Monetary Authority of Singapore

RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

4 December 2015

	2014		2015		
	Q4	Full Year	Q1	Q2	Q3
Real Sector					
Real GDP Growth, y-o-y %	2.1	2.9	2.7	2.0	1.9
Real GDP Growth, q-o-q saar %	4.9	-	3.5	−2.6	1.9
Index of Industrial Production, y-o-y %	−1.2	2.7	−2.6	−4.7	−6.1
Non-oil Domestic Exports, y-o-y %	0.5	−0.7	4.8	2.1	−3.0
Labour Market and Prices					
Unemployment Rate, sa, % (Average)	1.9	2.0	1.8	2.0	2.0
CPI-All Items Inflation, y-o-y %	0.0	1.0	−0.3	−0.4	−0.6
Wage Growth, y-o-y %	0.8	2.3	3.0	3.7	4.1

The Singapore economy recouped some of the momentum lost in Q2 and expanded mildly in Q3 2015

Singapore's GDP rose by 1.9% q-o-q saar (quarter-on-quarter seasonally-adjusted annualised rate) in Q3 2015, following a 2.6% decline in the previous quarter. The growth partly reflected a pickup in oil-related trade, as declining oil prices spurred an increase in oil trading, transport & storage activities. The manufacturing sector however continued to languish on the back of persistent weakness in the electronics and marine & offshore engineering clusters.

Global growth is expected to improve in 2016, although downside risks remain in Asia

Inventory destocking and sluggish investment in the G3 economies, as well as slowing Chinese demand in Asia ex-Japan dampened global growth in Q3 2015. While the G3 are expected to remain on a modest expansion path as temporary headwinds dissipate, the near-term outlook for Asia ex-Japan is clouded by uncertainties, such as the impact from the impending US interest rate lift-off and China's growth rebalancing.

Modest domestic GDP growth is expected to continue into 2016

Looking ahead, economic momentum in the domestic economy is expected to remain modest, and for the year as a whole, GDP growth is projected at close to 2% for 2015 and 1–3% for 2016. A gradual improvement in the advanced economies should provide some support to pockets of trade-related industries, and partially offset the subdued regional demand. Meanwhile, domestic-oriented sectors will remain generally resilient despite ongoing supply-side constraints as firms continue to take steps to boost productivity.

Core inflation is set to pick up in 2016

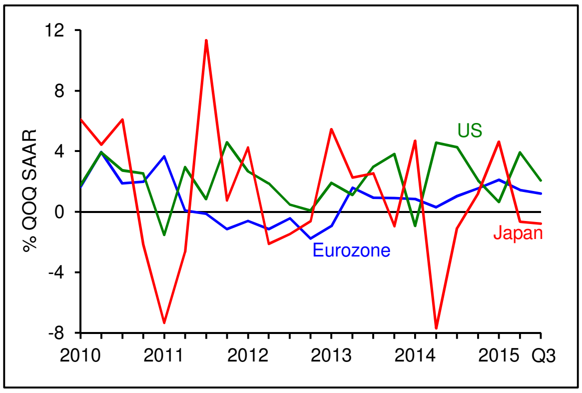
MAS Core Inflation is expected to rise gradually over the course of 2016, as the effects of temporary disinflationary factors dissipate. Accordingly, MAS Core Inflation is projected to pick up to 0.5–1.5% in 2016, after coming in around 0.5% in 2015. CPI-All Items inflation should average between –0.5 and 0.5% in 2016, compared to around –0.5% in 2015.

A. External Developments

A pullback in G3 growth

Economic growth in the G3 economies slowed to 1.1% q-o-q saar in Q3 2015, from 1.9% in Q2, mainly on account of a moderation in the pace of US activity. Although final demand only ceded momentum slightly, headline US GDP was weighed down by a sizeable inventory correction. A large inventory drawdown also explained Japan's relapse into a technical recession in Q3, even though household consumption staged a rebound. Meanwhile, the Eurozone economy slowed, as sluggish investment and weaker growth in Asia restrained exports. The G3 economies should pick up slightly as transitory drags dissipate, with aggregate GDP growth seen improving to 2.0% in 2016, from 1.6% this year.

Growth slowed across the G3 in Q3.



Source: Datastream and CEIC

The US economic expansion weakened after a strong second quarter. GDP growth in Q3 2015 came in at 2.1% q-o-q saar, a marked deceleration from the robust pace of 3.9% in Q2, due to a significant drawdown of inventories and some easing in final spending. Consumer spending grew at close to its trend rate in Q3, rising by 3.0% q-o-q saar and continuing to be the mainstay of the ongoing recovery. However, fixed investment growth moderated to 3.4% in Q3, from 5.2% in Q2, mainly due to an oil-related plunge in structures investment. The contribution of net exports swung from a positive 0.2% point in Q2 to −0.2% point in Q3, amid a softening in global demand and the strong US dollar. Changes in inventories deducted a larger 0.6% point from overall growth, as firms slowed the pace of stock-building. Following a period of rapid expansion over the previous three quarters, residential investment growth eased to 7.3% q-o-q saar in Q3.

The US economy is expected to maintain moderate growth for the rest of 2015 and in 2016, underpinned by private consumption, as households benefit from the gradual improvement in their balance sheets over the last few years. The ratio of household debt to gross disposable income has fallen from 130% in 2007 to 102% by Q2 2015, while the savings rate rose to 5.6% in October 2015. Household spending will also be supported by a healthy labour market, as indicated by firm job gains, which averaged 187,000 jobs over August–October, and a steady decline in the unemployment rate to 5.0% in October. However, robust consumer spending has so far benefited the services sector more than manufacturing production, which remained in the doldrums. Notably, the ISM non-manufacturing PMI was 55.9 in November, even as its manufacturing counterpart languished at 48.6. On balance, US GDP growth is expected to come in at 2.4% in 2015, before edging up to 2.6% in 2016.

