Monetary Authority of Singapore

RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

5 June 2015

	2014				2015
	Q2	Q3	Q4	Full Year	Q1
Real Sector					
Real GDP Growth, y-o-y %	2.3	2.8	2.1	2.9	2.6
Real GDP Growth, q-o-q saar %	−0.5	2.6	4.9	-	3.2
Index of Industrial Production, y-o-y %	1.4	1.7	−1.2	2.7	−2.7
Non-oil Domestic Exports, y-o-y %	−3.4	1.1	0.5	−0.7	4.8
Labour Market and Prices					
Unemployment Rate, sa, % (Average)	2.0	1.9	1.9	2.0	1.8
CPI-All Items Inflation, y-o-y %	2.2	1.0	0.0	1.0	−0.3
Wage Growth, y-o-y %	2.7	2.4	0.8	2.3	3.0

The Singapore economy grew moderately in Q1 2015

Economic growth eased to 3.2% q-o-q saar (quarter-on-quarter seasonally-adjusted annualised rate) in Q1 2015, from 4.9% in the previous quarter. The continued sequential expansion was supported by the recovery in some oil-related activities and gains in the trade-related services. However, the overall pace of growth moderated on the back of a sharp pullback in financial services, following the surge in the quarter before.

The global economy is expected to continue on a modest expansion path, led by the G3 economies

Growth in the G3 economies pulled back slightly in Q1 2015, as a fall in output in the US due to idiosyncratic factors was only partially offset by stronger growth outturns in the Eurozone and Japan. The anticipated modest bounce-back in US growth and improving conditions in the other two advanced economies for the rest of the year should help to compensate for slightly weaker growth in Asia ex-Japan. Nonetheless, the possibility of a sharper-than-expected slowdown in China and the uncertainty stemming from US policy normalisation has tilted the balance of risks to global growth to the downside.

Singapore's GDP growth is projected to come in at 2–4% in 2015

Growth in the domestic economy is expected to keep to a moderate pace this year. The improving external environment should boost the trade-related sectors, while domestic demand remains resilient, despite ongoing supply-side constraints.

Inflation could ease further before rising towards the end of the year

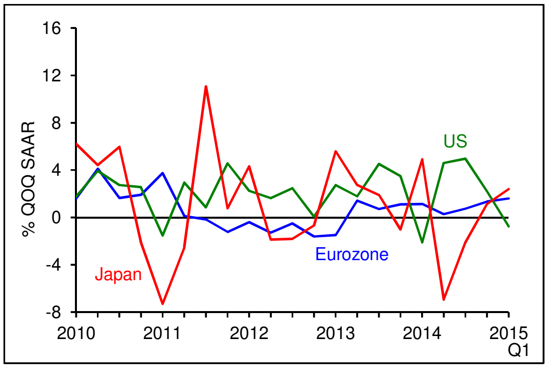
External price developments should remain generally benign, led by the relatively low oil prices. Although underlying cost pressures stemming from the tight labour market remain, the pass-through to consumer prices is expected to be tempered in the near term by the moderate growth environment and the suite of budgetary measures announced recently. Car prices and imputed rentals on owner-occupied accommodation should also continue to dampen overall inflation in light of the anticipated increase in supply. MAS Core Inflation and CPI-All Items inflation are expected to ease further before rising towards the end of the year and into 2016, and average 0.5–1.5% and –0.5–0.5% respectively for the whole of 2015.

A. External Developments

Growth in the G3 economies decelerated in Q1 2015

Average GDP growth in the G3 countries dipped to 0.9% q-o-q saar in the first quarter of this year, from 1.6% in Q4 2014. In a reversal of the prevailing trend, the Eurozone and Japan posted better-than-expected performances in Q1, while growth in the US turned negative. Economic conditions in the G3 are still expected to improve for the rest of the year, as the US resumes a moderate pace of expansion, and growth momentum in the Eurozone and Japan is sustained.

G3 growth was pulled down by the US in Q1.



Source: Datastream and CEIC

The US economy contracted unexpectedly in Q1 2015. GDP shrunk by 0.7% q-o-q saar, compared to an expansion of 2.2% in Q4 2014, as harsh weather conditions and port closures dampened domestic economic activity. Although real personal income growth picked up, partly due to lower energy prices, private consumption growth fell by more than half to 1.8% q-o-q saar, alongside a rise in the household savings rate to 5.5%. Gross private investment growth slipped to 0.7% q-o-q saar in Q1, from 3.7% in the previous quarter, mainly owing to a sharp reduction in spending on structures, which reflected in part a fall in oil-related investment. Meanwhile, government expenditure declined by 1.1% q-o-q saar on cutbacks in both state and local spending, which lowered overall GDP growth by 0.2% point. Exports contracted markedly as a result of the stronger dollar and tepid external demand conditions, while imports grew at a much slower rate compared to the preceding quarter, in line with weaker consumer demand. The decline in net exports subtracted 1.9% points from Q1 GDP growth.

The US economy is expected to regain momentum, even though the pace of expansion for the rest of the year is likely to be moderate. After declining for five consecutive months, the ISM manufacturing PMI stabilised at 51.5 in April, lifted by stronger new orders, including for exports. The ISM non-manufacturing PMI also saw an uptick, on the back of increased business activity and higher new orders. A relatively brighter outlook is also predicated on the improvement in recent labour market data, which showed that total non-farm payrolls rose by 223,000 in April, after a meagre 83,000 increase in March. The unemployment rate fell to 5.4% in April, while the labour force participation rate stabilised at 62.8%. Sustained growth in disposable incomes should support consumption spending in the coming quarters, despite some increase in households' savings propensity. The Conference Board Consumer Confidence Index remained elevated in May at 95.4, even though it has come off its recent high of 103.8 in January. On balance, US GDP growth is expected to come in at 2.5% in 2015 and 2.8% in 2016.

