilient, buttressed by public sector-driven infrastructure expansions. These include the construction of the Thomson and Eastern Region MRT lines; healthcare facilities such as hospitals at the Jurong Lakeside District; and 40,000 new HDB homes in the Tampines North, Punggol Matilda and Bidadari regions.

Nonetheless, there are potential external and domestic headwinds to growth. Financial market volatility in response to the pace of exit from QE and political instability in various parts of the world could weigh on investor and business sentiments in the near term. Ongoing policy adjustments in China may also have spillover consequences on growth in the region. On the domestic front, supply-side constraints could translate into higher business costs and limit the extent of the cyclical upturn.

[1] In 2013, 77% of visitors who arrived in Singapore were from the Asian region.

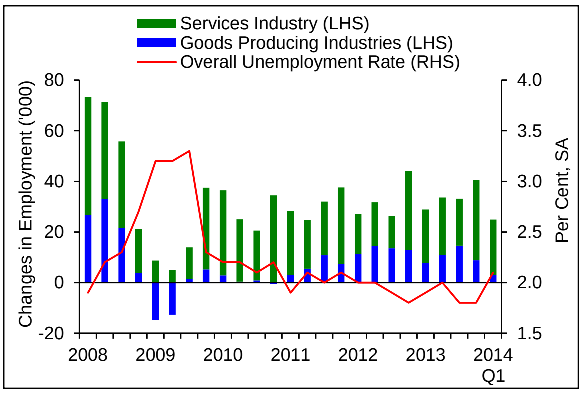
[2] In 2012, Asia accounted for 60% of Singapore's total insurance exports. The insurance business in Singapore comprises life insurance which is more domestic-oriented and general insurance which is more external-oriented. The general insurance business provides coverage for a wide range of risks such as fire, marine and aviation, motor, workmen's compensation and public liability.

C. Labour Market and Consumer Prices

Job creation slowed in Q1 2014

Preliminary estimates show that overall employment gains moderated to 24,900 in Q1 2014, from 40,600 in Q4 2013, with job creation slowing across all sectors. The services sector expanded employment by 21,900, lower than the 31,800 increase in the previous quarter, due to the cutback in hiring in the retail trade and hospitality-related segments after the year-end festive season. Hiring sentiments were also weaker in the manufacturing and construction sectors. Manufacturing shed 1,200 workers, following modest gains of 900 a quarter earlier. Construction added 4,000 jobs, the lowest quarterly increase in three years, partly due to the completion of several major projects such as the Marina Coastal Expressway and Westgate shopping mall.

Overall unemployment rate rose in Q1.



In line with the slower pace of job creation, the seasonally-adjusted overall unemployment rate rose slightly to 2.1% in Q1 2014, from 1.8% in Q4 2013, while the resident unemployment rate inched up to 2.9% from 2.7% the quarter before. The increase in the resident unemployment rate was accompanied by a moderation in resident wage growth, from 4.7% y-o-y in Q4 2013 to 3.2% in Q1 2014. Wage increments slowed mainly in the public administration & defence and education sectors, while remaining at above the historical average for most other sectors.

Going forward, labour demand is expected to be firm, as the economic environment stays generally favourable. However, the tight labour supply will constrain employment growth, thereby exerting upward pressure on wages.

MAS Core Inflation picked up in April, while CPI-All Items inflation rose due to temporary base effects.

MAS Core Inflation, which excludes the cost of accommodation and private road transport, edged up to 2.3% y-o-y in April, from 2.0% in each of the two preceding quarters, as domestic cost increases continued to pass through to consumer prices. Meanwhile, CPI-All Items inflation was volatile due to base effects associated with car prices. It eased from 2.0% in Q4 2013 to 1.0% in Q1 2014, but picked up to 2.5% in April.

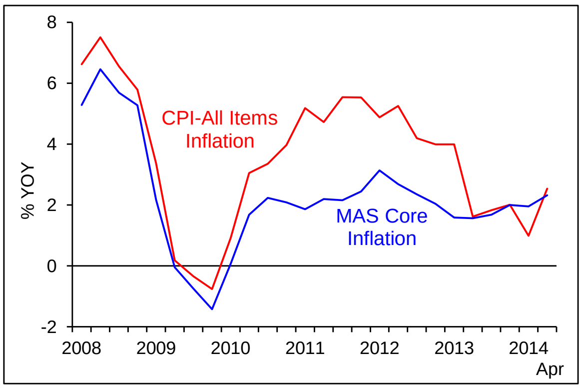
Services inflation firmed recently, after falling temporarily in Q1 2014 due to the high base for household services cost a year ago.[3] It rose to 2.7% in April, from 2.5% in Q1 2014, led by the increase in public transport fares and cost of holiday travel.