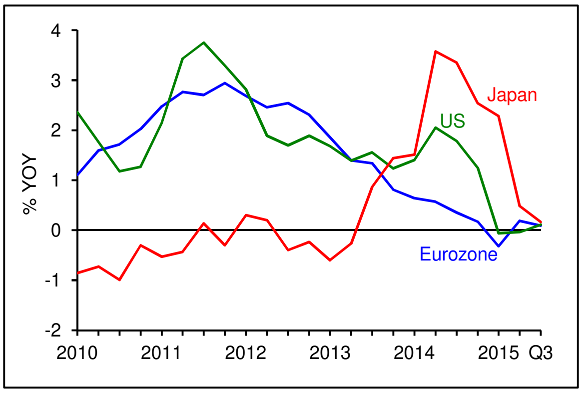
Growth momentum in the Eurozone slackened in Q3 2015, as external demand faltered. The region's growth slowed sequentially to 1.2% q-o-q saar in Q3, from 1.4% in Q2 and 2.1% in Q1. Anaemic trade and subdued investment spending accounted for the weaker outcome, although consumer and public spending provided some offset. The sluggishness in growth was broad-based across the bloc, with both core and peripheral economies expanding at a slower clip. Germany grew by a lacklustre 1.3% q-o-q saar, weighed down largely by a contraction in net exports, as demand from China and the US ebbed. In turn, the export drag exacerbated industrial weakness—production activity in Q3 recorded its first quarterly decline since mid-2014. France registered 1.4% q-o-q saar growth in Q3, with economic activity dampened by lethargic investment spending. Meanwhile, Italy and the Netherlands managed marginally positive growth. Greece lapsed into an outright contraction, as the financial turmoil and capital controls imposed in the quarter weighed on real economic activity. Spain was the only bright spot in the region, although its growth eased to 3.2% q-o-q saar in Q3, from 4.0% in the previous quarter.

Nonetheless, the recovery in the Eurozone remains broadly on track, supported by improving domestic demand. Consumer spending is expected to be bolstered by a gradual rise in real disposable incomes as the labour market's continued recovery results in healthy employment and wage gains. Reflecting the upturn in sentiment, the European Commission's consumer confidence indicator posted a rebound in November, in line with its steadily increasing trend since 2013. A further easing of monetary policy, principally through an extension of the ECB's ongoing asset purchase programme by six months to March 2017, is anticipated to provide incremental support to economic sentiment and activity. However, investment is likely to stay subdued, given existing slack in the economy, while exports will be capped by weak external demand, particularly from the slowing Chinese economy. Taking these factors into account, Eurozone growth is projected to firm slightly to 1.5% in 2015 and 1.7% in 2016.

The Japanese economy slipped into technical recession in Q3. Although overall output declined more, by −0.8% q-o-q saar compared with −0.7% in Q2, the expenditure breakdown of GDP suggested a stronger underlying outturn. The negative print in Q3 was mainly attributed to inventory destocking, which subtracted 2.1% points from aggregate growth. More encouraging, private consumption recovered from a contraction in Q2 to increase by 2.1% in Q3, while residential investment rose by a solid 8.0% in a third straight quarter of expansion. In addition, net exports contributed positively to overall growth in Q3, the first such boost since Q4 2014.

A modest recovery is envisaged for 2016 on the back of a pickup in domestic demand. The current recession is not expected to last, with underlying demand conditions poised to improve. Although still relatively restrained, real wage growth turned positive in y-o-y terms in Q3, reflecting the tight labour market. A sustained rise in real wages would lend greater momentum to household consumption in the next few quarters. Moreover, firms' capital expenditure is expected to pick up gradually, supported by healthy corporate profits and diminishing spare production capacity. On the downside, the stock of inventories remains elevated and this may continue to be a drag on industrial production, even as muted external demand from the rest of Asia hinders export growth. All in, Japan's GDP growth is projected to come in at 0.6% in 2015 and 1.3% in 2016.

G3 price levels stayed flat in Q3.

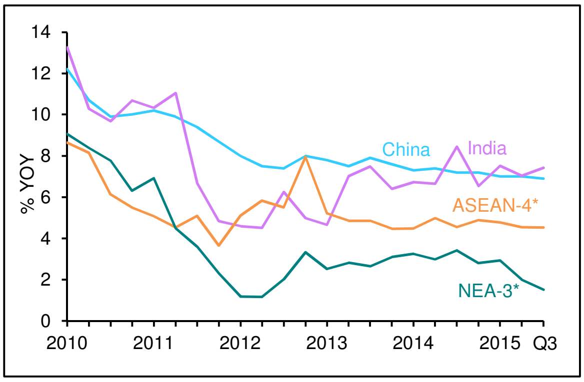


Source: Datastream and CEIC

Low oil prices kept CPI inflation in the G3 economies barely above zero in Q3. US consumer prices inched up by 0.1% y-o-y in Q3, after staying flat in Q2. However, core inflation, at 1.9% in October, was well above that in the other G3 economies, reflecting reduced labour market slack and well-anchored inflation expectations. In the Eurozone, headline inflation dipped to 0.1% y-o-y in Q3 from 0.2% in the previous quarter, on a renewed decline in energy prices. In comparison, core inflation ticked up to 0.9%, continuing on a slow upward trajectory for the second quarter in a row. In Japan, headline CPI inflation fell to 0.2% y-o-y in Q3 from 0.5% in Q2, as lower energy costs more than offset rising food inflation. With the base effects from oil prices expected to dissipate next year, the headline inflation rate in the G3 economies is projected to rise sharply to 1.4%, from 0.2% in 2015.

Asia ex-Japan growth slowed in Q3 2015

Growth in Asia ex-Japan eased in Q3.



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.

Asia ex-Japan's weighted growth slipped to 4.6% y-o-y in Q3 2015 from 4.7% in Q2. Economic activity in China continued to slacken, as excess industrial capacity weighed on industrial production and fixed asset investment. The concomitant retrenchment in commodity demand dragged the region's overall exports down. In the ASEAN-4 economies, growth was also held back by subdued domestic demand, as households and firms faced a confluence of headwinds ranging from high household debt to political uncertainty. Looking ahead, the region may have to contend with a further tightening of financial conditions and capital outflows as the Fed begins to normalise interest rates. All in, growth in Asia ex-Japan is expected to come in at a muted 4.7% in 2015, before improving slightly to 4.8% in 2016.

