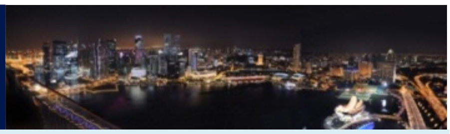
Monetary Authority of Singapore



RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

2 September 2016

	2015			2016	
	Q3	Q4	Full Year	Q1	Q2
Real Sector					
Real GDP Growth, y-o-y %	1.8	1.8	2.0	2.1	2.1
Real GDP Growth, q-o-q saar %	2.3	6.2	-	0.1	0.3
Index of Industrial Production, y-o-y %	−5.7	−6.2	−5.1	−0.6	1.3
Non-oil Domestic Exports, y-o-y %	−2.2	−3.5	−0.1	−9.0	0.0
Labour Market and Prices					
Unemployment Rate, sa, % (Average)	2.0	1.9	1.9	1.9	2.1
CPI-All Items Inflation, y-o-y %	−0.6	−0.7	−0.5	−0.8	−0.9
Wage Growth, y-o-y %	4.1	3.3	3.5	4.3	3.9

Growth momentum in the Singapore economy was marginally stronger in Q2 2016

The domestic economy grew by 0.3% q-o-q saar (quarter-on-quarter seasonally-adjusted annualised rate) in Q2 2016, on the heels of the slight 0.1% expansion in Q1. While the trade-related and domestic-oriented clusters registered moderate growth, the modern services cluster contracted amid weaker global business and investor confidence.

Global growth held steady in Q2 2016 and the near-term outlook remains subdued

The global economy recorded a modest growth performance in Q2, with a mild pickup seen in Asia ex-Japan, even as G3 growth slowed. Domestic demand strengthened in most parts of Asia, but it faltered in the G3, led by a sharp retraction in investment spending. Looking ahead, global GDP growth is expected to slow to 3.6% for 2016, from 3.9% in 2015, amid continuing uncertainties from Brexit and the recovery prospects for global trade flows.

Singapore's GDP is projected to grow by 1–2% in 2016

Growth in the Singapore economy is expected to remain modest in H2 2016, with GDP expanding by 1–2% for the year as a whole. The earlier boost from some trade-related industries is likely to taper, while the modern services cluster, which has been a key pillar of growth in recent years, will see some consolidation in 2016. In comparison, the domestic-oriented sectors, such as public infrastructure construction and healthcare, will continue to be supportive.

Core inflation will pick up gradually over the course of 2016

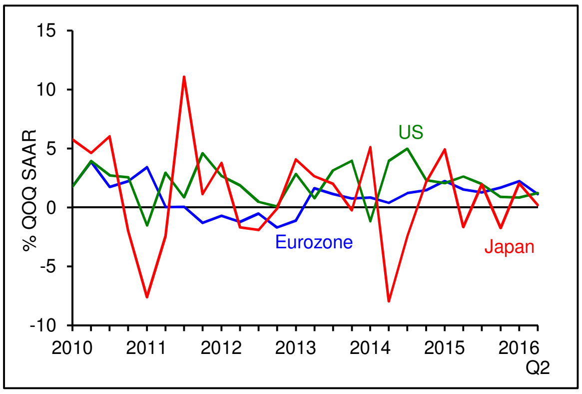
MAS Core Inflation is expected to rise over the course of 2016, as the disinflationary effects of oil as well as budgetary and other one-off measures ease. However, the increase will be mild, given the weak external price outlook, subdued economic growth prospects, and a reduction in labour market tightness. For the whole of 2016, core inflation is likely to come in at around 1%. CPI-All Items inflation has likely troughed in Q2, and is projected to rise in the coming months. For the year as a whole, it is forecast to come in at −1.0–0.0%.

A. External Developments

G3 growth eased in Q2 2016, as domestic demand slowed in the Eurozone and Japan

GDP growth in the G3 eased to 0.9% q-o-q saar in Q2 2016, from 1.6% in Q1. While economic activity in the US picked up slightly following a dismal first quarter, the recovery was held back by anaemic investment and inventory decumulation. In Q2, both the Eurozone and Japan ceded growth momentum on account of waning domestic demand. Overall, reflecting in part an underwhelming performance in H1, projected G3 growth in 2016 has been revised slightly lower to 1.3%, from 1.4% in June 2016.

The slowdown in Eurozone and Japan offset a mild improvement in the US during Q2.



Source: CEIC

US GDP growth in Q2 2016 came in below consensus expectations at 1.1% q-o-q saar, up only slightly from 0.8% in Q1, largely on account of an inventory drag. Personal consumption growth rebounded to 4.4% q-o-q saar in Q2, the fastest pace in six quarters, from 1.6% in Q1. However, investment spending continued to disappoint —non-residential fixed investment contracted for the third consecutive quarter, by 0.9%, marking the longest slump in capital spending since early 2010. Residential investment pulled back by 7.7% q-o-q saar, after expanding by an average of 9.7% in Q4 2015 and Q1 2016. The biggest drag came from the destocking of private inventories, which subtracted 1.3% points from GDP growth. Net exports contributed a positive 0.1% point to the overall expansion in Q2, but this was more than outweighed by the negative contribution of 0.3% point from government expenditure.

US growth is expected to pick up in the second half of 2016. Private consumption should remain the key driver of growth on account of the robust labour market, as seen in the 274,000 non-farm payroll jobs created on average in June–July. After five consecutive quarters of inventory drawdowns, the drag from changes in stock is likely to dissipate in the quarters ahead. US corporates' capital expenditure, which had been weak as a result of a severe contraction in the energy sector, is expected to improve with the stabilisation in global oil prices and a corresponding rise in the US rig count. At the same time, there are tentative signs of a modest recovery in non-oil related capex as final demand picks up, with new orders for core capital equipment up by 1.6% m-o-m in July. Nonetheless, the US GDP growth forecast for 2016 has been revised downward on account of the weak outturns in H1 2016, to 1.5% from 1.9% previously. The forecast for 2017 remains at 2.3%.