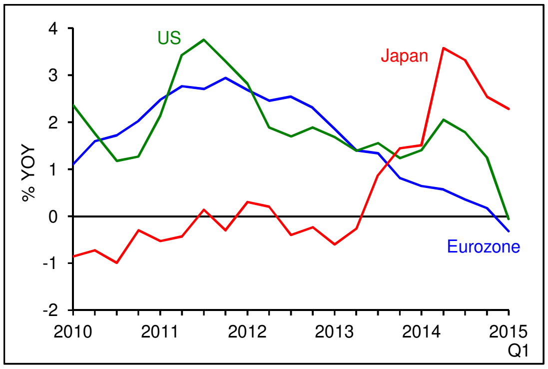
Growth picked up across the Eurozone in Q1 2015. Overall GDP growth rose to 1.6% q-o-q saar from 1.3% in Q4 2014, as domestic demand in France and Spain revived by more than anticipated. In France, improving consumer sentiment and higher purchasing power boosted consumption spending, resulting in overall growth of 2.2% q-o-q saar. Spain's economy has been steadily gaining traction, and expanded by a further 3.8% q-o-q saar in Q1—the fastest rate of growth since Q1 2007—underpinned by a broad-based improvement in private demand, as well as a pickup in government spending. However, Germany, the region's primary locomotive, chalked up a weaker-than-expected expansion of 1.1% q-o-q saar, as net exports contributed negatively to growth. Meanwhile, the economic rebound that Greece experienced last year proved to be short-lived, as pessimistic business sentiment and financing constraints tipped the economy into a double-dip recession in Q1 2015.

The overall macroeconomic environment in the Eurozone continues to be highly supportive of growth, despite the risks posed by Greece. The ECB's quantitative easing programme has further eased financial conditions via sharply lower long-term interest rates, with yields dipping into negative territory for some countries. At the same time, the depreciation of the euro should help to stimulate exports. The gradual improvement in employment, alongside the reduction in energy costs, will also continue to support domestic spending. However, the ongoing negotiations over Greece's bailout programme could pose a threat to the steady recovery in the Eurozone. Failure to reach an agreement with the country's creditors may have severe consequences for the region, including a sharp rise in interest rates in the event of a Grexit. Barring a disorderly outcome in Greece, Eurozone growth is set to accelerate to 1.5% in 2015 and 1.8% in 2016.

The Japanese economy expanded at a faster pace in Q1 2015, after emerging from recession in the preceding quarter. Growth accelerated to 2.4% q-o-q saar in the first quarter, from 1.1% in Q4 2014. While a significant portion of the output gain was attributed to inventory accumulation, private domestic demand also strengthened creditably. With a 1.4% increase in Q1, household consumption has now risen for three straight quarters following the April 2014 consumption tax hike. In addition, both residential and non-residential investment has turned around after contracting for three quarters, registering expansions of 7.5% and 1.4% respectively. The weaker yen has resulted in healthy corporate profits and rising capacity utilisation, which in turn supported firms' capital expenditures.

Japan's economy is anticipated to continue on a moderate growth path. While an inventory overhang could hamper industrial production in the near term, companies are likely to boost investment further, given expectations of higher domestic and external demand. Export growth in volume terms has picked up since mid-2014, and this trend should continue amid the global recovery. Consumption spending will also likely be firm, underpinned by steady gains in employment and real household incomes. Overall, Japan's GDP growth is projected to increase to 0.9% in 2015 from −0.1% last year, and rise further to 1.7% in 2016.

Inflation in the G3 economies dipped further in Q1.

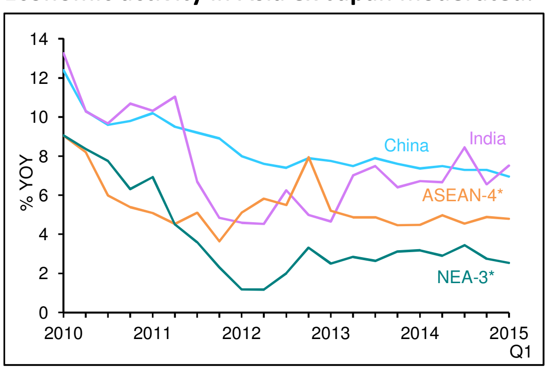


Source: Datastream and CEIC

CPI inflation in the G3 eased sharply in Q1, as the effects of lower global oil prices passed through to consumer prices. US headline CPI inflation fell to −0.1% y-o-y in Q1 2015 from 1.2% in Q4, even as core inflation remained unchanged at 1.7%, reflecting relatively firm domestic demand conditions. In the Eurozone, inflationary pressures were also depressed by low fuel prices—overall inflation declined from 0.2% y-o-y in Q4 2014 to −0.3% in Q1 2015, while core inflation held steady at 0.7%. In Japan, headline CPI inflation was stickier, dipping only slightly to 2.3% y-o-y in Q1 from 2.5% in the preceding quarter. Excluding the effects of the consumption tax hike, however, Japan's CPI inflation for Q1 would have come in at a much lower 0.3%. Given that the price of oil is expected to stay below last year's average level, the headline inflation rate in the G3 is projected to retreat to 0.2% in 2015, before increasing to 1.7% in 2016.

Asia ex-Japan growth was weighed down by sluggish trade and a slowdown in China early this year

Economic activity in Asia ex-Japan moderated.



Source: CEIC and EPG, MAS estimates

* Regional groupings are weighted by Singapore's non-oil domestic exports (2009–13 average).

Note: NEA-3 refers to Hong Kong, Korea and Taiwan while ASEAN-4 refers to Indonesia, Malaysia, Thailand and the Philippines.

GDP growth in Asia ex-Japan weakened in Q1 2015 on account of sluggish trade flows and a slowing Chinese economy. The pullback in the US and slower growth in China have had a discernible effect on the exports of several economies in the region. China's slowdown created headwinds for the commodity exporters in particular. However, the weaker export performance was partly mitigated by resilient domestic demand in India and the ASEAN-4 economies. For 2015, growth in Asia ex-Japan is expected to come in a notch lower at 5.1% compared to 2014, although there will be significant differences among countries.

In China, economic activity saw a downshift in Q1 2015, as aggregate demand continued to be restrained. GDP growth fell to 7.0% y-o-y, from 7.3% in Q4 2014. On a sequential basis, growth also eased from 1.5% q-o-q sa to 1.3% over the same period. Supply overhangs in the property market and parts of the manufacturing sector have dampened gross capital formation, which accounted for only 17.4% of GDP growth in Q1 2015, compared to 48.5% in 2014. Meanwhile, retail spending was resilient in the first quarter, recording growth of 10.6%. Net exports were bolstered by a sharp decline in goods imports, even as merchandise exports rose at a slower pace. Reflecting lacklustre domestic and external demand, China's industrial output growth slowed to its weakest pace in Q1 2015 since the Global Financial Crisis.

China's growth for the rest of the year will be crimped by tepid investment demand, with the real estate and heavy industrial sectors gradually paring down their supply overhangs. High-frequency data points to continued softness in Q2 GDP growth, with HSBC's manufacturing PMI coming in at 49.2 in May. The Chinese authorities have increasingly engaged in more aggressive monetary easing and fiscal stimulus, to cushion the downward path of economic growth. In the past six months, China's central bank has lowered interest rates three times and cut reserve requirement ratios twice. Subsequently, the overnight interbank rate (represented by the Shibor) fell to its lowest level in five years, as liquidity conditions in the banking system improved. The central government has also ramped up infrastructure spending, approving RMB 250 billion worth of railway and subway projects this May. With sustained policy support, China's economic growth is expected to come in at 6.9% this year and 6.7% in 2016.