Food prices rose at a faster pace, while oil-related items were no longer a drag on inflation. Food inflation came in at 3.1% in April 2014, about half a percentage point higher than in the last two quarters, due to sharper price increases for both non-cooked food and prepared meals. Meanwhile, prices of oil-related items rose by 1.0% in April 2014, after declining in the preceding two quarters, on account of higher petrol pump prices.

Private road transport cost increases have been volatile due to the fluctuations in COE premiums. COE premiums plunged on a sequential basis in March-April 2013 following the implementation of the financing restrictions on motor vehicle loans, after reaching a high in January 2013.[4] Mainly as a result of these base effects, private road transport cost fell by 4.5% y-o-y in Q1 2014, before climbing by 5.7% in April 2014. Meanwhile, accommodation cost continued to rise at a slower pace as housing rentals softened.

MAS Core Inflation is expected to remain elevated and average 2–3% in 2014. External price developments should be relatively benign for the rest of the year, given ample supply buffers in major commodity markets and modest inflation in most of Singapore's key import source countries. However, domestic cost pressures, particularly stemming from a tight labour market, are likely to be strong and will remain the primary source of inflation.

MAS Core Inflation firmed in recent months amidst volatility in CPI-All Items inflation.



CPI-All Items inflation is projected to come in at 1.5–2.5% in 2014. CPI-All Items inflation is expected to rise further in the very short term due to the low base a year ago when COE premiums fell, but it should ease through the second half of 2014. For the whole year, car prices are likely to add negligibly to inflation. Given the large supply of newly-completed housing units coming into the market, imputed rentals on owner-occupied accommodation are expected to stabilise this year.

[3] The base for household services cost was high since February last year due to the new regulation on mandatory weekly rest day or compensation in-lieu for foreign domestic workers.

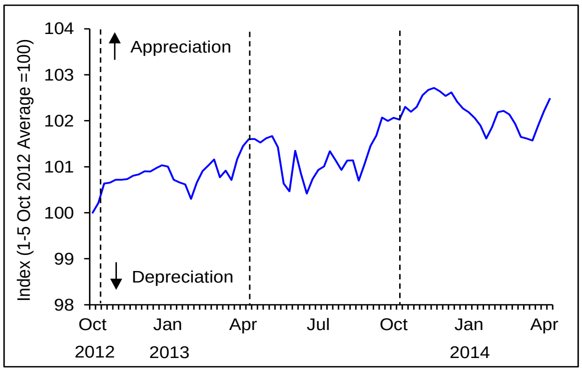
[4] COE premiums in a particular month are reflected in the CPI for private road transport in the following month.

D. Macroeconomic Policies

Monetary Policy: In April 2014, MAS reaffirmed the prevailing monetary policy stance

The Singapore economy is projected to grow at a moderate pace in 2014. Global growth will be anchored by the recovery in the advanced economies. Alongside a modest turnaround in the global IT cycle, this should provide support to regional demand and thereon to Singapore's external-oriented industries as a whole. Meanwhile, the domestic-oriented sectors are expected to remain resilient, supported by ongoing capacity expansions in the healthcare and education segments, and construction of transport infrastructure. Nevertheless, the overall growth outlook remains modest, as GDP growth is likely to be capped by binding labour market constraints amid economic restructuring. For the full year, GDP growth should come in at 2–4%.

MAS maintained the gradual and modest appreciation path of the S$NEER policy band in April 2014.



---- indicates release of Monetary Policy Statement

Domestic core inflationary pressures are likely to persist in 2014. Aggregate demand in the Singapore economy is expected to increase in line with the pickup in the global economy. At the same time, amid high levels of resource utilisation in the labour market, wage pressures will persist and the pass-through to consumer prices is likely to continue. MAS Core Inflation is thus expected to pick up to 2–3% in 2014 from 1.7% in 2013.

MAS thus kept the S$NEER policy band on a modest and gradual appreciation path in April 2014, with no change to its slope, level or width. This policy stance was assessed to be appropriate for containing domestic and imported sources of inflation, and ensuring medium-term price stability as a basis for sustainable growth.