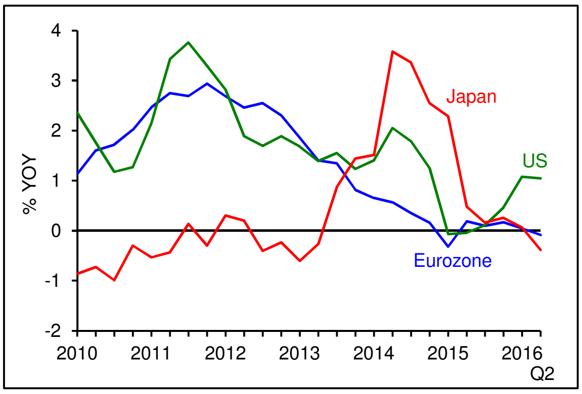
Overall growth in the Eurozone slowed in Q2 2016, following a spurt in activity during the preceding quarter. The pace of growth fell by half to 1.1% q-o-q saar, as domestic demand lost traction. Economic growth in France and Italy came to a halt in Q2. Household spending in France weakened considerably following a one-off surge in Q1, while investment spending contracted after two quarters of robust growth. In contrast, Spain and Germany outperformed expectations, with creditable expansions of 3.4% and 1.7% q-o-q saar, respectively. Spain's performance was notable in view of the lingering political uncertainty, while net exports featured as the key driver of growth in Germany. Meanwhile, the Greek economy also surprised on the upside, expanding by 0.7% in Q2, and appeared poised for stronger gains in the latter half of this year, with support from its latest tranche of bailout funds.

The Eurozone economy is anticipated to continue on a modest recovery path in H2 2016, but downside risks from Brexit remain. Despite slower growth in Q2, domestic demand should remain the key pillar of support, helped by monetary policy accommodation, continued improvements in the labour market, as well as a slightly expansionary fiscal stance. Final demand and production activities have stayed resilient in the immediate aftermath of the UK's shock vote for Brexit, with the Eurozone Composite Output PMI inching up in both July and August, to 53.3. Nonetheless, the increase in post-referendum uncertainty could still weigh on investments. On the external front, persistent weakness in world trade, aggravated by an anticipated slowdown in exports to the UK, will continue to dent the Eurozone's economic performance. Overall, GDP growth is projected to come in at 1.5% in 2016, before decelerating further to 1.2% in 2017.

The Japanese economy stagnated in Q2 2016, weighed down by weakness in private spending and exports. GDP rose by a mere 0.2% q-o-q saar in the quarter, a marked slowdown from the Q1 outturn of 2.0%. Private consumption growth slumped to 0.6% q-o-q saar, following a short-lived rebound of 2.8% in Q1. Business fixed investment contracted for the second quarter as firms maintained a cautious outlook. Net exports subtracted 1.0% point from Q2 GDP growth in the face of weak demand in Asia as well as the trade-dampening effects of the yen appreciation. Overall GDP growth remained slightly positive due to the expansion in residential and public investments, which contributed 0.6% point and 0.4% point, respectively, to Q2 growth.

Looking ahead, Japan's GDP growth is expected to remain subdued over the near term, although some support from the recent fiscal stimulus package can be expected. The yen's recent appreciation, amid a tepid external environment, will continue to weigh on Japan's net exports and corporate profits. This will in turn depress business sentiment, leading to a further retraction in capital spending. Private consumption is expected to remain weak due to lacklustre real wage growth. Nonetheless, a mild uplift in economic activity is anticipated in 2017 on account of the fiscal stimulus package announced by the Japanese government in August 2016, which includes new infrastructure spending and consumption-boosting measures. All in, Japan's growth is projected to come in at 0.5% in 2016, before rising to 0.8% in 2017.

Inflation in the G3 economies dipped in Q2.

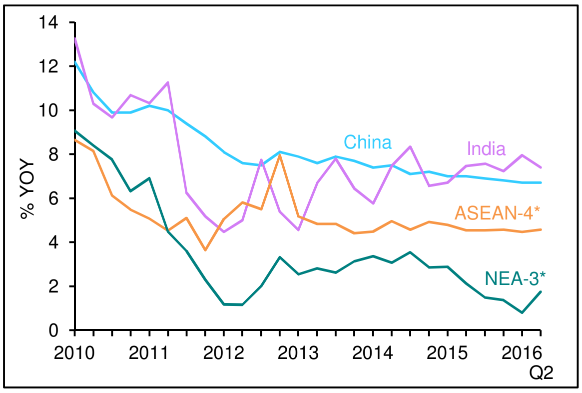


Source: CEIC

CPI inflation in the G3 economies eased in Q2. While price pressures were contained in the US, headline inflation in both the Eurozone and Japan fell into negative territory. US CPI and core inflation came in at 1.1% y-o-y and 2.2% y-o-y respectively in Q2, both unchanged from the preceding quarter, with the wedge between the two measures accounted for by subdued oil prices. In the Eurozone, headline inflation dipped to −0.1% y-o-y in Q2, from 0% in the preceding quarter. More recently, however, inflation inched up to 0.2% in July, on account of rising food inflation. Meanwhile, headline CPI inflation in Japan turned negative for the first time in three years, falling to −0.4% y-o-y in Q2 2016 from 0.1% in Q1, amid slackening domestic demand. Overall, inflation in the G3 economies is expected to rise only modestly to 0.7% in 2016, from 0.2% in 2015.

Growth in Asia ex-Japan picked up slightly in Q2, reflecting a rebound in the NEA-3 economies

Growth in Asia ex-Japan gathered pace in Q2, reflecting a turnaround in the NEA-3.



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 improved to 4.6% y-o-y in Q2 from 4.4% in Q1, largely on account of a surge in activity in the NEA-3. Despite continued softness in exports, growth in these economies as well as the ASEAN-4 countries was underpinned by resilient domestic demand. In comparison, China's growth was unchanged in Q2, as higher state spending counterbalanced a continued fall-off in private demand. On the whole, growth in Asia ex-Japan is projected to come in at 4.5% in 2016, down from 4.7% in 2015, as the region continues to contend with headwinds from tepid global trade.

The Chinese economy maintained its pace of growth in Q2, bolstered by a ramp-up in infrastructure projects. GDP rose by 6.7% y-o-y, unchanged from the previous quarter. Beneath the headline growth number, private investment and public spending have been on strongly divergent trajectories, partly reflecting the authorities' intensified fiscal pump-priming. While growth of private sector fixed asset investment (FAI) fell to 2.8% y-o-y YTD—the weakest since data was published in 2012—the corresponding figure for the state sector jumped by 23.5%. Consequently, overall FAI growth slowed modestly to 9% y-o-y YTD in Q2, from 10.7% in the preceding quarter. At the same time, Chinese industrial production growth stabilised in Q2, as soaring production of smartphones helped to offset the protracted weakness in the heavy industrial sector. Meanwhile, retail sales growth moderated slightly, as sales of discretionary items such as cosmetics, some mobile devices and jewellery eased.

China's growth in H2 2016 will be supported by fiscal spending. Real estate sales, which had been a bright spot in H1 2016, began to lose steam in July. A slowing property sector would further dampen demand in the pockets of industry facing excess capacity, such as steel, cement and glass. However, economic activity in H2 2016 will continue to be propped up by higher government spending, financed in part through off-budget measures such as the issuing of bonds by local authorities. Against this backdrop, the Chinese economy is expected to expand by 6.6% in 2016, before growth slows to 6.3% in 2017.