The Chinese economy was largely supported by the services sector, alongside a further deterioration in manufacturing activity. GDP growth was 6.9% y-o-y in Q3, only slightly slower than the 7.0% posted in the first half of the year. In sequential terms, growth in the third quarter was unchanged from that in Q2, at 1.8% q-o-q sa. The expansion was chiefly driven by the growth in services, which picked up to 8.4% y-o-y YTD in Q3. Within the tertiary sector, financial services value-added maintained an exceptionally strong increase of 17.0%, despite a sizeable stock market correction during the quarter. Meanwhile, China's industrial output growth slumped to 5.9% y-o-y, the slowest rate of expansion in six-and-a-half years, amid lacklustre orders and rising inventories. Fixed asset investment growth decelerated in Q3 as well, in tandem with deteriorating business sentiment. However, consumption was resilient, with retail sales rising at a slightly faster pace in Q3, bolstered by a 36.2% y-o-y YTD surge in online shopping.

The incoming data could point to tentative indications of stabilisation in overall economic activity into Q4. Retail sales growth continued to increase sequentially in October, underpinned by a jump in car sales owing in part to the tax breaks introduced in end-September. Consumer sentiment will be supported by the steady recovery in financial asset prices in the past three months, after the sharp correction in July–August. Even as the Chinese authorities press on with the gradual implementation of economic reforms—as outlined in the recently announced 13th Five-Year Plan—they are expected to take policy measures to cushion growth somewhat in the transition period. Accordingly, China's GDP growth is projected to come in at 6.9% this year, before stepping down to 6.5% in 2016.

India's GDP growth accelerated in Q3 2015, underpinned by stronger government expenditure. Economic activity expanded at a faster clip of 7.4% y-o-y in Q3, up from 7.0% the quarter before. Private consumption growth pulled back marginally to 6.8% y-o-y in Q3 from 7.4% in Q2, as a deficient monsoon weighed on rural demand. The easing in household spending was however more than offset by a 5.2% y-o-y surge in government consumption in Q3, as authorities front-loaded expenditure in the first half of the financial year. In line with the government's bid to increase public infrastructure investment, gross fixed capital formation growth rose for the third consecutive quarter to a firm 6.8% y-o-y in Q3, from 4.9% in Q2. In the quarters ahead, the Indian economy is expected to continue on a moderate upswing, driven by a strengthening of the investment cycle and the lagged transmission of earlier rounds of monetary easing. On the whole, GDP growth is projected to come in at 7.5% in FY2016[1] and rise further to 7.8% in the following year.

The NEA-3 economies saw some recovery in Q3 2015. The region as a whole registered an expansion of 2.5% q-o-q saar, following a mild contraction of 0.3% in the preceding quarter. Growth performance among the three economies was mixed, even as their trade-oriented sectors remained tepid. Weakness in trade flows was widespread across the region, reflecting anaemic external demand from both the advanced economies and China. Taiwan entered a technical recession for the first time since the Global Financial Crisis (GFC), with GDP falling 1.2% q-o-q saar in Q3 after declining 4.5% in Q2, as consumer spending shrank for the first time in six quarters while investment swung into contraction as well. In

[1] India reports its economic figures on a Financial Year basis. FY2016 refers to the period from April 2015 to March 2016.

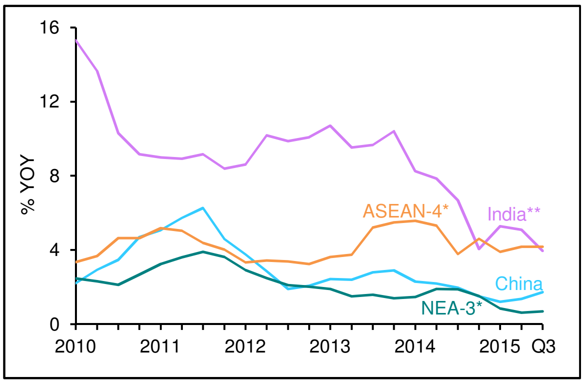
Hong Kong, net exports helped lift overall GDP growth from 1.7% q-o-q saar in Q2 to 3.5% in Q3, even as private consumption decelerated to its slowest pace in two years. In Korea, growth accelerated to 5.3% q-o-q saar in Q3 from 1.3% in the preceding quarter on a rebound in private consumption, as the effects of the MERS outbreak dissipated.

Looking ahead, only a modest pickup in growth for the region is expected. Currency appreciation and a continuing decline in tourist arrivals, especially from mainland China, will adversely impact the Hong Kong economy and keep retail sales depressed. In Taiwan, the January 2016 presidential elections could inject some degree of uncertainty in the short term, as firms assess the potential impact of the new government's economic policies. Meanwhile, private consumption in Korea will face headwinds from elevated household debt while investment will be restrained by global trade weakness and the competition posed by Chinese firms in consumer electronics. On balance, growth in the region is projected to rise only moderately, from 1.9% this year to 2.4% in 2016.

In the ASEAN-4 economies, growth was subdued at 4.5% in Q3, reflecting in part a pullback of domestic demand in some countries. Private consumption in Malaysia and Thailand was especially sluggish, weighed down by poor consumer confidence and high household debt. In Malaysia, some of the weakness in consumer spending can also be attributed to the impact of the 6% GST implemented in April. Although household spending in Indonesia rose at a slightly faster clip in Q3, its rate of growth was a notch lower at 4.8% in Q1–Q3, compared to 5.4% in the past three years. In comparison, driven by rising employment and incomes, private consumption in the Philippines expanded by a robust 6.3%, the strongest pace of expansion in two years. Meanwhile, investment activity in Thailand slumped further in Q3, extending the weakness that began with the onset of heightened political uncertainty two years ago. The other ASEAN-4 countries, however, saw a pickup in investment growth, underpinned by firmer construction activity and more substantial outlays on machinery and equipment. On the external front, there are tentative signs of an improvement, although the nascent upturn appears to be largely limited to manufactured products, while exports of energy-related commodities remain in the doldrums.