Fiscal Policy: The FY2014 Budget focused on supporting the economy's restructuring process and achieving more equitable growth over the longer term

The overall budget for FY2013 is estimated to have recorded a surplus of $3.9 billion (1.0% of GDP), higher than the $2.4 billion projected. This was due to stronger-than-expected revenues from stamp duties and vehicle quota premiums, as well as delays in public infrastructure projects which contributed to lower development expenditures.

Budget 2014 built on the restructuring efforts put in place since Budget 2010. First, it sharpened the incentives for firms to invest and reduce their reliance on labour. To encourage firms to invest, the Budget extended the Productivity and Innovation Credit (PIC) scheme for another three years, and introduced PIC+ for small and medium enterprises (SMEs), which increased the expenditure cap on firms' qualifying activities. At the same time, the Budget also announced targeted measures to boost productivity in the construction sector: levies for the least-skilled foreign workers were increased, while firms were encouraged to retain higher-skilled workers for longer.

Second, the Budget sought to promote process transformation and innovation in firms. To help businesses to scale up the use of information technology, the Budget provided generous subsidies for SMEs adopting ICT-based productivity solutions and firms pioneering emerging technology solutions. Budget 2014 also extended the duration where companies could qualify for tax deductions on R&D expenditures. This should encourage firms to invest in R&D and innovation.

This year's budget also made further strides in strengthening social safety nets and improving social mobility. Budget 2014 introduced the Pioneer Generation Package, which will benefit approximately 450,000 Singaporeans aged 65 and above. These "pioneers" will get additional subsidies at government outpatient clinics, top-ups to their Medisave accounts, and subsidies for MediShield Life premiums. In addition, the Budget made an incremental step to enhance healthcare affordability for all Singaporeans, by hiking CPF rates for Medisave by one percentage point for all workers. Following last year's efforts to raise the capacity and quality of pre-school education, this year's budget included more fee assistance for kindergartens for those in lower and middle-income families, and raised subsidies for children with special needs so as to improve their access to early intervention services.

For FY2014, the government has projected an overall budget deficit of $1.2 billion (0.3% of GDP). This includes special transfers, top-ups to trust and endowment funds, and revenue from net investment returns. The basic balance, which includes special transfers only, is projected to be in a deficit of $0.8 billion (0.2% of GDP).

Summary of Fiscal Position

	FY 2012		FY 2013 Revised		FY 2014 Budgeted	
	$billion	% of GDP	$billion	% of GDP	$billion	% of GDP
Operating Revenue	55.8	15.5	57.1	15.1	59.5	15.3
Total Expenditure	49.0	13.6	52.3	13.9	56.7	14.6
Operating Expenditure	36.4	10.1	40.4	10.7	42.9	11.0
Development Expenditure	12.6	3.5	11.9	3.2	13.8	3.5
Primary Surplus/Deficit (-)	**6.8**	**1.9**	**4.8**	**1.3**	**2.8**	**0.7**
Less: Special Transfers Excluding Top-ups to Endowment and Trust Funds	1.5	0.4	3.2	0.9	3.6	0.9
Basic Surplus/Deficit (-)	**5.4**	**1.5**	**1.6**	**0.4**	**(0.8)**	**(0.2)**
Less: Top-ups to Endowment and Trust Funds	7.4	2.1	5.6	1.5	8.5	2.2
Add: NIR Contribution	7.9	2.2	7.9	2.1	8.1	2.1
Budget Surplus/Deficit (-)	**5.8**	**1.6**	**3.9**	**1.0**	**(1.2)**	**(0.3)**

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

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 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.

Selected Indicators

GENERAL INDICATORS, 2013			
Land Area (Sq km)	716.1	Literacy Rate* (%)	96.5
Total Population ('000)	5,399.2	Real Per Capita GDP (US$)	53,869
Labour Force ('000)	3,443.7	Gross National Savings (% of GNI)	48.5
Resident Labour Force Participation Rate (%)	66.7		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2013		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2013	
Manufacturing	18.8	Private Consumption	37.1
Wholesale & Retail Trade	18.5	Public Consumption	10.2
Business Services	15.4	Private Gross Fixed Capital Formation	21.5
Finance & Insurance	11.9	Public Gross Fixed Capital Formation	4.4
Transportation & Storage	6.9	Increase in Stocks	3.1
Construction	4.9	Net Exports of Goods & Services	23.0
Information & Communications	3.9	Statistical Discrepancy	0.6
Accommodation & Food Services	2.2		