GDP growth in India eased in Q2 to 7.1% y-o-y from 7.9% in the previous quarter, as investment continued to languish. The moderation in private consumption growth to 6.7% y-o-y in Q2 from 8.3% in Q1 was accentuated by a second consecutive quarter of contraction in gross fixed capital formation, which declined by 3.1% y-o-y. However, these drags were partially compensated by the 18% surge in government consumption as the Indian authorities front-loaded spending at the start of the new fiscal year. Net exports also provided a welcome 2.1% points boost to GDP growth as exports grew for the first time in six quarters by 3.2% y-o-y. Looking ahead, India's growth is expected to continue on a modest upward trajectory, despite headwinds from a weak external environment. Economic activity is likely to be underpinned by private consumption, with rural demand supported by good agricultural harvests due to a more favourable monsoon, and urban demand boosted by the disbursement of wage increases for civil servants. Overall, GDP growth is expected to come in at 7.5% in FY2017, and rise further to 7.6% in the following year. [1]

Growth in the NEA-3 economies rebounded in Q2 on the back of a recovery in domestic demand. The region as a whole grew by 3.8% q-o-q saar in Q2, a significant bounce-back from the tepid 0.5% in Q1, due largely to stronger domestic spending in Hong Kong and Korea, even as weak net exports continued to weigh on growth. Following a 2.1% contraction in the previous quarter, Hong Kong's economy expanded by a robust 6.5% q-o-q saar in Q2, reflecting higher private consumption alongside a turnaround in investment spending. Similarly, growth in Korea picked up to 2.9% q-o-q saar in Q2 from 2.1% in Q1, as households front-loaded their expenditure in anticipation of expiring tax breaks for consumer durables in June. In contrast, Taiwan's GDP growth slowed to 0.2% q-o-q saar in Q2 from 3.4% in the preceding quarter, as sustained weakness in private consumption and a retrenchment in government expenditure depressed final demand.

The growth momentum in the NEA-3 may not be sustained, given the weak global trade outlook and the subdued upswing in the tech cycle. China's slowdown will continue to have an outsized impact on the region due to extensive trade and production linkages.

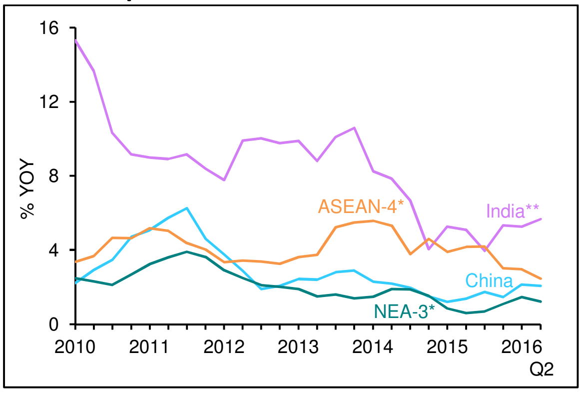
[1] India reports its economic figures on a Financial Year basis. FY2017 refers to the period from April 2016 to March 2017.

Merchandise exports in Taiwan have recorded six consecutive quarters of declines, while corporate restructuring efforts in Korea's heavy industrial sector are expected to weigh on economic activity despite the government's announcement of additional fiscal support. The boost to electronics production in Korea and Taiwan from the launch of new devices in the second half of this year will likely be modest due to lacklustre global demand for high-end consumer tech products. In Hong Kong, retail sales will remain depressed as the number of Chinese tourist arrivals stays on a downward trend. Overall, NEA-3 growth is projected to slow to 1.4% this year, from 1.9% in 2015, before picking up to 1.8% in 2017.

The ASEAN-4 economies posted a steady though unremarkable growth performance in Q2, as firmer domestic demand was mostly offset by weaker exports. The region expanded by a marginally faster 4.6% y-o-y in the second quarter, compared to 4.5% in the previous quarter. Private consumption posted firm growth across all the economies, underpinned by resilient labour markets and higher real incomes, amid a low inflation environment. Government consumption provided a boost to growth as well, particularly in the Philippines as a result of pre-election spending. Investment activity in the region stayed firm, undergirded by strong public capital spending in Indonesia, the Philippines and Thailand. With global demand staying anaemic, exports in all the economies save for the Philippines either contracted or saw low single-digit growth.

In the quarters ahead, domestic demand will continue to be the key driver of growth in the ASEAN-4, as the mediocre global outlook restrains exports. The Philippines will be the region's top performer, with projected growth of around 6% in both 2016 and 2017, propelled by robust household spending and an acceleration in infrastructure building. In Indonesia, the central bank's monetary easing earlier this year will continue to provide support for domestic demand and help sustain growth at around 5–5.5%. Economic growth in Malaysia and Thailand, however, are projected to remain below potential, at about 4–4.5% and 3–3.5%, respectively, in 2016 and 2017. These two economies are more affected than the rest of the region by the continuing softness in external demand due to their greater dependence on trade in goods and services. In Malaysia, private consumption growth will be supported by government measures such as cuts to employees' contribution rates to the provident fund and increased hand-outs for low-income households. In Thailand, investment activity will be underpinned by a stream of infrastructure projects. Growth in the ASEAN-4 economies as a whole is projected to dip to 4.4% in 2016 from 4.6% last year, before recovering to 4.6% in 2017.

Asia ex-Japan's CPI inflation was stable in Q2.



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 remained unchanged in Q2. CPI inflation came in at 2.7% y-o-y for the second straight quarter, with rising price pressures in India offsetting lower inflation prints in the NEA-3 and ASEAN-4 economies. In China, overall inflation held steady at 2.1% y-o-y in Q2 despite a 32.4% spike in pork prices, as non-food prices were pushed down by cheaper fuel. In the NEA-3, CPI inflation fell to 1.2% y-o-y in Q2 from 1.5% in the previous quarter, due to a weather-related easing in food prices. In the ASEAN-4 economies, headline inflation declined from 3.0% y-o-y in Q1 to 2.5% in Q2. Underlying inflation pressures in the ASEAN-4 remained weak given the continued softness in economic activity as well as the pass-through from low oil prices. In comparison, India's CPI inflation rose to 5.7% y-o-y in Q2 from 5.3% in the preceding quarter, driven by higher food costs, as the strain from the previous period of deficient rainfall finally showed up in increased crop prices. In 2016, headline inflation in Asia ex-Japan is expected to rise to 2.6%, from 2.3% in 2015.