After a slight moderation to 4.4% this year, ASEAN-4 growth is projected to increase to 4.6% next year. Even with the anticipated improvement, growth rates in the ASEAN-4 economies remain about 0.5–2% points lower than the pre-GFC period of 2003–2008, with the exception of the Philippines. The diminished growth prospects can be ascribed to the current weakness in global trade which, together with elevated political uncertainty in some countries, have dampened investor and consumer confidence. Nevertheless, governments in the region are taking steps to ramp up infrastructure construction, which will boost investment activity in the quarters ahead. Economies that are more export-oriented, especially those with larger IT industries such as Malaysia and the Philippines, will also benefit from gradually recovering economic activity in the G3. Consequently, the Philippines is expected to record the strongest expansion of 5–6% in both 2015 and 2016, while growth in Indonesia and Malaysia will come in lower at 4.5–5.5%. Thailand will continue to lag behind, with its economy expected to expand by just 2.5–3.5% in both years.

Inflationary pressures were contained 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 was stable in Q3 2015. CPI inflation for the region as a whole rose marginally to 2.4% y-o-y in Q3 from 2.3% the quarter before. In China, the headline CPI edged up to 1.7% y-o-y in Q3 from 1.4%, driven by a 17.9% spike in pork prices. Producer prices extended its weak streak—PPI deflation intensified to 5.7% in Q3, amid industrial supply overhangs. In the ASEAN-4 economies, headline inflation held steady at 4.2% y-o-y in Q3, as adverse weather conditions in Thailand and Malaysia's GST implementation in April exerted upward pressure on prices. Nevertheless, these idiosyncratic factors were counteracted by continued declines in regional energy prices, while underlying inflation was reined in by slowing domestic economic activity. Inflation developments in the NEA-3 were similarly muted—CPI inflation inched up to 0.7% y-o-y in Q3 2015 from 0.6% in Q2, but is expected to remain low in the near term. Meanwhile, headline inflation in India eased to 3.9% in Q3 2015 from 5.1% the quarter before, mainly on account of subdued growth in food prices. Despite the below-potential growth projected for next year, headline inflation in Asia ex-Japan is forecast to rise to 2.7% from 2.5% in 2015, due to the dissipation of energy price base effects.

Table 1: Consensus Forecasts of GDP Growth

	2013	2014	Forecast 2015	Forecast 2016
	Percent			
Industrial				
US	1.5	2.4	2.4	2.6
Japan	1.6	−0.1	0.6	1.3
Eurozone	−0.2	0.9	1.5	1.7
UK	2.2	2.9	2.5	2.4
NEA-3				
Hong Kong	3.1	2.5	2.2	2.2
Korea	2.9	3.3	2.5	2.9
Taiwan	2.2	3.9	1.0	2.3
ASEAN-4				
Indonesia	5.6	5.0	4.7	4.9
Malaysia	4.7	6.0	4.8	4.6
Thailand	2.8	0.9	2.6	3.2
Philippines	7.1	6.1	5.6	5.9
China	7.7	7.3	6.9	6.5
India*	5.1	6.9	7.3**	7.5

Source: CEIC and Consensus Economics, Nov 2015

*Refers to fiscal year ending Mar.

**Actual GDP growth.

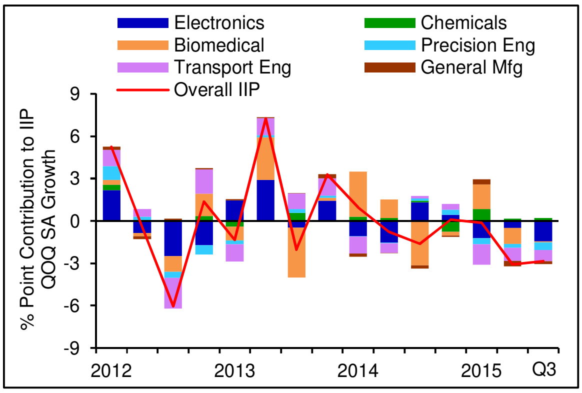
B. Domestic Developments

A pickup in some oil-related and other services activities lent support to the Singapore economy in Q3 2015

The Singapore economy saw a modest pickup in Q3 2015, with GDP rising by 1.9% q-o-q saar, following a 2.6% contraction in the preceding quarter. The improvement reflected, in part, a surge in oil trading activities on the back of declining oil prices during the quarter. Abstracting from oil trading, the rest of the external-oriented industries generally remained sluggish. Notably, the manufacturing sector registered its second consecutive quarter of decline amid persistent weakness in the electronics and marine & offshore engineering segments. In comparison, the domestic-oriented sectors held firm, supported by resilient demand for business and infocomms services.

The manufacturing sector continued to contract, by 4.6% q-o-q saar in Q3 2015 after posting a steep fall of 17.3% q-o-q saar in Q2. Apart from the chemicals industry, all other clusters experienced declines, with electronics and transport engineering accounting for about four-fifths of the slump in overall industrial production in Q3. Specifically, the electronics cluster was weighed down by the slowdown in global PC demand, as evident from the poor performance in the semiconductors and computer peripherals segments during the quarter. Meanwhile, output of the transport engineering cluster saw its third consecutive quarter of decline as new orders plunged and rig construction deliveries were deferred on the back of cutbacks in exploration expenditure by the oil majors.

Manufacturing activities saw further retraction in Q3 2015.



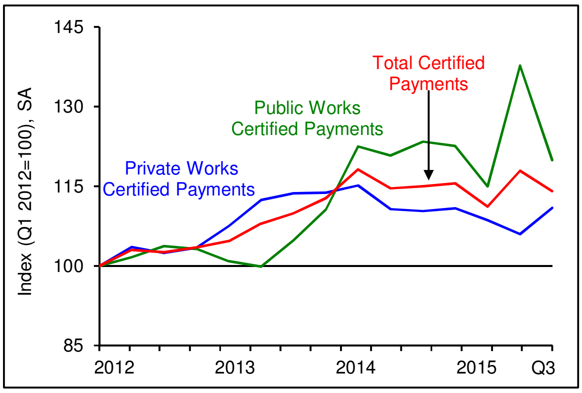
While the upstream marine & offshore engineering segment languished, **the midstream and downstream segments of the oil supply chain provided some support**. Arbitrage opportunities arising from volatility in oil prices, as well as China's oil stockpiling boosted the wholesale trading and transport sectors. In particular, oil exports and cargo volumes registered healthy gains of 7.0% and 13.5% q-o-q sa during the quarter. This offset the drag from the continued decline in container throughput, as regional (non-oil) trade flows moderated alongside weaker outturns in these economies.