Economic activity in India expanded at a faster clip in Q1 2015, underpinned by strengthening private demand. India's GDP growth rose to 7.5% y-o-y in Q1 from 6.6% in the previous quarter, as the effects of lower global commodity prices filtered through to the economy. Private consumption growth accelerated to 7.9% y-o-y in Q1 from 4.2% the quarter before, while gross fixed capital formation expanded by 4.1%, reflecting a nascent recovery in infrastructure investment. Together, these two expenditure components accounted for about three-quarters of GDP growth in Q1. In the year ahead, India's economic growth is projected to be on a gradually rising trajectory. Domestic demand will be aided by supportive monetary conditions and the gains in disposable income provided by cheaper imported oil. The economy will also receive a boost from the disbursement of government funds for public infrastructure investment, even as the administration fosters a more conducive business environment. On the whole, GDP growth is expected to rise to 7.8% in FY2016, which would make India the fastest growing economy in the region.

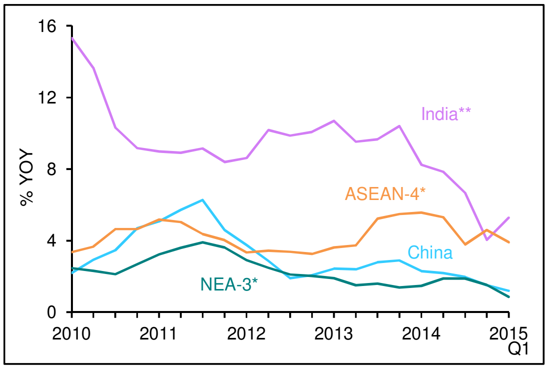
The NEA-3 economies registered faster sequential GDP growth in Q1 2015 due to import compression, even as exports flagged. Hong Kong's GDP increased by 1.5% q-o-q saar in Q1 2015, up from 1.0% in Q4 2014, although this was almost entirely attributed to a rise in net exports, which was in turn the result of plunging imports. Domestic demand was subdued, as private consumption growth slowed significantly and investment contracted. Similarly, Taiwan's slightly stronger growth of 2.7% q-o-q saar in Q1, compared to 1.9% in Q4 2014, was largely on account of a sharp fall in imports, with the consequent surge in net exports more than offsetting a pullback in investment. Meanwhile, exports also softened in Korea, although firmer domestic demand amid accommodative monetary conditions lifted growth to 3.3% q-o-q saar in Q1 from 1.1% in the preceding quarter. Looking ahead, the impending rollout of consumer IT products in Q2 and a modest improvement in G3 demand will help to support manufacturing and trade activities in both Korea and Taiwan, but slowing tourist arrivals to Hong Kong will continue to weigh on the territory's outlook. In

Korea, high household debt will exert a dampening effect on consumer spending. Overall, the NEA-3 is expected to grow by 2.9% in 2015, slightly lower than the 3.1% outturn in 2014.

In the ASEAN-4 economies, resilient domestic demand provided some countervailing support against the external headwinds. Indonesia and Malaysia, both key commodity exporters, saw their exports contract in Q1 due to subdued external demand, particularly from China. In Thailand, overall exports continued to grow, albeit at a slower pace, as a surge in tourism-related services spending compensated for the weakness in merchandise trade. The Philippines also saw a slump in export growth, due to reduced demand from both China and the G3 economies. Nevertheless, domestic demand stayed firm in all the ASEAN-4 countries. In Indonesia and the Philippines, household spending, aided by continued favourable labour market conditions, cushioned the slowdown in GDP growth from 5.0% to 4.7%, and from 6.6% to 5.2%, respectively. Likewise in Malaysia, the front-loading of consumer spending prior to GST implementation in April resulted in GDP growth dipping only slightly to 5.6% y-o-y in Q1 2015. In Thailand, construction activity was boosted by a spike in public sector investment spending, which helped the economy to expand by 3.0% y-o-y in Q1, up from 2.1% a quarter ago.

The ASEAN-4 is projected to sustain growth of 4.8% in 2015, close to last year's pace of 4.7%. A modest recovery in the advanced economies will underpin a gradual improvement in exports of manufactures, helped further by the depreciation of ASEAN-4 currencies over the past few quarters. The extent of the export upturn, however, will be limited by continued weakness in Chinese demand and soft commodity prices. Investment activity will be supported by infrastructure projects in Indonesia, the Philippines, and Thailand, as well as positive spillovers from stronger non-commodity exports. Taking into account these factors, Indonesia and the Philippines are expected to exhibit steady GDP growth of 5–6% in 2015. Malaysia, however, will likely see a step-down in growth from 6.0% in 2014 to 4.5–5.5% this year. The projected deceleration reflects a slowdown in private consumption growth following the GST implementation in April, as well as lower investment in the oil and gas sector. Thailand's economy should recover at a modest pace, as elevated household indebtedness and political uncertainty continue to hold back private consumption and investment spending. Full-year GDP growth in Thailand is projected at 3–4%, up from 0.9% in 2014, but still below the average of about 5% achieved in the years prior to the Global Financial Crisis.

CPI inflation was subdued in Asia ex-Japan.



Source: CEIC and EPG, MAS estimates
* Regional groupings are weighted by 2013 nominal GDP.
** India's series uses CPI (Industrial Workers) prior to 2012.

Headline inflation in Asia ex-Japan moderated in Q1 2015. The average weighted CPI inflation for the region dipped to 2.2% y-o-y from 2.4% in Q4 2014, as an uptick in prices in India was more than offset by weaker inflation in the rest of Asia ex-Japan. India's headline inflation rose to 5.3% in Q1 from 4.1% in the previous quarter, due to unusually heavy rainfall that destroyed crops and pushed food prices higher. Meanwhile, CPI inflation in China and Hong Kong tapered off in Q1, on account of milder increases in food and housing costs, alongside depressed fuel prices. For the other economies in the region, lower fuel prices were the key factor behind subdued inflation readings. ASEAN-4 inflation fell from 4.6% in Q4 2014 to 3.9% in Q1 2015, with the inflation rate turning negative in Thailand. Core inflation for the ASEAN-4 economies also eased, albeit by a smaller extent. Overall, inflation in Asia ex-Japan is projected to moderate to 2.4% in 2015, before rising to 2.9% next year.