Table 1: Consensus Forecasts of GDP Growth

	2014	2015	Forecast	
			2016	2017
	Percent			
Industrial				
US	2.4	2.6	1.5	2.3
Japan	−0.1	0.6	0.5	0.8
Eurozone	0.9	1.6	1.5	1.2
UK	3.1	2.2	1.6	0.6
NEA-3				
Hong Kong	2.7	2.4	1.0	1.5
Korea	3.3	2.6	2.6	2.6
Taiwan	3.9	0.6	1.0	1.8
ASEAN-4				
Indonesia	5.0	4.8	5.0	5.3
Malaysia	6.0	5.0	4.1	4.3
Thailand	0.8	2.8	2.9	3.1
Philippines	6.2	5.9	6.1	5.9
China	7.3	6.9	6.6	6.3
India*	7.2	7.6	7.5	7.6

Source: CEIC and Consensus Economics, August 2016

* Figures are reported on a Financial Year basis; FY2017 refers to the period from April 2016 to March 2017.

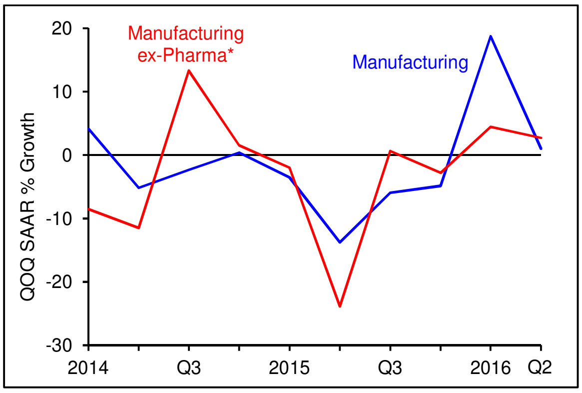
B. Domestic Developments

GDP growth was weighed down by the contraction in modern services in Q2 2016

The Singapore economy saw a marginal pickup in growth momentum in Q2 2016, expanding by 0.3% q-o-q saar, from 0.1% in the preceding quarter. While there were pockets of strength in the trade-related and domestic-oriented industries, a further contraction in the modern services cluster contributed to the overall muted outcome. Specifically, the financial services sector was weighed down by a pullback in the banking and security trading segments, alongside heightened uncertainty in international financial markets. A step-down in real estate-related activities also hampered the business services sector's performance.

The manufacturing sector grew by a modest 1.0% q-o-q saar in Q2, following an 18.7% surge in the preceding quarter. The sharp slowdown largely reflected a plunge in the pace of expansion in pharmaceuticals production, from 21.1% q-o-q SA in Q1 to 0.9% in Q2. Concomitantly, the transport engineering cluster faced further project deferments and cancellations in the marine & offshore engineering segment amid the sustained low oil price environment. The electronics cluster also grew at a slower pace in Q2, with segments such as infocomms & consumer electronics registering contractions, partially offsetting the double-digit sequential gains in semiconductor output. Meanwhile, the precision engineering cluster recorded a turnaround, supported by increased demand for semiconductor-related equipment.

Manufacturing growth eased in Q2 2016, with slower expansion in the pharmaceutical segment.



* EPG, MAS estimates.

In comparison, **activity in the trade-related services sector picked up in Q2, underpinned in part by the strength in the sea transport industry**. Buoyed by a 13.8% q-o-q sa surge in oil cargo, growth in the transport & storage industry accelerated to 6.7% q-o-q saar in Q2, from 4.4% in the preceding quarter. The wholesale trade industry also registered some recovery. Foreign wholesale trade rose by 0.3% q-o-q sa in Q2, after two consecutive quarters of decline, led by a turnaround in the telecommunications and computers segment.

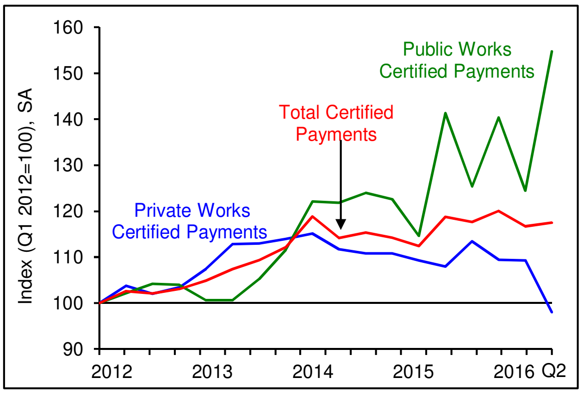
The modern services cluster saw another quarter of poor performance. The financial services sector contracted by 11.2% q-o-q saar in Q2, extending its decline in the preceding quarter. Notably, growth in domestic non-bank lending came in flat, as business lending to corporates in the trade-related segments remained weak. In the absence of a decisive pickup in regional growth and trading activity, ACU non-bank loans extended to East Asia continued on a downward trajectory, contracting by 1.5% q-o-q in Q2. Within the sentiment-sensitive segments, the fund management industry recorded lacklustre growth, amid increased risk aversion among investors after recent bouts of financial market volatility. Concomitantly, investor interest on the local bourse also dipped in Q2, with market turnover value falling by 12.8% q-o-q.

Weaker corporate sentiment negatively impacted outturns in the business services sector. The sector experienced a contraction of 3.6% q-o-q saar in Q2, extending its 0.9% decline in the preceding quarter. Corporate demand for accounting, legal and other professional services waned, alongside retractions in the real estate development and management segments. Nonetheless, the information and communications sector registered a modest 1.2% q-o-q saar expansion, as activity in the telecommunications and media-related segments saw a turnaround after declining in Q1.

Tourism-related activities slowed in Q2 2016 after posting healthy gains in the previous quarter, with broad-based declines in arrivals seen across most markets. Notably, Chinese and Indonesian tourists, which were key sources of support in the preceding quarter, saw a pullback in Q2. Consequently, this weighed down on hotel revenues, which fell by 2.6% q-o-q sa during the quarter.

Anchored by public spending, the domestic-oriented sectors saw a step-up in growth in Q2. The construction sector expanded by 5.3% q-o-q saar in Q2 2016, up from 1.4% in the previous quarter. Public non-residential construction was the main driver as works on transport infrastructure and new buildings, including hospitals, gathered pace. In contrast, the retail sector continued to weaken, with overall retail sales volumes (excluding motor vehicles) falling by 1.3% q-o-q sa, largely reflecting lower purchases of discretionary items.

Construction growth was driven by public works in Q2 2016.



Source: EPG, MAS estimates

Growth of the domestic economy will be modest in H2

In the absence of a decisive pickup in the external environment, the Singapore economy is expected to stay on a modest growth trajectory into H2 2016, bringing GDP growth to 1–2% for the full year. While economic activity in the advanced economies should see some improvement in H2, their growth will continue to be underpinned by consumption of services, which has a lower import intensity compared to investment. Overall, the near-term outlook for global demand and world trade remains soft, which will cap the pickup in Singapore's trade-related industries.