The financial services sector registered a mild contraction of 0.4% q-o-q saar in Q3 2015, largely weighed down by a pullback in the sentiment-sensitive cluster amid volatile financial market conditions. The fund management industry saw a sequential step-down in activity alongside outflows from Asia ex-Japan equity funds. Likewise, trading activity on the local bourse was impacted by the heightened degree of risk averseness, with average daily turnover volume falling by 8.8% q-o-q, in contrast to the 29.7% expansion registered in the preceding quarter. The attendant downshift in fund raising and M&A activity also led to a decline in fees and commissions earned. On the financial intermediation front, ACU non-bank loan volumes contracted by 2.9% q-o-q, after a 0.3% fall in Q2, with further reduction in credit demand from East Asia.

Tourism-related activities turned in a strong performance in Q3 2015, underpinned by an uptick in visitor arrivals, particularly visitors from China. This rebound could, in part, be attributed to promotional efforts by the Singapore Tourism Board since May this year. In tandem with the increase in arrivals, hotel occupancy rates rose to 87% sa in Q3 after averaging 83% in Q2. The pickup in the tourism industry in turn generated positive spillovers into the domestic retail sector, with overall retail sales volumes (excluding motor vehicles) recording healthy gains in the quarter, especially in the discretionary segment such as purchases of watches and jewellery.

Essential services and business services remained supportive of growth. The phased opening of Ng Teng Fong General Hospital at the end of June expanded hospital capacity by bringing on-stream new outpatient facilities and approximately 500 additional beds. Meanwhile, the information & communications and business services sectors benefited from increasing wireless broadband subscriptions, and strengthening corporate demand for professional services such as legal, consultancy and advertising services, respectively. In comparison, the construction sector posted a pullback of 1.6% q-o-q saar due to a pause in public works across the residential, non-residential and civil engineering segments.

Construction activities experienced some pullback in Q3.



Source: EPG, MAS estimates

The domestic economy is expected to see modest expansions in 2015 and 2016

GDP growth in Singapore is forecast to remain on a modest trajectory, and come in at close to 2% in 2015 and 1–3% in 2016 for the year as a whole. Gradual improvements in the G3 economies, particularly the US, should impart some impetus to Singapore's external-oriented industries, although the downshift in US import demand in recent quarters[2] suggests that such positive spillovers could be limited. Despite a lacklustre performance since the start of this year, the global IT industry should recover gradually into 2016, spurred by the introduction of newer versions of smartphones as well as Microsoft's new operating systems platform, Windows 10. This could in turn benefit certain pockets of the

[2] Growth of US imports averaged 0.7% y-o-y in Q3 2014 – Q2 2015, compared to an average of 5.4% y-o-y over the longer span of Q1 2001 – Q2 2015.

domestic electronics cluster catering to mobile and PC end-demand. However, the extent to which the local IT industry is able to leverage on such cyclical upticks will be capped by some ongoing transitions away from volume manufacturing, toward providing high-value services within manufacturing such as chip design and delivery of IT services.

The slowdown in China could impinge on the region's immediate growth outlook, and in turn weigh on demand for Singapore's external-facing services such as entrepôt-related transport & storage activities and accommodation & food services. Subdued growth prospects in the region may also dampen growth in offshore lending in the near term. Within the oil-related industries, the marine & offshore engineering segment continues to be buffeted by the downshift in global oil exploration activities amid sustained weakness in oil prices. Stockpiling by commodity traders, as well as the accumulation of China's strategic crude oil reserves, could however lead to intermittent spurts of activity in oil trading, transport and storage.

The domestic-oriented sectors as a whole will remain a source of support, underpinned by ongoing upgrades to social services and transport infrastructure. Increased government expenditure in the healthcare and education sectors will help to meet pent-up demand for essential services, while expansions in transport facilities such as the Thomson-East Coast MRT line and Changi Airport Terminals 4 & 5 will continue apace. Demand for information & communications services is also expected to be firm, with the government's "Smart Nation" initiative, which includes procurement of a wide range of IT services and infrastructure[3], providing the boost.

There are potential external and domestic headwinds to growth. Transitional drags in China from ongoing reforms and persistent weakness in its residential property market could weigh on prospects in the region. A reprisal of the volatility witnessed in the Chinese stock and currency markets over the past quarters could also dampen investor and business sentiments in the near term. Further, the regional economies face the risk of capital outflows on account of the Fed's impending interest rate hike, alongside a strengthening US dollar.

On the domestic front, there are challenges as the restructuring towards productivity-led growth proceeds apace. Notably, companies will face continued margin pressures arising from a confluence of labour supply constraints and a subdued external environment. Notwithstanding the short-term challenges to growth, the restructuring exercise would facilitate Singapore's transformation into a knowledge- and skills-intensive economy over the medium term, and set the stage for the next phase of sustainable growth for a mature economy with binding resource constraints.

[3] In May 2015, the government announced that it will be launching $2.2 billion worth of ICT tenders in FY2015 to procure digital and data services, web services, and information communications infrastructure to develop the Smart Nation Platform.

C. Labour Market and Consumer Prices

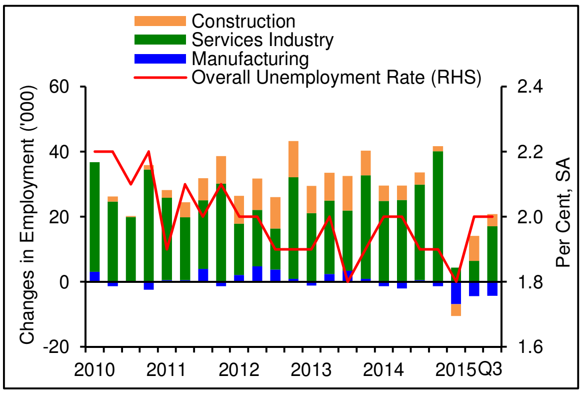
Overall employment grew by 16,400 in Q3 2015

Preliminary estimates showed that overall employment expanded by 16,400 in Q3 2015, after an addition of 9,700 workers in the preceding quarter. The pickup reflected increased hiring in the services sector. Meanwhile, employment gains in construction slowed, while job losses in manufacturing were similar in magnitude to that in Q2.