MAJOR EXPORT DESTINATIONS (% SHARE), 2013		MAJOR ORIGINS OF IMPORTS (% SHARE), 2013	
Total Exports (S$ Billion)	513.4	Total Imports (S$ Billion)	466.8
Malaysia	12.2	China	11.7
China	11.8	Malaysia	10.9
Hong Kong	11.2	US	10.3
Indonesia	9.9	Taiwan	7.8
US	5.7	South Korea	6.4
Asean	31.4	Asean	20.9
NIEs	19.0	NIEs	15.0
EU	7.5	EU	12.2

Source: IE Singapore

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2013		MAJOR IMPORTS BY COMMODITY (% SHARE), 2013	
Domestic Exports (S$ Billion)	274.2	Total Imports (S$ Billion)	466.8
Mineral Fuels	38.8	Mineral Fuels	31.3
Electronics	19.4	Electronics	26.1
Chemicals	16.9	Machinery & Transport Equipment (ex. Electronics)	15.8
Machinery & Transport Equipment (ex. Electronics)	9.3	Manufactured Articles	7.7
Manufactured Articles	9.2	Chemicals	6.8
Manufactured Goods	2.3	Manufactured Goods	6.3

Source: IE Singapore

OVERALL ECONOMY	2012	2013	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	Mar-14	Apr-14
GDP at current prices (S$ bil)	358.5	372.8	92.0	91.0	92.5	93.2	96.2	96.0	na	na
GDP (US$ bil)	286.9	297.9	75.2	73.5	74.0	73.5	77.0	75.6	na	na
Real GDP Growth (YOY % change)	2.5	3.9	2.9	1.5	4.0	5.0	4.9	4.9	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	7.6	1.9	10.2	0.7	6.9	2.3	na	na
By Sector (YOY % change):										
Manufacturing 1/	0.3	1.7	-0.2	-6.3	0.8	5.3	7.0	9.8	12.1	4.6
Electronics 2/	-11.3	3.5	-10.6	-11.1	0.3	7.4	19.4	10.2	8.6	-8.8
Non-electronics 2/	6.2	0.9	4.4	-4.2	1.0	4.3	2.5	9.7	13.6	10.3
Finance & Insurance	1.8	10.8	4.5	13.2	11.1	8.3	10.5	5.4	na	na
Business Services	5.5	4.3	5.8	4.1	4.5	4.3	4.3	3.4	na	na
Construction	8.6	6.1	7.8	5.4	6.1	5.6	7.3	6.7	na	na
Transportation & Storage	5.2	3.2	5.5	-0.8	2.6	5.8	5.1	4.9	na	na
Information & Communications	6.0	4.3	4.5	4.5	4.4	4.6	3.6	3.3	na	na
Wholesale & Retail Trade	-0.1	6.1	-0.2	4.6	6.8	6.4	6.4	5.4	na	na
Accommodation & Food Services	2.3	4.5	2.0	4.2	5.4	5.0	3.4	0.9	na	na
By Expenditure Component (YOY % change):										
Consumption	3.1	4.1	1.7	5.0	3.8	3.3	4.2	-0.8	na	na
Private	3.9	2.6	3.6	2.9	2.8	2.6	2.1	2.8	na	na
Public	-0.1	9.9	-5.4	11.0	9.2	5.9	12.9	-10.1	na	na
Gross Fixed Capital Formation	8.9	-1.9	9.7	-4.6	-1.8	3.4	-4.6	-1.1	na	na
Private	8.9	-2.4	9.6	-6.1	-1.7	4.4	-6.1	-4.2	na	na
Public	8.6	0.3	10.5	1.9	-2.0	-1.1	2.0	11.7	na	na
External Demand	1.5	3.6	1.7	-2.7	4.3	6.8	6.0	6.8	na	na
TRADE										
Total Exports, fob (YOY % change)	-0.9	0.6	-5.1	-8.7	-0.2	5.8	6.0	7.6	7.9	5.6
Non-Oil Domestic Exports	0.5	-6.0	-4.2	-12.5	-5.2	-3.6	-2.1	-1.0	-6.6	0.9
Re-Exports	-3.5	6.2	-8.1	-6.1	9.1	7.9	14.2	12.9	19.9	6.4
Total Imports, cif (YOY % change)	3.2	-1.6	-0.4	-9.3	-4.0	5.9	1.4	6.8	15.3	5.8
WAGE-PRICE INDICATORS										