While the electronics cluster turned in a strong performance in H1, it is unlikely to be sustained into the second half of the year. IT industry research firm Gartner projected continued sub-par revenue growth for the global semiconductor industry, given weak consumer IT demand and high inventory levels. Signs of renewed weakness have also started to emerge on the domestic front recently. In July, industrial production of the electronics cluster contracted by 6.7% m-o-m sa, after four consecutive months of robust gains.

Sentiment-sensitive segments within the financial services sector are expected to experience increased bouts of volatility, as global financial markets react to the uncertainty surrounding events such as Brexit and the US presidential election. Nonetheless, there should be some support from the insurance segment, bolstered by the ongoing enhancement of product distribution networks via bancassurance tie-ups and continued consumer interest in non-investment linked products with more stable yields. Meanwhile, demand for information and communications services is expected to be firm, supported in part by the increased adoption of IT business solutions by both domestic and regional corporates, as well as the step-up in government expenditure on ICT infrastructure enhancement as part of the "Smart Nation" initiative.[2]

The domestic-facing sectors will continue to provide support, benefiting from public infrastructure investment and other expenditure to meet Singapore's growing social needs, particularly in healthcare and education. In addition, ongoing improvements to the existing transport network will also sustain building activity.

[2] In May 2016, the Government announced that a projected S$2.8 billion worth of ICT tenders will be called in FY2016—the highest figure since 2012. More than half of the projected budget will be accounted for by the enhancement of ICT infrastructure to better support the data and digital services needs of a Digital Government.

C. Labour Market and Consumer Prices

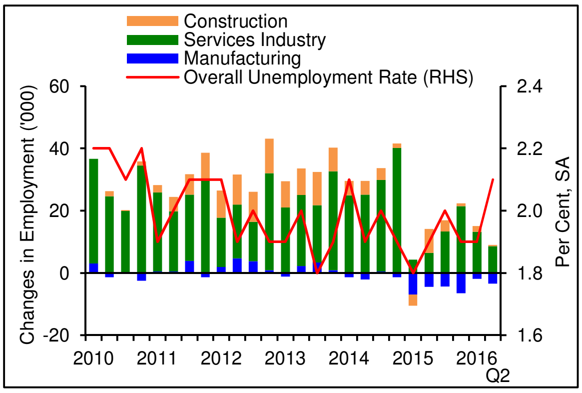
Overall net employment gains fell to 5,500 in Q2 2016

Preliminary estimates showed that overall net employment grew by 5,500 in Q2 2016, following gains of 13,000 in the previous quarter. The slowdown in job creation was broad-based.

Headcount in the manufacturing sector contracted further by 3,400 in Q2, following the loss of 1,900 jobs in the preceding period. This reflected ongoing restructuring within the industry as well as weak export growth. Weaker demand conditions also weighed on hiring in the services sector, with 8,600 workers added in Q2 2016, down from 13,200 in Q1. Meanwhile, the slowdown in private sector building activity dampened employment gains in the construction sector to 400, the lowest since Q1 2015.

The overall unemployment rate rose in June 2016. In line with the moderation in employment gains, the overall seasonally-adjusted unemployment rate picked up to 2.1% in June 2016, from 1.9% three months earlier. Over the same period, the resident unemployment rate increased to 3.0% from 2.7%. Meanwhile, aggregate redundancies rose to 5,500 in Q2, compared to 4,710 in Q1 and 3,250 in the same period a year ago. In particular, the number of workers laid off in the services sector increased sharply during the quarter.

The overall unemployment rate rose to 2.1% in June 2016.



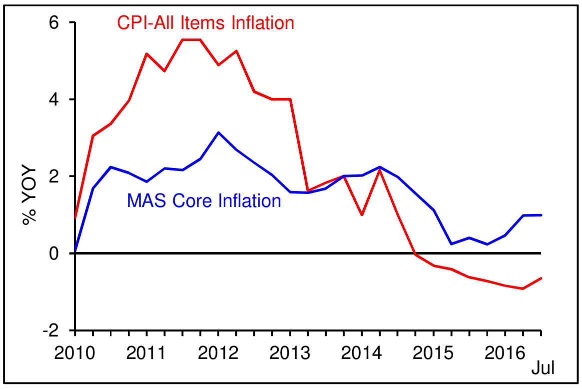
Resident wage growth moderated to 3.9% on a y-o-y basis in Q2 2016, from 4.3% in the previous quarter. This was due in part to the easing in overall labour market tightness. Wage gains remained uneven across sectors, with the strongest increases recorded in information & communications and retail trade, while pay increments remained lower in manufacturing, construction and financial & insurance services.

In the near term, overall employment gains are likely to stay subdued, given weak demand conditions. Wage pressures are expected to moderate further in line with the soft economic environment, although pay increments will continue to be uneven, stronger in industries where manpower demand is more resilient, such as information & communications, as well as community, social & personal services.

Core inflation continued on a mild ascent in Q2 2016

Core inflation picked up in the second quarter of 2016, but headline inflation continued to decline. MAS Core Inflation, which excludes the costs of accommodation and private road transport, was 1.0% y-o-y in Q2 2016 and July, up from 0.5% in Q1. This was mainly attributable to higher services inflation. In comparison, CPI-All Items inflation continued to trend down to −0.9% in Q2, from −0.8% in the previous quarter, on account of a further softening in private road transport and accommodation costs. More recently in July, headline inflation edged up to −0.7%, reflecting a smaller drag from private road transport.

MAS Core Inflation and CPI-All Items inflation diverged in Q2 2016.



Notwithstanding heightened volatility, global oil prices remained below their year-ago levels, and continued to exert downward pressures on inflation. The cost of electricity, liquefied petroleum gas (LPG) & gas fell less sharply by 13.8% y-o-y in Q2 2016, compared to a 15.0% decrease in the previous quarter, as a result of a smaller fall in electricity tariffs on a year-ago basis. Subsequently in July, the drag from electricity, LPG & gas moderated further (to 12.7% y-o-y) compared to Q2, reflecting higher electricity tariffs following a recovery in global oil prices.

Services inflation accelerated in the second quarter of 2016. Services inflation rose to 1.3% in Q2 and 1.6% in July, from 0.5% in Q1 2016. This was largely due to the increase in the cost of domestic services and to a smaller extent, education, as the disinflationary effects of budget measures which lowered concessionary foreign domestic worker levies[3] and examination fees[4] last year, dissipated. A stronger pickup in the cost of telecommunication services also contributed to higher services inflation in July.