Table 1: Consensus Forecasts of GDP Growth

	2013	2014	Forecast	
			2015	2016
	Percent			
Industrial				
US	2.2	2.4	2.5	2.8
Japan	1.6	−0.1	0.9	1.7
Eurozone	−0.4	0.9	1.5	1.8
UK	1.7	2.8	2.5	2.5
NEA-3				
Hong Kong	3.1	2.5	2.4	2.7
Korea	2.9	3.3	3.1	3.5
Taiwan	2.2	3.8	3.6	3.6
ASEAN-4				
Indonesia	5.6	5.0	5.1	5.7
Malaysia	4.7	6.0	4.8	5.1
Thailand	2.8	0.9	3.5	3.8
Philippines	7.1	6.1	6.4	6.2
China	7.7	7.4	6.9	6.7
India*	5.1	6.9	7.3**	7.8

Source: CEIC and Consensus Economics, May 2015
*Refers to fiscal year ending Mar.
**Actual GDP growth.

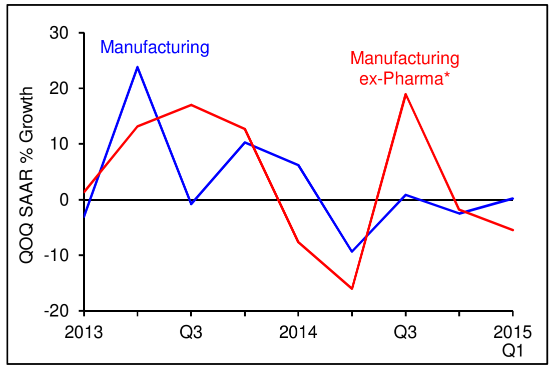
B. Domestic Developments

The Singapore economy saw a slower expansion in Q1 2015

Growth in the Singapore economy weakened slightly in Q1 2015, with GDP rising by 3.2% q-o-q saar, down from 4.9% in the preceding quarter. The slower pace largely reflected a reversal of momentum in the sentiment-sensitive segments within the financial services industry. However, the drag was cushioned by a stronger performance in the trade-related sectors, as activity recovered in some of the oil-related industries.

The manufacturing sector recorded a marginal expansion of 0.2% q-o-q saar in Q1 2015, following the contraction in the preceding quarter. However, much of the improvement stemmed from a surge in pharmaceutical output. Abstracting from this volatile segment, most of the manufacturing sector saw broad-based retractions. The domestic electronics cluster pulled back, following the growth spurt in the latter half of 2014. Apart from cyclical headwinds, domestic factors also exerted some drag on the electronics industry. Notably, output of final electronics products shrank, as restructuring towards higher-value production and services-oriented activities continued into 2015. Pockets of weakness in the marine and offshore segment of the transport engineering cluster reflected a downshift in global oil and gas exploration activities. The chemicals cluster was a bright spot against this sluggish backdrop, as production resumed after a series of scheduled plant maintenance shutdowns in Oct–Nov last year.

Manufacturing growth was flat in Q1.



* EPG, MAS estimates

In comparison, the trade-related services industries saw a broad-based step-up in momentum in Q1 2015 on account of a few factors. First, the turnaround in oil refining and chemicals output generated positive spillovers to the wholesale and transport sectors. Oil export volumes recorded a healthy increase of 7.6% q-o-q sa in Q1 2015, with oil sea cargo rising in tandem. At the same time, exports of chemicals also saw a double-digit surge. Second, non-oil re-export volumes continued to expand in Q1, with the electronics segment providing the bulk of the support. Leveraging on Singapore's comparative advantage as a distribution and logistics hub, domestic electronics re-exporters have been able to benefit from the wave of global demand for new mobile computing devices produced in regional production networks.

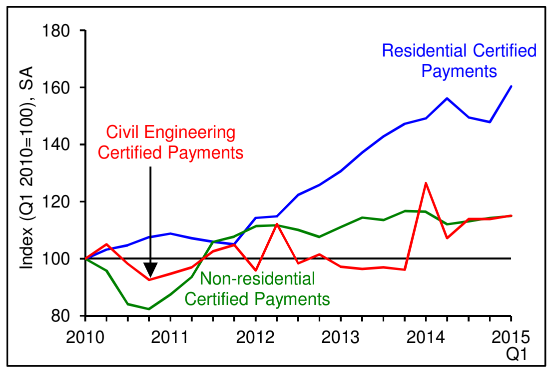
The financial services sector contracted sharply by 12.5% q-o-q saar in Q1 2015, weighed down largely by a cyclical pullback in the sentiment-sensitive cluster. The fund management industry in particular, saw a marked sequential step-down in net fees and commissions, as the boost from the year-end performance fees in Q4 2014 dissipated.

Meanwhile, IPO activities on the local bourse stalled, with no new equity raised during the quarter amid tepid investor interest in the local equity scene. Likewise, average daily turnover in the stock market extended its downtrend for the fourth consecutive quarter with a 1.3% q-o-q decline. Nevertheless, there was some support from the DBU segment, following improvements in lending margins alongside rising domestic interest rates.

Tourism-related activities remained lacklustre in Q1 2015, largely on the back of a dip in Asian air passenger arrivals, particularly from Indonesia. Notably, tourist arrivals from this key visitor market fell by 8.9% q-o-q sa in Q1 2015, registering its fourth consecutive quarter of decline. The muted outcome was due, in part, to significant cutbacks in seat capacity by low cost carriers between the two countries, driven by declining demand in the face of persistent weakness in the Indonesian rupiah vis-a-vis the Singapore dollar. Consequently, accommodation & food services shrank by 7.4% q-o-q saar in Q1, in contrast with the modest 1.2% expansion in the preceding quarter.

Meanwhile, the domestic-oriented sector was an important support for the economy, underpinned by resilient building activities. The construction sector expanded by 12.9% q-o-q saar in Q1 2015, a step-up from the 2.2% growth posted in the preceding quarter. The increase in activity was led by both the private and public residential segments, as works on projects nearing completion gathered momentum. However, the non-residential segment moderated, following a strong performance in the second half of last year, with the completion of several suburban malls and commercial office buildings.

Construction activities grew strongly in Q1.