Unemployment Rate (SA,%)	2.0	1.9	1.8	1.9	2.0	1.8	1.8	2.1	na	na
Average Nominal Wages (S$ per month)	4,433	4,622	4,773	4,948	4,329	4,212	4,998	5,108	na	na
Consumer Price Index Inflation (YOY % change)	4.6	2.4	4.0	4.0	1.6	1.8	2.0	1.0	1.2	2.5
MAS Core Inflation (YOY % change)	2.5	1.7	2.0	1.6	1.6	1.7	2.0	2.0	2.0	2.3
FINANCIAL INDICATORS 3/										
S$ Exchange Rate Against: (end-period)										
US Dollar	1.2221	1.2653	1.2221	1.2436	1.2652	1.2572	1.2653	1.2605	1.2605	1.2565
100 Japanese Yen	1.4214	1.2061	1.4214	1.3205	1.2797	1.2834	1.2061	1.2252	1.2252	1.2271
Euro	1.6151	1.7452	1.6151	1.5892	1.6535	1.6975	1.7452	1.7328	1.7328	1.7347
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	0.15	0.15	0.15
3-month S$ SIBOR	0.38	0.40	0.38	0.38	0.37	0.37	0.40	0.41	0.41	0.40
Prime Lending Rate	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.35	5.35	5.35
Money Supply (end-period)										
Broad Money, M2 (YOY % change)	7.2	4.3	7.2	8.5	9.1	7.5	4.3	2.0	2.0	1.4
Straits Times Index (end-period)	3,167.1	3,167.4	3,167.1	3,308.1	3,150.4	3,167.9	3,167.4	3,188.6	3,188.6	3,264.7
YOY % change	19.7	0.0	19.7	9.9	9.4	3.5	0.0	-3.6	-3.6	-3.1
GOVERNMENT BUDGET 4/										
Operating Revenue (S$ mil)	54,284	57,054	13,030	13,531	15,522	15,475	12,525	13,481	na	na
Total Expenditure (S$ mil)	47,271	52,329	11,787	17,323	9,738	11,645	13,624	16,721	na	na
Operating Expenditure	34,810	40,390	8,555	13,698	6,788	9,240	10,664	13,033	na	na
Development Expenditure	12,461	11,939	3,232	3,625	2,949	2,405	2,960	3,688	na	na
Primary Surplus/Deficit (S$ mil)	7,013	4,725	1,243	-3,792	5,785	3,831	-1,099	-3,239	na	na
% of GDP	2.0	1.3	1.4	-4.2	6.3	4.1	-1.1	-3.4	na	na
BALANCE OF PAYMENTS										
Current Account Balance (% of GDP)	17.5	18.3	13.8	15.0	20.6	20.1	17.5	17.0	na	na
Goods Balance	22.1	22.8	19.3	18.7	24.1	24.0	24.0	21.6	na	na
Services Balance	0.3	0.3	0.1	0.8	0.2	0.8	-0.7	-0.7	na	na
Primary Income Balance	-2.4	-2.4	-2.9	-2.2	-1.5	-2.4	-3.5	-1.6	na	na
Secondary Income Balance	-2.6	-2.3	-2.7	-2.3	-2.3	-2.3	-2.3	-2.3	na	na
Capital & Fin Account Balance (% of GDP)	-8.1	-12.6	1.9	-4.7	-14.6	-20.4	-10.5	-15.7	na	na
Direct Investment	16.6	12.4	15.5	14.9	12.6	10.6	11.4	15.7	na	na
Portfolio Investment	-22.7	-15.8	-32.0	-22.0	-4.2	-4.5	-32.0	-24.1	na	na
Financial Derivatives	5.4	-0.4	2.4	0.4	-0.9	-0.4	-0.8	-1.2	na	na
Other Investment	-7.5	-8.7	16.0	1.9	-22.1	-26.1	10.9	-6.1	na	na
Overall Balance (% of GDP)	9.1	6.1	14.7	9.6	5.8	1.0	8.0	0.5	na	na
Official Foreign Reserves (US$ mil) 5/	259,307	273,065	259,307	258,186	259,816	268,103	273,065	272,941	272,941	275,239
Months of Imports	8.2	8.8	8.2	8.3	8.4	8.6	8.8	8.7	8.7	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