Due to the moderating growth in private-sector building activities, the construction industry added only 3,800 workers in Q3 2015, half the gains compared to the previous quarter. Manufacturing cut 4,300 jobs in Q3 2015, after shedding 4,400 workers in Q2. The continued contraction in employment reflected the ongoing restructuring in the electronics industry, as well as weaker demand across the rest of the manufacturing clusters. The services sector added 17,000 workers in Q3, significantly more than the 6,500 jobs created in the previous quarter. The step-up in services employment was supported by firm labour demand in community, social & personal (CSP) services, as well as in professional services.

The overall unemployment rate remained unchanged at 2.0% in Q3 2015. However, the resident unemployment rate picked up slightly to 3.0%, from 2.8% three months ago, given the influx of local graduates seeking employment amid the subdued economic conditions. Meanwhile, the number of layoffs fell to 2,900 in Q3, from 3,250 in the preceding quarter.

Employment in the services sector strengthened in Q3 2015.



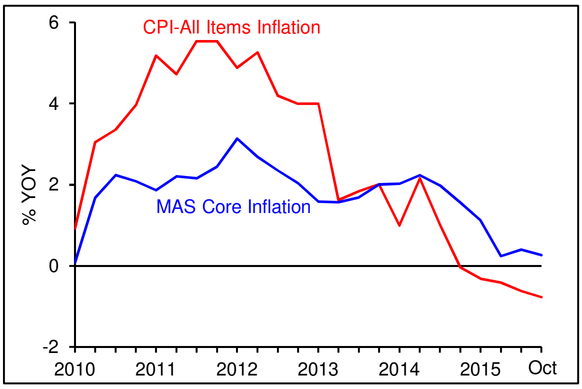
Wage growth climbed steadily to 4.1% y-o-y in Q3 2015, from 3.7% in the previous quarter, supported by firm demand for workers in selected industries. Wage gain was uneven across sectors, being stronger in retail trade, accommodation & food services and professional services, and weaker in manufacturing and administration & support services.

Looking ahead, despite a slower pace of overall employment growth, there could be strong labour demand in the less cyclical, domestic-facing segments. Wage pressures are likely to be higher in industries where manpower shortages are more acute, such as CSP.

MAS Core Inflation remained broadly stable, while CPI-All Items Inflation eased further

CPI inflation has remained subdued, owing to low global oil prices and the disinflationary effects of budgetary and other one-off measures. The pass-through of domestic costs to consumer prices has also been moderate, given the modest growth environment. MAS Core Inflation, which excludes the costs of accommodation and private road transport, has trended down since mid-2014 but stabilised more recently. It averaged 0.3% y-o-y in Q2–Q3 2015 and remained at a similar level in October. CPI-All Items inflation continued to ease amid softer housing rentals and car prices, coming in at −0.8% in October, after registering declines of 0.6% in Q3 and 0.4% in Q2 2015.

MAS Core Inflation and CPI-All Items inflation eased in October 2015.



Prices of oil-related items fell by 8.1% in Q3, slightly less than the drop of 10.4% in Q2. This was mainly due to a smaller decline in electricity tariffs, reflecting a short-lived uptick in global oil prices in Q2.[4] In October, the price fall for oil-related items steepened to 10.1%, given lower electricity tariffs as global oil prices slid again in Q3 on account of the sustained increase in oil inventories, expectations of slower economic growth in China, and the likely sanctions relief for Iran.

Food inflation edged down to 1.8% in Q3 and October 2015, from 1.9% in Q2. While the price of restaurant food rose at a faster pace, this was more than offset by slower non-cooked food inflation, which partly reflected the impact of various temporary supermarket price discounts.[5]

Services inflation slowed in Q3 but picked up again in October. Overall services inflation edged down to 0.6% in Q3 2015 from 0.7% in Q2, as SG50-related promotions, such as free bus and train services on National Day and discounted admission fees to some places of interest, resulted in smaller increases in public road transport fares and recreational & cultural services fees, respectively. Subsequently, as the dampening effects of enhanced

[4] The fuel cost component of electricity tariffs is calculated based on the average forward fuel oil and dated Brent prices in the first two and a half months of the preceding quarter. Brent oil prices briefly rose to US$62 in Q2 from US$54 in Q1, before sliding back to US$50 in Q3. Accordingly, electricity tariffs were raised by 7.4% in Q3 2015, before being reduced by 9.2% in October.

[5] NTUC's "Big Value Bag" price promotion campaign started in July and will end on 31 December 2015. Cold Storage's "price drop over more than 1,000 everyday items" promotion started in May 2015, with no indication of an end date.

medical subsidies[6] and SG50-related price promotions[7] dissipated, services inflation picked up to 0.8% in October.

Costs of accommodation and private road transport continued to ease. Accommodation cost declined by 2.9% and 3.0% in Q3 and October respectively, extending the 2.5% drop in Q2, as the housing rental market continued to soften. Meanwhile, private road transport cost fell by 2.1% and 2.3% in Q3 and October respectively, reversing the 0.1% increase in Q2. This was due to the sustained decline in COE premiums as the supply of COEs expanded and the earlier bout of car purchases ahead of the revision in the Carbon Emissions-based Vehicle Scheme (CEVS) subsided.

External sources of inflation should remain generally benign, given ample supply buffers in the major commodity markets. Notably, oil prices for the whole of 2016 are expected to remain low at around this year's projected level of US$54.[8] While global food commodity prices could face some upward pressures due to the ongoing El Niño phenomenon, the price increases would be tempered by the availability of abundant food stockpiles.