Source: EPG, MAS estimates

Both consumer- and corporate- facing services turned in a quarter of modest growth in Q1 2015. Overall retail sales volume rose marginally by 1.5% q-o-q sa in the recent quarter. Notably, motor vehicle sales recorded a 17.6% rebound on the back of strong replacement demand for cars nearing the 10-year scrapping mark. Nonetheless, non-vehicle domestic retail expenditure was flat, with sluggish spending across both discretionary and non-discretionary items. Meanwhile, corporate-facing services continued to expand, albeit at a slower pace, supported by resilient demand for professional services such as architectural engineering and head office operations.

The domestic economy is on track to expand moderately in 2015

The Singapore economy should remain on a moderate growth trajectory over the next few quarters, with GDP growth forecasted to come in at 2–4% in 2015. Led by the advanced economies, gradual improvements in the global environment should impart some impetus to Singapore's external-oriented industries. Modest expansions in the global IT industry, on the back of firmer demand in the developed economies, would also benefit certain pockets of the domestic electronics cluster, although the full extent of such positive spillovers will be restrained as domestic IT production transitions towards higher margin activities.

In comparison, the slowdown in China could cap prospects for global commodities and tourism, which in turn could weigh on merchanting trade, transport & storage and accommodation & food services in Singapore. While some recovery in global oil prices will support the domestic chemicals cluster, there will be pockets of weakness in segments such as transport engineering amid the downshift in global oil exploration activities.

Concomitantly, the domestic-oriented sectors will be supported by a pipeline of public sector-driven expansions in healthcare and education, as well as in transport infrastructure. The deferment of foreign worker levy hikes this year will also provide a temporary respite to the more labour-intensive domestic sectors. Domestic intermediation activities could also benefit from a rise in lending margins as more loans are gradually re-priced, although such improvements may be constrained by concurrent increases in banks' funding costs.

There are potential external and domestic headwinds to growth. Reforms being undertaken in China and the risk of unexpected negative effects on the property sector could weigh on short-term prospects in the region. While the direct impact is likely to be contained, a potential Greek exit would have adverse spillovers to the rest of the Eurozone bloc. Financial market volatility in response to uncertainty about the timing and extent of the Fed's interest rate hike, as well as ongoing political instability in various parts of the world could also dampen investor and business sentiments in the near term.

On the domestic front, the restructuring towards productivity-led growth will continue apace. Notwithstanding some temporary reprieve from the deferment of government levy increases, companies will face continued margin pressures amid a tight labour market environment. While this could limit the extent of the cyclical upturn in the short term, the restructuring exercise would facilitate Singapore's transformation into a knowledge- and skills-intensive economy over the medium term, characterised by productivity-led growth. This is in line with Singapore's evolving comparative advantage and would set the stage for a new era of sustainable growth for a mature economy with an ageing population.

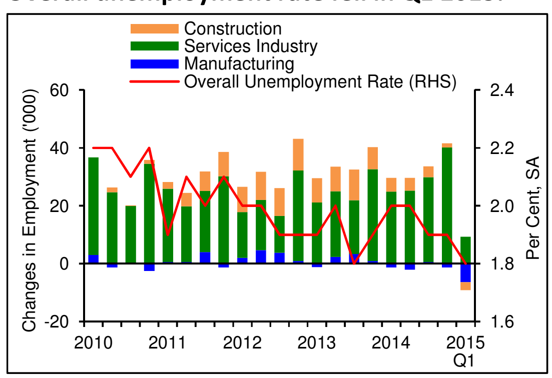
C. Labour Market and Consumer Prices

Overall employment gains fell in Q1 2015

Preliminary estimates showed that overall employment gains slowed to 300 in Q1 2015, from 40,700 in Q4 2014. Total headcount fell in the manufacturing and construction sectors, while hiring moderated in services. Manufacturing cut 6,400 jobs, after shedding 1,400 workers in the previous quarter, in part reflecting the ongoing restructuring in the sector. The petroleum & chemical products cluster saw employment losses following the completion of repair and maintenance works, while the offshore & marine segment reduced headcount due to a weaker outlook arising from the lower oil prices. The construction sector had 2,800 fewer jobs in Q1 2015, after adding 1,500 workers in the preceding quarter. This was on account of the completion of a few developments, such as the South Beach Tower and the Fairprice Hub.

The services sector added 9,300 jobs in Q1 2015, compared to 40,100 jobs created in the previous quarter. This slowdown was partly due to the release of temporary workers in the retail trade and accommodation & food services sectors, who were employed to meet the seasonal pick-up in consumer demand during the festive period at the end of 2014 and Chinese New Year. Hiring sentiments in these sectors were also dampened by the weak outlook given falling tourism arrivals. However, job creation remained strong in education, healthcare and other social services, on account of the on-going capacity expansion in these areas.

Overall unemployment rate fell in Q1 2015.

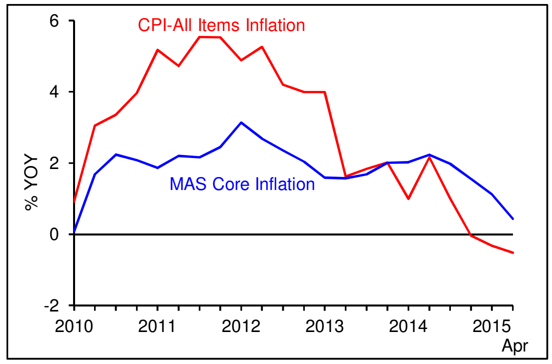


Notwithstanding the slower employment growth, the labour market tightened further. The incidence of redundancy remained low, while job vacancy rate trended up. With fewer layoffs across major industries, the overall seasonally-adjusted unemployment rate edged down to 1.8% in March 2015, from 1.9% three months earlier. At the same time, the resident unemployment rate dipped to 2.5%, from 2.7% in December 2014. Correspondingly, wage growth rose to 3.0% y-o-y in Q1 2015, from 0.8% in the previous quarter. The pick-up in wages was broad-based, with the strongest gains seen in retail trade, transport & storage and community, social & personal (CSP) services.

Employment gains are likely to pick up in Q2 2015, following the seasonal job losses in the hospitality-related sectors in Q1. Labour demand is expected to stay firm in services such as public administration, education and financial services, as suggested by the latest manpower surveys. Employment in the construction sector should be supported by new public projects in the pipeline and the ramp-up in existing developments such as Project Jewel. **Given the tight labour market, wage pressures are likely to remain firm.**

CPI All-Items and MAS Core Inflation fell in April 2015

Consumer price inflation eased further in April.



The impact of sharply lower global oil prices and budgetary measures to reduce healthcare and education costs continued to exert downward pressure on consumer prices. At the same time, the pass-through of domestic costs to consumer prices was moderate, given the slow growth environment. As a result, MAS Core Inflation, which excludes the costs of accommodation and private road transport, fell to 1.1% y-o-y in Q1 2015 and 0.4% in April, from 1.6% in Q4 2014. CPI-All Items inflation was further dampened by the decline in housing rentals, declining to −0.3% in Q1 2015 and −0.5% in April, from 0% in Q4 2014.