Overall food inflation edged up, driven by the non-cooked food component. After registering 2.0% in Q1 2016, overall food inflation picked up to 2.2% in Q2, on account of a stronger uptick in the price of non-cooked food. It then inched down to 2.1% in July, reflecting a slower pace of increase in restaurant food prices.

[3] The monthly foreign domestic worker concessionary levy for eligible households was lowered from $120 to $60 with effect from May 2015. This helped to dampen domestic services inflation for the period May 2015 to April 2016 on a year-ago basis.

[4] Examination fees were waived with effect from April 2015 for Singaporeans in Government funded schools taking the Primary School Leaving Examination (PSLE), Singapore-Cambridge General Certificate of Education (GCE) 'N' and 'O' levels, and for Singaporeans enrolled full-time in polytechnics and Institutes of Technical Education (ITE), and with effect from May 2015 for Singaporeans in Government-funded schools taking the GCE 'A' levels. This dampened education services inflation for the period April 2015 to April 2016 on a year-ago basis.

The costs of accommodation and private road transport continued to fall, although the decline in the latter has moderated more recently. Following a 3.9% decrease in Q1, private road transport cost fell by a steeper 6.8% in Q2. This was primarily due to a larger drag from petrol pump prices, given the relatively high base in Q2 last year. The fall in private road transport cost subsequently eased to 4.4% in July due to a smaller decline in car prices, partly reflecting higher Certificate of Entitlement (COE) premiums following the adjustment to motor vehicle financing restrictions in May 2016. Meanwhile, accommodation cost was 3.5% and 3.6% lower in Q2 and July respectively, following a 3.2% drop in Q1, as the housing rental market continued to soften.

Looking ahead, cost pressures are likely to remain subdued. External sources of inflation should stay generally muted, given ample supply buffers in the major commodity markets and weak global demand conditions. Global oil prices are expected to average lower for the whole of 2016 compared to last year. On the domestic front, tightness in the labour market has eased, with wage growth projected to slow slightly over the course of 2016. The pass-through of wage costs to consumer prices will also be tempered by the subdued economic environment.

MAS Core Inflation is expected to average around 1% in 2016. While core inflation is expected to pick up over the course of this year as the disinflationary effects of oil[5] as well as budgetary and other one-off measures ease, the pace of increase will be restrained by the weak external price outlook, subdued economic growth prospects, and reduction in labour market tightness. Meanwhile, housing rentals will continue to dampen overall inflationary pressures, given the large supply of residential units coming on-stream this year. CPI-All Items inflation has likely troughed in Q2, and is projected to rise in the coming months. For the year as a whole, it is forecast to come in at −1.0–0.0%.

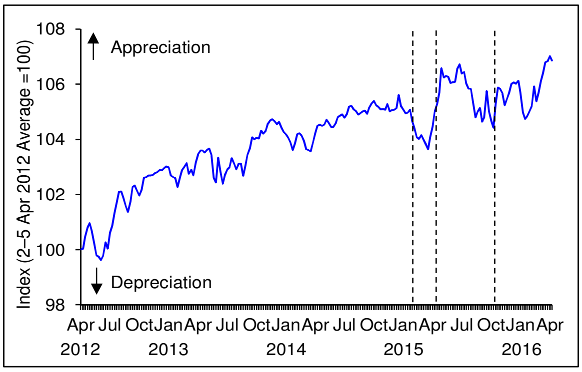
[5] With global Brent oil prices currently expected to be higher in H2 2016 compared to H1, the year-on-year drag of direct oil-related items on core inflation is likely to become smaller towards the end of the year.

D. Macroeconomic Policies

Monetary Policy: MAS reaffirmed the zero percent appreciation stance adopted in April 2016

In April 2016, MAS reduced the rate of appreciation of the S$NEER policy band to 0% per annum. There was no change to the width of the policy band and the level at which it was centred. This policy stance was assessed to be appropriate in view of the downshift in the near- and medium-term outlook for MAS Core Inflation. Together with the gradual adjustments in the monetary policy stance undertaken in January and October 2015, the April 2016 policy move would keep the level of output close to the economy's potential and provide a partial offset to disinflationary pressures, thereby ensuring price stability over the medium term.

MAS adopted a 0% p.a. slope in the S$NEER policy band in April 2016.



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The Singapore economy remains on track to grow at a modest pace in 2016. Prospects for global economic growth remain dim. The modest pace of expansion in the G3 economies and the slowdown in China and the region's growth will continue to exert a drag on the external-oriented sectors of the Singapore economy. In comparison, domestic-oriented sectors such as healthcare, education, and public infrastructure construction should remain resilient. All in, Singapore's GDP growth is projected to come in at 1–2% in 2016, following the 2% growth registered in 2015.

MAS Core Inflation is expected to continue to rise gradually, and trend towards its historical average of close to 2% over 2017. Reflecting the diminishing drag from oil prices, as well as from budgetary and other one-off measures, core inflation is expected to pick up gradually over the course of this year. Nevertheless, its pace of increase will be constrained by several factors, such as the benign outlook for imported inflation, a moderate pace of wage growth in view of the softening labour market, as well as the subdued economic outlook, which will restrain the extent to which cost increases are passed on to consumer prices. MAS Core Inflation for 2016 is likely to come in around 1%. CPI-All Items inflation has likely troughed in Q2 and is projected to average −1.0–0% for the whole year.

The April 2016 policy stance was reaffirmed in July. Notwithstanding the downside risks emanating from global spillovers due to Brexit and a sharper-than-anticipated slowdown in China, there has not been a marked deterioration in the global economy or a significant shift to the inflation outlook. The current policy stance thus remains appropriate for ensuring price stability in the medium term.

Fiscal Policy: The FY2016 Budget built on the momentum of previous Budgets to sustain restructuring and foster a more equitable society

The FY2015 Budget outcome was a smaller deficit of $4.9 billion (1.2% of GDP), compared to the $6.7 billion shortfall projected earlier. This was mainly due to lower-than-expected special transfers under the Productivity and Innovation Credit and Wage Credit Schemes.

Budget 2016 built on and expanded the themes of economic restructuring and fostering a caring and resilient society that had been established in earlier Budgets. First, it shifted the focus of restructuring from economy-wide initiatives to micro-level measures. To this end, Budget 2016 launched the $4.5 billion Industry Transformation Programme (ITP) to help firms and industries build up capabilities to leverage on new growth opportunities. The ITP provided measures to encourage firms and industries to adopt labour-saving techniques and increase automation. This included the development and deployment of robots in key labour-intensive sectors such as healthcare and construction. To encourage firms to expand and internationalise their operations, the ITP also provided tax incentives for mergers and acquisitions and the development of new markets abroad. The ITP also introduced several schemes to facilitate business development, strengthen industry research and development, and boost entrepreneurial activities.