MAS Core Inflation is expected to pick up gradually over the course of 2016 as the disinflationary effects of lower oil prices, as well as budgetary[9] and other one-off measures, dissipate. Higher business costs in the economy should filter through moderately to consumer prices amid the subdued growth environment. Accordingly, MAS Core Inflation is projected to pick up to 0.5–1.5% in 2016, after coming in at around 0.5% in 2015. CPI-All Items inflation could remain negative in the first half of 2016 owing to lower car prices and housing rentals, before increasing more significantly in H2. For the year as a whole, CPI-All Items inflation is projected to come in at around −0.5% in 2015 and −0.5–0.5% in 2016.

[6] In September 2014, the subsidy given to lower- to middle-income Singaporeans for treatment at Specialist Outpatient Clinics (SOCs) at public hospitals was increased. Singaporeans who qualified for the Pioneer Generation Package (PGP) received an additional 50% off subsidised services fees at SOCs and polyclinics, and were given special subsidies at private General Practitioners and dental clinics participating in the Community Health Assist Scheme (CHAS). These had a dampening effect on year-ago inflation between September 2014 and August 2015.

[7] Promotions offered in conjunction with the SG50 celebrations, such as discounted admission fees to some places of interest, as well as free bus and train services on National Day, had a dampening effect on year-ago inflation until August 2015.

[8] This refers to the Brent benchmark oil price.

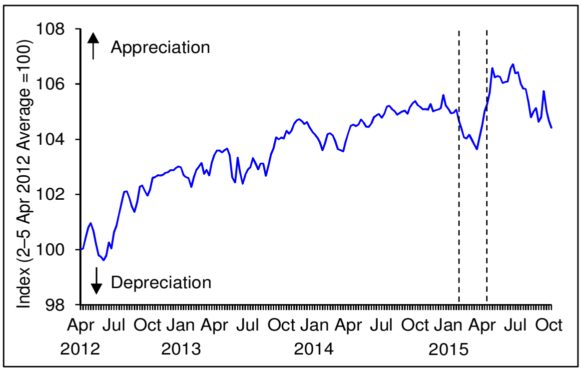
[9] The budgetary measures include medical subsidies under the Pioneer Generation Package, the reduction in the concessionary foreign domestic worker (FDW) levy, the abolition of national examination fees for Singaporeans, and road tax rebates.

D. Macroeconomic Policies

Monetary Policy: MAS reduced slightly the rate of appreciation of the S$NEER policy band in October 2015

The Singapore economy is expected to grow at a modest pace in 2015 and 2016. Notwithstanding the positive outlook for the US economy, prospects for global growth are cautious, as the slower pace of economic expansion in the Eurozone, Japan and China continues to pose headwinds to the external-oriented sectors of the Singapore economy. In comparison, domestic-oriented sectors such as healthcare and education, should stay broadly resilient. On balance, Singapore's GDP growth is expected to be close to 2% in 2015 and 1–3% in 2016.

MAS reduced slightly the appreciation path of the S$NEER policy band in October 2015.



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MAS Core Inflation will rise gradually in 2016. Imported inflation is expected to stay generally benign amid soft global demand and ample supply. Domestically, the pass-through of underlying wage pressures to consumer prices should be fairly mild given the modest growth environment. Meanwhile, the disinflationary effects of low oil prices, as well as budgetary and other one-off measures will fade from late 2015. Taking into account all these factors, MAS Core Inflation is expected to rise gradually over the course of 2016 towards its historical average of close to 2%. CPI-All Items inflation will remain low, as car prices and imputed rentals on owner-occupied accommodation ease further amid the anticipated increase in the supply of COEs and newly-completed housing units respectively. For 2015 as a whole, MAS Core Inflation and CPI-All Items inflation are projected to come in at around 0.5 and −0.5%, respectively. For 2016, MAS Core Inflation is expected to average 0.5–1.5% while CPI-All Items inflation is forecast at −0.5–0.5%.

Accordingly, in October 2015, MAS reduced the slope of the S$NEER policy band slightly, while keeping it on a modest and gradual appreciation path. There was no change to the width of the band and the level at which it was centred. This measured adjustment in the policy stance was assessed to be appropriate in view of the softer-than-anticipated outlook for GDP growth and inflation. Together with the policy easing in January 2015, the October policy move will be supportive of economic growth into 2016, while ensuring price stability over the medium term.

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, 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 in 2015, would instead 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, improvements in housing estates and the public transport system, 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 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, or Ministry of Trade and Industry, unless otherwise stated.

Selected Indicators

GENERAL INDICATORS, 2014			
Land Area (Sq km), 2015	719.1	Literacy Rate* (%)	96.7
Total Population ('000), 2015	5,535.0	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 (%), 2015	68.3		