External price pressures were benign. Prices of direct oil-related items[1] fell by 11.2% in Q1 2015 and 11.7% in April, following the 4.4% drop in Q4 2014, due to the plunge in global oil prices. Meanwhile, food inflation moderated to 2.3% in Q1 and 2.1% in April, from 2.7% in the final quarter last year, as the impact of supply disruptions on regional food prices abated.

Services inflation slowed to 1.4% in Q1 2015 and 1.1% in April, from 1.6% in Q4 2014, largely owing to the impact of budgetary measures, including the increase in medication subsidies in polyclinics and Specialist Outpatient Clinics and the waiver of national examination fees.[2] Holiday travel was also cheaper given weak consumer sentiment and lower fuel cost.

Costs of accommodation and private road transport continued to ease. Accommodation cost declined by 2.1% and 2.5% in Q1 2015 and April respectively, extending the 1.3% fall in Q4 2014, as the housing rental market softened further. Meanwhile, private road transport cost declined by 4.9% in Q1 2015 and 2.1% in April 2015, a moderation from the 5.4% drop in Q4 2014, reflecting the smaller correction in COE premiums on a year ago basis as well as the recent increase in petrol duty rates.

[1] Direct oil-related items include electricity, liquefied petroleum gas and gas for domestic use, as well as fuels & lubricants (including petrol).

[2] As announced in Budget 2015, examination fees have been waived for Singaporeans in Government-funded schools taking the Primary School Leaving Examination (PSLE), Singapore-Cambridge General Certificate of Education (GCE) 'N' and 'O' levels, as well as for Singaporeans enrolled full-time in polytechnics and Institutes of Technical Education (ITE).

External sources of inflation are expected to be generally benign, given ample supply buffers in the major commodity markets. Global oil prices should remain much lower for the whole of 2015 than the US$93 average[3] recorded last year. Global food commodity inflation is also expected to be modest on account of abundant stockpiles, although administrative measures, including tax hikes and subsidy reductions, could result in some upward pressure on prices of regional food items.

Domestic price influences are likely to be contained. While domestic cost pressures could persist due to the tight labour market, the extent which businesses pass on accumulated costs to consumer prices could be tempered by the moderate economic environment. At the same time, the suite of budgetary measures announced recently will help to alleviate some of the price pressures faced by consumers.[4] Car prices and imputed rentals on owner-occupied accommodation should also continue to dampen overall inflation slightly amid the anticipated increase in the supply of COEs and newly-completed housing units.

MAS Core Inflation and CPI-All Items inflation are expected to ease further before rising towards the end of the year and into 2016, as global oil prices pick up and the effects of the budgetary measures dissipate. For the whole of 2015, MAS Core Inflation is projected to be 0.5–1.5%, compared to 1.9% in 2014. CPI-All Items inflation is expected to be −0.5–0.5% in 2015, after coming in at 1.0% last year.

[3] This refers to the West Texas Intermediate (WTI) benchmark oil price.

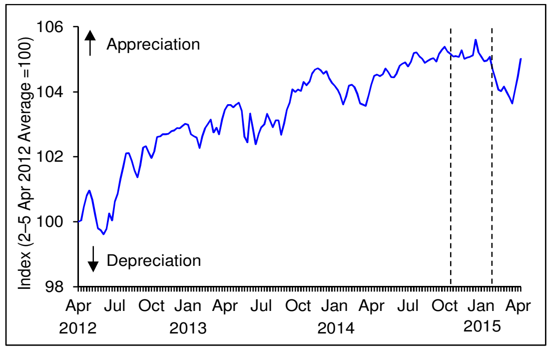
[4] The recent budgetary measures include the reduction in the concessionary foreign domestic helper levy, the one-year road tax rebates, and the abolition of national examination fees for Singaporeans. These are on top of the increase in medical subsidies, which will continue to dampen inflation on a year ago basis until early 2016.

D. Macroeconomic Policies

Monetary Policy: MAS maintained the policy stance in April 2015

The Singapore economy appears to be on track to grow at a moderate pace in 2015. Global growth prospects remain uneven across countries but have improved slightly on aggregate, anchored by the recovery in the G3 and the steady improvement in Asia ex-Japan. This should provide some support to Singapore's external-oriented sectors, although the expansion could be capped by ongoing reconfigurations in the electronics industry. In comparison, the domestic-oriented sectors, especially those with firm underlying demand, such as healthcare and education, should stay broadly resilient. On balance, Singapore's GDP is forecast to expand by 2–4% in 2015.

MAS maintained the modest and gradual appreciation path of the S$NEER policy band in April 2015.



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Inflation is expected to ease further, before rising in end-2015 and into 2016. External price pressures should be contained due to favourable supply conditions in key commodity markets, but could pick up slightly as global oil prices rise in the latter part of this year. The disinflationary effects of the government's budget measures will also fade from Q4 2015. Accordingly, the forecasts for CPI-All Items inflation and MAS Core Inflation for this year are unchanged from those announced in January, at −0.5–0.5% and 0.5–1.5%, respectively. However, with the labour market at full employment, underlying cost pressures risk mounting and passing through more strongly to consumer prices over the medium term.

MAS kept the S$NEER policy band on a modest and gradual appreciation path in April 2015, with no change to the slope, width and level at which it was centred. This policy stance was assessed to be consistent with the benign inflation outlook and moderate growth prospects in 2015, and appropriate for ensuring medium-term price stability in the economy.

Fiscal Policy: The FY2015 Budget focused on laying the foundations for future growth and strengthening social security

The FY2014 Budget outcome was a smaller deficit of $0.1 billion (0.0% of GDP), compared to the $1.2 billion shortfall projected earlier. This was mainly due to higher-than-expected revenue from motor vehicle taxes, vehicle quota premiums and corporate income tax, which more than offset a slightly larger expenditure outturn on manpower.

Budget 2015 was centred on building Singapore's future in four major areas. First, it focused on developing human capital. Details of the SkillsFuture initiative were unveiled, encompassing credits for work skills-related courses, awards to develop mastery in specialist skills in identified growth clusters, training support for mid-career workers, and stronger industry collaboration, among other measures. The wide range of measures would help Singaporeans develop deep skills and expertise in every job, with the government playing the role of an active enabler.