Second, Budget 2016 expanded its scope to support workers at risk of being displaced by economic restructuring. While previous Budgets had emphasised the importance of upskilling and lifelong learning, Budget 2016 launched a number of complementary schemes to mitigate the risks of prolonged unemployment that could arise from an extended period of restructuring. The “Adapt and Grow” scheme will help workers, especially Professionals, Managers, Executives and Technicians (PMETs), to re-skill and undertake mid-career professional programmes. This was complemented by expanded wage support schemes to encourage firms to hire PMETs who had been made redundant.

Third, the Budget implemented programmes to support the economically vulnerable and enhance social mobility. Previous Budgets had established a firm base of support for the economically vulnerable through key programmes such as Workfare, GST Vouchers, and the Pioneer Generation Package. Budget 2016 followed up with the details of the implementation of the Silver Support Scheme, which had been introduced in 2015. Under this scheme, Singaporeans aged 65 and above who are at the bottom 20–30% of the income distribution will receive cash payments of up to $750 per quarter. At the same time, the Budget developed new measures to enhance intergenerational social mobility through the KidSTART and Fresh Start Housing Scheme. These programmes would provide assistance to children from disadvantaged families and give low-income families living in rental flats a second chance to own their own homes, respectively.

The Budget also provided near-term relief measures targeted at vulnerable businesses and households. Budget 2016 acknowledged that the confluence of an external slowdown and domestic restructuring have presented challenges to businesses and households. As such, the Budget introduced a suite of measures aimed at relieving the cash flows of firms, especially small and medium-sized enterprises (SMEs), and households. For businesses, the corporate income tax rebate was raised from 30% of tax payable to 50% for Years of Assessment 2016 and 2017, while the scheduled hike in the foreign worker levy for the Marine and Process sectors was deferred for another year in view of the global cyclical challenges facing the oil and gas sectors. The Budget also introduced the SME Working Capital Loan to ensure that viable SMEs would continue to have access to funding. For households, Budget 2016 provided Service & Conservancy Charges (S&CC) rebates and one-off GST Voucher special payments targeted at lower-income households.

For FY2016, the government has projected an overall budget surplus of $3.4 billion (0.8% of GDP). This includes special transfers, top-ups to trust and endowment funds, and the contribution 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 $7.7 billion (1.9% of GDP).

Summary of Fiscal Position

	FY 2014		FY 2015 Revised		FY 2016 Budgeted	
	$billion	% of GDP	$billion	% of GDP	$billion	% of GDP
Operating Revenue	60.8	15.5	64.2	15.9	68.4	16.7
Total Expenditure	56.6	14.4	68.4	17.0	73.4	17.9
Operating Expenditure	42.7	10.9	48.7	12.1	54.4	13.2
Development Expenditure	14.0	3.6	19.7	4.9	19.0	4.6
Primary Surplus/Deficit (-)	**4.2**	**1.1**	**(4.2)**	**(1.1)**	**(5.0)**	**(1.2)**
Less: Special Transfers Excluding Top-ups to Endowment and Trust Funds	3.9	1.0	4.5	1.1	2.7	0.6
Basic Surplus/Deficit (-)	**0.3**	**0.1**	**(8.8)**	**(2.2)**	**(7.7)**	**(1.9)**
Less: Top-ups to Endowment and Trust Funds	8.5	2.2	6.0	1.5	3.6	0.9
Add: NIR Contribution	8.7	2.2	9.9	2.5	14.7	3.6
Budget Surplus/Deficit (-)	**0.6**	**0.1**	**(4.9)**	**(1.2)**	**3.4**	**0.8**

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

Selected Indicators

GENERAL INDICATORS, 2015			
Land Area (Sq km)	719.1	Literacy Rate* (%)	96.8
Total Population ('000)	5,535.0	Real Per Capita GDP (US$)	51,428
Labour Force ('000)	3,610.6	Gross National Savings (% of GNI)	48.4
Resident Labour Force Participation Rate (%)	68.3		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2015		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2015	
Manufacturing	19.8	Private Consumption	36.6
Wholesale & Retail Trade	15.6	Private Gross Fixed Capital Formation	20.5
Business Services	15.5	Public Consumption	10.4
Finance & Insurance	12.6	Public Gross Fixed Capital Formation	5.0
Transportation & Storage	7.4	Increase in Stocks	0.8
Construction	5.2	Net Exports of Goods & Services	26.8
Information & Communications	4.2		
Accommodation & Food Services	2.1		

MAJOR EXPORT DESTINATIONS (% SHARE), 2015		MAJOR ORIGINS OF IMPORTS (% SHARE), 2015	
Total Exports (S$ Billion)	476.3	Total Imports (S$ Billion)	407.8
China	13.8	China	14.2
Hong Kong	11.4	US	11.2
Malaysia	10.9	Malaysia	11.1
Indonesia	8.2	Taiwan	8.3
US	6.3	Japan	6.3
ASEAN	29.6	ASEAN	21.5
NEA-3	19.8	NEA-3	15.3
EU	8.1	EU	12.6

Source: IE Singapore

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2015		MAJOR IMPORTS BY COMMODITY (% SHARE), 2015	
Domestic Exports (S$ Billion)	233.4	Total Imports (S$ Billion)	407.8
Mineral Fuels	31.1	Electronics	29.4
Electronics	20.8	Mineral Fuels	21.8
Chemicals	20.4	Machinery & Transport Equipment (ex. Electronics)	18.3
Machinery & Transport Equipment (ex. Electronics)	11.7	Manufactured Articles	8.8
Manufactured Articles	8.5	Chemicals	7.7
Manufactured Goods	2.6	Manufactured Goods	6.9

Source: IE Singapore

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.