* 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	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	Sep-15	Oct-15
GDP at current prices (S$ bil)	378.2	390.1	96.8	97.4	99.5	98.8	98.8	98.9	na	na
GDP (US$ bil)	302.2	307.9	77.3	77.8	76.9	72.9	73.5	71.0	na	na
Real GDP Growth (YOY % change)	4.4	2.9	2.3	2.8	2.1	2.7	2.0	1.9	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	-0.5	2.6	4.9	3.5	-2.6	1.9	na	na
By Sector (YOY % change):										
Manufacturing [1/]	1.7	2.6	1.3	1.7	-1.3	-2.6	-4.8	-6.2	-4.7	-5.4
Electronics [1/]	3.5	-0.2	-5.8	0.0	-2.8	-3.6	0.3	-9.2	-8.6	-14.0
Non-electronics [1/]	0.9	3.9	4.4	2.4	-0.4	-2.1	-6.6	-4.7	-3.0	-1.6
Finance & Insurance	12.2	7.7	5.1	9.9	10.3	7.7	6.9	4.8	na	na
Business Services	4.9	2.9	2.2	2.6	2.9	2.9	1.6	1.5	na	na
Construction	6.3	3.0	3.0	1.1	0.7	-1.6	2.2	1.6	na	na
Transportation & Storage	3.5	1.7	2.0	0.1	-0.4	1.3	-1.0	0.3	na	na
Information & Communications	7.6	3.6	3.2	4.0	4.4	4.9	5.6	4.8	na	na
Wholesale & Retail Trade	6.7	1.7	1.6	2.1	0.6	5.6	6.0	6.8	na	na
Accommodation & Food Services	3.3	1.1	0.1	1.0	1.3	-0.1	-0.9	0.9	na	na
By Expenditure Component (YOY % change):										
Consumption	5.2	2.0	4.9	1.5	2.4	3.7	3.4	6.7	na	na
Private	3.6	2.5	3.1	1.9	2.2	3.3	3.8	5.2	na	na
Public	11.5	0.1	13.6	-0.2	3.3	4.9	1.5	12.5	na	na
Gross Fixed Capital Formation	1.1	-1.9	-2.4	-5.6	1.2	-2.2	4.1	0.2	na	na
Private	1.2	-4.5	-5.1	-8.5	-0.1	-1.5	2.4	0.5	na	na
Public	0.7	10.4	11.6	9.5	7.3	-4.6	11.1	-1.1	na	na
External Demand	4.5	2.1	2.0	-0.3	0.2	4.4	1.1	3.2	na	na
TRADE										
Total Exports, fob (YOY % change)	0.6	1.1	2.7	-1.4	-3.8	-5.4	-8.7	-8.0	-9.0	-3.1
Non-Oil Domestic Exports	-6.0	-0.7	-3.4	1.1	0.5	4.8	2.1	-3.0	0.3	-0.5
Re-Exports	6.2	2.6	2.3	-2.3	-0.6	1.5	-5.4	-0.3	-2.3	6.0
Total Imports, cif (YOY % change)	-1.6	-0.6	3.0	-5.7	-6.0	-16.1	-13.0	-9.1	-11.0	-12.7
WAGE-PRICE INDICATORS										
Unemployment Rate (SA,%)	1.9	2.0	2.0	1.9	1.9	1.8	2.0	2.0	na	na
Average Nominal Wages (S$ per month)	4,622	4,727	4,445	4,314	5,040	5,259	4,611	4,493	na	na
Consumer Price Index Inflation (YOY % change)	2.4	1.0	2.2	1.0	0.0	-0.3	-0.4	-0.6	-0.6	-0.8
MAS Core Inflation (YOY % change)	1.7	1.9	2.2	2.0	1.6	1.1	0.2	0.4	0.6	0.3
FINANCIAL INDICATORS										
S$ Exchange Rate Against: (end-period)										
US Dollar	1.2653	1.3213	1.2490	1.2728	1.3213	1.3765	1.3474	1.4253	1.4253	1.4018
100 Japanese Yen	1.2061	1.1060	1.2326	1.1643	1.1060	1.1447	1.1014	1.1884	1.1884	1.1600
Euro	1.7452	1.6072	1.7041	1.6157	1.6072	1.4876	1.5080	1.6045	1.6045	1.5388
Interest Rates (end-period, % p.a.)										
3-month Fixed Deposit Rate	0.14	0.14	0.14	0.14	0.14	0.17	0.16	0.18	0.18	0.17
3-month S$ SIBOR [2/]	0.40	0.46	0.40	0.41	0.46	1.01	0.82	1.14	1.14	1.07
Prime Lending Rate	5.38	5.35	5.35	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	0.6	1.9	3.3	3.9	3.5	3.2	3.2	2.9
Straits Times Index (end-period) [3/]	3,167.4	3,365.2	3,255.7	3,276.7	3,365.2	3,447.0	3,317.3	2,790.9	2,790.9	2,998.4
YOY % change	0.0	6.2	3.3	3.4	6.2	8.1	1.9	-14.8	-14.8	-8.4
GOVERNMENT BUDGET [4/]										
Operating Revenue (S$ mil)	57,054	59,995	15,868	16,595	14,034	14,340	16,857	17,888	na	na
Total Expenditure (S$ mil)	52,329	54,805	10,920	12,950	14,214	18,565	12,127	14,352	na	na
Operating Expenditure	40,390	41,758	7,698	9,702	11,326	13,960	7,988	11,123	na	na
Development Expenditure	11,939	13,047	3,222	3,248	2,888	4,605	4,140	3,230	na	na
Primary Surplus/Deficit (S$ mil)	4,725	5,190	4,948	3,645	-179	-4,224	4,730	3,535	na	na
% of GDP	1.2	1.3	5.1	3.7	-0.2	-4.3	4.8	3.6	na	na
BALANCE OF PAYMENTS										
Current Account Balance (% of GDP)	17.9	19.1	18.4	22.4	19.2	27.8	23.5	23.0	na	na
Goods Balance	24.6	24.8	25.5	26.6	25.3	32.1	27.9	26.2	na	na
Services Balance	-1.4	-0.4	-1.4	0.5	-0.6	0.4	0.4	1.4	na	na
Primary Income Balance	-3.1	-3.0	-3.3	-2.3	-3.1	-2.3	-2.5	-2.2	na	na
Secondary Income Balance	-2.3	-2.3	-2.3	-2.3	-2.3	-2.4	-2.4	-2.4	na	na
Capital & Fin Account Balance (% of GDP)	-11.9	-16.1	-12.4	-19.8	-17.6	-28.4	-20.5	-22.6	na	na
Direct Investment	11.9	8.7	8.4	5.6	13.1	9.9	5.2	11.2	na	na
Portfolio Investment	-21.8	-17.2	-37.4	-4.9	0.5	-17.9	-12.3	-19.9	na	na
Financial Derivatives	4.4	4.0	3.1	3.7	6.2	4.4	6.7	6.6	na	na
Other Investment	-6.4	-11.7	13.4	-24.3	-37.5	-24.8	-20.1	-20.6	na	na
Overall Balance (% of GDP)	6.0	2.2	4.8	3.5	0.1	-1.3	2.7	0.5	na	na
Official Foreign Reserves (US$ mil) [5/]	273,065	256,860	277,967	266,142	256,860	248,404	253,280	251,640	251,640	249,775
Months of Imports	8.8	8.4	8.8	8.5	8.4	8.6	9.3	9.7	9.7	9.8

Source:

1/ Index of Industrial Production from EDB.

2/ ABS Benchmarks Administration Co Pte Ltd

3/ Straits Times Index from SGX.

4/ Ministry of Finance

5/ MAS

na: Not available