Second, the Budget aimed to entrench the impact of past restructuring initiatives by expanding on previous measures to boost innovation and internationalisation. Financial support to encourage firms to innovate and venture abroad was increased. Budget 2015 also introduced concessionary tax rates for internationalising firms, and piloted a new risk-sharing scheme to provide young and fast-growing companies with alternative financing options. To give businesses more time to adjust to rising costs as they restructure, the Transition Support Package, which was due to lapse at the end of this financial year, would now be phased out gradually—the Wage Credit Scheme and Corporate Income Tax Rebate were extended, although the Productivity and Innovation Credit Bonus was allowed to expire. There was also a deferment in the previously-announced foreign worker levy increases, to help firms gradually adapt to a permanently tight labour market.

Third, major infrastructural investments were committed to meet Singapore's future economic and social needs. These included the development of Changi Airport's new terminal T5, vast improvements in public transport and housing estates, as well as the expansion in the capacity of hospitals and nursing homes.

Fourth, Budget 2015 made further strides in strengthening social security for lower- and middle-income Singaporeans. Building on existing measures in our social security framework, such as Workfare and enhanced medical subsidies for the elderly, this Budget introduced the Silver Support Scheme, which provides an income supplement for the bottom 20–30% of Singaporeans aged 65 and above based on their lifetime income, extent of family support, and housing type. The Budget also aimed to enhance CPF savings by raising the salary ceiling to benefit middle income workers, and increasing the CPF contribution rates as well as interest rates earned on CPF balances for Singaporeans aged 55 and above.

In order to meet increased government spending over the medium term, Budget 2015 introduced two measures to strengthen the revenue base. The first was the proposal to allow the government to spend up to 50% of the expected long term real returns on its net assets managed by Temasek, on top of that by MAS and GIC. Second, personal income tax rates were raised by 1–2% points for the top 5% of income earners. This also had the effect of making the tax regime more progressive and thus more equitable.

For FY2015, the government has projected an overall budget deficit of $6.7 billion (1.7% 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 (excluding top-ups to endowment and trust funds), is projected to record a deficit of $9.6 billion (2.4% of GDP).

Summary of Fiscal Position

	FY 2013		FY 2014 Revised		FY 2015 Budgeted	
	$billion	% of GDP	$billion	% of GDP	$billion	% of GDP
Operating Revenue	57.0	14.9	61.3	15.7	64.3	16.0
Total Expenditure	51.7	13.5	57.2	14.6	68.2	17.0
Operating Expenditure	39.7	10.4	43.3	11.1	48.7	12.1
Development Expenditure	12.0	3.1	13.9	3.5	19.5	4.8
Primary Surplus/Deficit (-)	**5.3**	**1.4**	**4.2**	**1.1**	**(3.9)**	**(1.0)**
Less: Special Transfers Excluding Top-ups to Endowment and Trust Funds	3.0	0.8	4.3	1.1	5.7	1.4
Basic Surplus/Deficit (-)	**2.3**	**0.6**	**(0.2)**	**(0.0)**	**(9.6)**	**(2.4)**
Less: Top-ups to Endowment and Trust Funds	5.6	1.5	8.5	2.2	6.0	1.5
Add: NIR Contribution	8.3	2.2	8.6	2.2	8.9	2.2
Budget Surplus/Deficit (-)	**5.0**	**1.3**	**(0.1)**	**(0.0)**	**(6.7)**	**(1.7)**

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, 2014			
Land Area (Sq km)	718.3	Literacy Rate* (%)	96.7
Total Population ('000)	5,469.7	Real Per Capita GDP (US$)	54,915
Labour Force ('000)	3,530.8	Gross National Savings (% of GNI)	48.2
Resident Labour Force Participation Rate (%)	67.0		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2014		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2014	
Manufacturing	18.4	Private Consumption	37.2
Wholesale & Retail Trade	17.5	Public Consumption	10.1
Business Services	15.8	Private Gross Fixed Capital Formation	20.8
Finance & Insurance	12.5	Public Gross Fixed Capital Formation	4.9
Transportation & Storage	6.9	Increase in Stocks	2.3
Construction	5.1	Net Exports of Goods & Services	24.7
Information & Communications	4.0		
Accommodation & Food Services	2.2		

MAJOR EXPORT DESTINATIONS (% SHARE), 2014		MAJOR ORIGINS OF IMPORTS (% SHARE), 2014	
Total Exports (S$ Billion)	518.9	Total Imports (S$ Billion)	463.8
China	12.6	China	12.1
Malaysia	12.0	Malaysia	10.7
Hong Kong	11.0	US	10.3
Indonesia	9.4	Taiwan	8.2
US	5.6	South Korea	5.9
ASEAN	31.2	ASEAN	20.6
NEA-3	19.0	NEA-3	15.0
EU	7.8	EU	11.7

Source: IE Singapore

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2014		MAJOR IMPORTS BY COMMODITY (% SHARE), 2014	
Domestic Exports (S$ Billion)	273.5	Total Imports (S$ Billion)	463.8
Mineral Fuels	39.1	Mineral Fuels	31.0
Chemicals	18.1	Electronics	25.6
Electronics	17.6	Machinery & Transport Equipment (ex. Electronics)	15.8
Machinery & Transport Equipment (ex. Electronics)	9.3	Manufactured Articles	7.6
Manufactured Articles	9.2	Chemicals	7.1
Manufactured Goods	2.4	Manufactured Goods	6.9