OVERALL ECONOMY	2014	2015	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	Jun-16	Jul-16
GDP at current prices (S$ bil)	388.2	402.5	100.1	100.3	100.1	102.0	99.9	99.3	na	na
GDP (US$ bil)	306.4	292.7	73.8	74.6	71.9	72.5	71.1	73.1	na	na
Real GDP Growth (YOY % change)	3.3	2.0	2.7	1.7	1.8	1.8	2.1	2.1	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	0.2	-1.6	2.3	6.2	0.1	0.3	na	na
By Sector (YOY % change):										
Manufacturing [1/]	2.7	-5.2	-2.9	-5.2	-6.0	-6.7	-0.5	1.1	0.6	-3.6
Electronics [1/]	-0.2	-6.8	-4.7	-3.8	-6.3	-12.2	3.1	11.1	19.0	16.2
Non-electronics [1/]	3.8	-4.5	-4.2	-4.5	-5.4	-3.8	-2.0	-2.3	-6.0	-10.7
Finance & Insurance	9.1	5.3	8.1	6.6	4.6	2.4	2.7	0.8	na	na
Business Services	1.6	1.5	2.4	0.6	2.0	0.8	0.1	-0.2	na	na
Construction	3.5	2.5	-1.6	3.6	3.0	4.9	4.0	3.3	na	na
Transportation & Storage	2.6	0.0	1.3	-1.0	0.4	-0.9	-0.1	2.9	na	na
Information & Communications	7.0	4.2	5.2	5.8	2.5	3.3	3.1	1.2	na	na
Wholesale & Retail Trade	2.1	6.1	5.7	5.5	6.4	6.8	2.9	2.2	na	na
Accommodation & Food Services	1.7	0.2	-0.3	-1.1	1.1	0.9	1.7	1.6	na	na
By Expenditure Component (YOY % change):										
Consumption	1.7	4.9	3.5	3.8	6.1	6.3	5.3	4.8	na	na
Private	2.2	4.5	3.5	4.5	4.6	5.5	4.2	3.2	na	na
Public	-0.1	6.6	3.7	1.0	12.2	9.4	8.6	12.0	na	na
Gross Fixed Capital Formation	-2.6	-1.0	-4.2	2.3	-1.6	-0.7	-2.8	1.1	na	na
Private	-5.2	-2.2	-3.5	0.4	-1.8	-3.9	-6.2	-0.9	na	na
Public	10.4	3.8	-6.6	10.6	-0.7	13.8	10.2	9.4	na	na
External Demand	4.3	2.5	4.1	0.4	2.7	2.8	-1.0	4.1	na	na
TRADE										
Total Exports, fob (YOY % change)	0.8	-7.2	-6.0	-9.0	-8.0	-5.7	-11.6	-4.7	-3.7	-10.3
Non-Oil Domestic Exports	-1.5	-0.1	4.0	1.5	-2.2	-3.5	-9.0	0.0	-2.4	-10.6
Re-Exports	2.5	-0.9	1.1	-5.6	-0.5	1.4	-6.5	-3.4	-1.2	-3.0
Total Imports, cif (YOY % change)	-0.6	-12.1	-16.1	-13.0	-9.1	-9.9	-7.4	-6.7	-6.7	-12.1
WAGE-PRICE INDICATORS										
Unemployment Rate (SA,%)	2.0	1.9	1.8	1.9	2.0	1.9	1.9	2.1	na	na
Average Nominal Wages (S$ per month)	4,727	4,892	5,259	4,611	4,493	5,205	5,483	4,789	na	na
Consumer Price Index Inflation (YOY % change)	1.0	-0.5	-0.3	-0.4	-0.6	-0.7	-0.8	-0.9	-0.7	-0.7
MAS Core Inflation (YOY % change)	1.9	0.5	1.1	0.2	0.4	0.2	0.5	1.0	1.1	1.0
FINANCIAL INDICATORS										
S$ Exchange Rate Against: (end-period)										
US Dollar	1.3213	1.4139	1.3765	1.3474	1.4253	1.4139	1.3511	1.3490	1.3490	1.3475
100 Japanese Yen	1.1060	1.1743	1.1447	1.1014	1.1884	1.1743	1.2020	1.3126	1.3126	1.3074
Euro	1.6072	1.5457	1.4876	1.5080	1.6045	1.5457	1.5290	1.4977	1.4977	1.4949
Interest Rates (end-period, % p.a.)										
3-month Fixed Deposit Rate	0.14	0.18	0.17	0.16	0.18	0.18	0.19	0.19	0.19	0.19
3-month S$ SIBOR [2/]	0.46	1.19	1.01	0.82	1.14	1.19	1.06	0.93	0.93	0.88
Prime Lending Rate	5.35	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)	3.3	1.5	4.1	3.6	3.2	1.5	2.1	4.3	4.3	5.6
Straits Times Index (end-period) [3/]	3,365.2	2,882.7	3,447.0	3,317.3	2,790.9	2,882.7	2,840.9	2,840.9	2,840.9	2,868.7
YOY % change	6.2	-14.3	8.1	1.9	-14.8	-14.3	-17.6	-14.4	-14.4	-10.4
GOVERNMENT BUDGET [4/]										
Operating Revenue (S$ mil)	59,995	63,562	14,340	16,857	17,888	14,477	15,601	18,153	na	na
Total Expenditure (S$ mil)	54,805	61,155	18,565	12,127	14,352	16,111	24,856	14,916	na	na
Operating Expenditure	41,758	45,359	13,960	7,988	11,123	12,289	16,691	9,823	na	na
Development Expenditure	13,047	15,797	4,605	4,140	3,230	3,822	8,165	5,093	na	na
Primary Surplus/Deficit (S$ mil)	5,190	2,407	-4,224	4,730	3,535	-1,634	-9,255	3,237	na	na
% of GDP	1.3	0.6	-4.2	4.7	3.5	-1.6	-9.3	3.3	na	na
BALANCE OF PAYMENTS										
Current Account Balance (% of GDP)	17.5	19.8	21.4	16.7	20.7	20.3	18.9	21.0	na	na
Goods Balance	26.0	28.2	30.8	26.9	26.5	28.6	26.5	30.6	na	na
Services Balance	-1.5	-1.3	-1.5	-2.4	-0.7	-0.7	-2.0	-2.8	na	na
Primary Income Balance	-4.9	-4.7	-5.6	-5.4	-2.7	-5.2	-3.1	-4.3	na	na
Secondary Income Balance	-2.0	-2.4	-2.3	-2.3	-2.4	-2.4	-2.5	-2.5	na	na
Capital & Fin Account Balance (% of GDP)	15.1	19.1	24.3	13.3	20.5	18.5	26.9	15.9	na	na
Direct Investment	-9.6	-10.2	-12.1	-6.8	-13.3	-8.5	-6.9	-14.8	na	na
Portfolio Investment	17.4	18.7	17.5	10.4	19.5	27.3	-16.2	14.1	na	na
Financial Derivatives	-3.9	-6.8	-4.6	-7.4	-8.3	-6.9	12.1	-9.9	na	na
Other Investment	11.2	17.4	23.5	17.1	22.6	6.5	37.9	26.4	na	na
Overall Balance (% of GDP)	2.2	0.4	-1.3	2.7	0.5	-0.3	-8.7	4.8	na	na
Official Foreign Reserves (US$ mil) [5/]	256,860	247,747	248,404	253,280	251,640	247,747	246,196	248,859	248,859	251,429
Months of Imports	8.4	10.0	8.6	9.3	9.7	10.0	10.2	10.6	10.6	10.8

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