Source: IE Singapore

OVERALL ECONOMY	2013	2014	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Mar-15	Apr-15
GDP at current prices (S$ bil)	378.2	390.1	98.2	96.4	96.8	97.4	99.5	98.7	na	na
GDP (US$ bil)	302.2	307.9	78.5	75.9	77.3	77.8	76.9	72.8	na	na
Real GDP Growth (YOY % change)	4.4	2.9	5.4	4.6	2.3	2.8	2.1	2.6	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	7.4	1.8	-0.5	2.6	4.9	3.2	na	na
By Sector (YOY % change):										
Manufacturing [1/]	1.7	2.6	7.1	9.6	1.3	1.7	-1.3	-2.7	-5.5	-8.7
Electronics [1/]	3.5	-0.2	19.4	9.1	-5.8	0.0	-2.8	-3.3	-5.2	1.2
Non-electronics [1/]	0.9	3.9	2.5	9.8	4.4	2.4	-0.4	-2.5	-5.6	-12.2
Finance & Insurance	12.2	7.7	12.8	5.4	5.1	9.9	10.3	7.9	na	na
Business Services	4.9	2.9	5.4	3.9	2.2	2.6	2.9	2.8	na	na
Construction	6.3	3.0	6.1	7.4	3.0	1.1	0.7	3.1	na	na
Transportation & Storage	3.5	1.7	5.2	5.4	2.0	0.1	-0.4	1.5	na	na
Information & Communications	7.6	3.6	7.6	2.8	3.2	4.0	4.4	4.6	na	na
Wholesale & Retail Trade	6.7	1.7	5.6	2.7	1.6	2.1	0.6	4.1	na	na
Accommodation & Food Services	3.3	1.1	2.5	2.0	0.1	1.0	1.3	-0.4	na	na
By Expenditure Component (YOY % change):										
Consumption	5.2	2.0	5.7	-0.6	4.9	1.5	2.4	3.3	na	na
Private	3.6	2.5	3.3	2.8	3.1	1.9	2.2	2.8	na	na
Public	11.5	0.1	15.8	-9.8	13.6	-0.2	3.3	4.7	na	na
Gross Fixed Capital Formation	1.1	-1.9	-0.9	-0.7	-2.4	-5.6	1.2	2.6	na	na
Private	1.2	-4.5	-1.1	-4.1	-5.1	-8.5	-0.1	3.3	na	na
Public	0.7	10.4	0.0	13.4	11.6	9.5	7.3	0.1	na	na
External Demand	4.5	2.1	6.4	6.9	2.0	-0.3	0.2	4.7	na	na
TRADE										
Total Exports, fob (YOY % change)	0.6	1.1	6.0	7.4	2.7	-1.4	-3.8	-5.4	0.7	-9.3
Non-Oil Domestic Exports	-6.0	-0.7	-2.1	-1.0	-3.4	1.1	0.5	4.8	18.5	2.2
Re-Exports	6.2	2.6	14.2	12.5	2.3	-2.3	-0.6	1.6	-1.4	-5.6
Total Imports, cif (YOY % change)	-1.6	-0.6	1.4	6.8	3.0	-5.7	-6.0	-16.1	-14.8	-14.2
WAGE-PRICE INDICATORS										
Unemployment Rate (SA,%)	1.9	2.0	1.9	2.0	2.0	1.9	1.9	1.8	na	na
Average Nominal Wages (S$ per month)	4,622	4,727	4,998	5,108	4,445	4,314	5,040	5,259	na	na
Consumer Price Index Inflation (YOY % change)	2.4	1.0	2.0	1.0	2.2	1.0	0.0	-0.3	-0.3	-0.5
MAS Core Inflation (YOY % change)	1.7	1.9	2.0	2.0	2.2	2.0	1.6	1.1	1.0	0.4
FINANCIAL INDICATORS [2/]										
S$ Exchange Rate Against: (end-period)										
US Dollar	1.2653	1.3213	1.2653	1.2605	1.2490	1.2728	1.3213	1.3765	1.3765	1.3230
100 Japanese Yen	1.2061	1.1060	1.2061	1.2252	1.2326	1.1643	1.1060	1.1447	1.1447	1.1120
Euro	1.7452	1.6072	1.7452	1.7328	1.7041	1.6157	1.6072	1.4876	1.4876	1.4689
Interest Rates (end-period, % p.a.)										
3-month Fixed Deposit Rate	0.14	0.14	0.14	0.15	0.14	0.14	0.14	0.17	0.17	0.17
3-month S$ SIBOR	0.40	0.46	0.40	0.41	0.40	0.41	0.46	1.01	1.01	0.89
Prime Lending Rate	5.38	5.35	5.38	5.35	5.35	5.35	5.35	5.35	5.35	5.35
Money Supply (end-period)										
Broad Money, M2 (YOY % change)	4.3	3.3	4.3	2.0	0.6	1.9	3.3	3.9	3.9	4.5
Straits Times Index (end-period)	3,167.4	3,365.2	3,167.4	3,188.6	3,255.7	3,276.7	3,365.2	3,447.0	3,447.0	3,487.4
YOY % change	0.0	6.2	0.0	-3.6	3.3	3.4	6.2	8.1	8.1	6.8
GOVERNMENT BUDGET [3/]										
Operating Revenue (S$ mil)	57,054	59,995	12,525	13,498	15,868	16,595	14,034	14,303	na	na
Total Expenditure (S$ mil)	52,329	54,805	13,624	16,722	10,920	12,950	14,214	18,536	na	na
Operating Expenditure	40,390	41,758	10,664	13,033	7,698	9,702	11,326	13,943	na	na
Development Expenditure	11,939	13,047	2,960	3,689	3,222	3,248	2,888	4,592	na	na
Primary Surplus/Deficit (S$ mil)	4,725	5,190	-1,099	-3,224	4,948	3,645	-179	-4,233	na	na
% of GDP	1.2	1.3	-1.1	-3.3	5.1	3.7	-0.2	-4.3	na	na
BALANCE OF PAYMENTS										
Current Account Balance (% of GDP)	17.9	19.1	17.0	16.2	18.4	22.4	19.2	27.2	na	na
Goods Balance	24.6	24.8	24.9	21.8	25.5	26.6	25.3	31.8	na	na
Services Balance	-1.4	-0.4	-1.6	0.0	-1.4	0.5	-0.6	0.9	na	na
Primary Income Balance	-3.1	-3.0	-4.0	-3.2	-3.3	-2.3	-3.1	-3.1	na	na
Secondary Income Balance	-2.3	-2.3	-2.3	-2.4	-2.3	-2.3	-2.3	-2.4	na	na
Capital & Fin Account Balance (% of GDP)	-11.9	-16.1	-10.2	-14.5	-12.4	-19.8	-17.6	-30.2	na	na
Direct Investment	11.9	8.7	6.9	7.7	8.4	5.6	13.1	13.6	na	na
Portfolio Investment	-21.8	-17.2	-38.6	-27.6	-37.4	-4.9	0.5	-11.1	na	na
Financial Derivatives	4.4	4.0	3.7	2.9	3.1	3.7	6.2	4.0	na	na
Other Investment	-6.4	-11.7	17.8	2.5	13.4	-24.3	-37.5	-36.7	na	na
Overall Balance (% of GDP)	6.0	2.2	7.8	0.5	4.8	3.5	0.1	-1.3	na	na
Official Foreign Reserves (US$ mil) [4/]	273,065	256,860	273,065	272,941	277,967	266,142	256,860	248,404	248,404	251,921
Months of Imports	8.8	8.4	8.8	8.7	8.8	8.5	8.4	8.6	8.6	8.9

Source:

[1/] Index of Industrial Production from EDB.

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

[3/] Ministry of Finance

[4/] MAS

na: Not available