MAS Monetary Authority of Singapore

RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

7 June 2017

	2016				2017
	Q2	Q3	Q4	Full Year	Q1
Real Sector					
Real GDP Growth, y-o-y %	1.9	1.2	2.9	2.0	2.7
Real GDP Growth, q-o-q saar %	0.8	−0.4	12.3	-	−1.3
Index of Industrial Production, y-o-y %	1.6	1.8	11.8	3.7	8.4
Non-oil Domestic Exports, y-o-y %	1.2	−5.4	2.7	−2.8	15.2
Labour Market and Prices					
Unemployment Rate, sa, % (Average)	2.1	2.1	2.2	2.1	2.3
CPI-All Items Inflation, y-o-y %	−0.9	−0.4	0.0	−0.5	0.6
Wage Growth, y-o-y %	3.9	3.4	3.3	3.7	1.9

Domestic economic activity eased in Q1 2017

The Singapore economy contracted by 1.3% q-o-q saar (quarter-on-quarter seasonally-adjusted annualised rate) in Q1 2017, after the exceptionally strong performance in the previous quarter. The tempered outcome was due to a reversal of momentum in some sentiment-sensitive activities within financial services and a pullback in the trade-related sectors, accentuated by weakness in pharmaceuticals and oil trading activity. Growth in the domestic-oriented cluster, however, was resilient, supported by public construction works.

The global economy gathered pace in Q1 2017, as macroeconomic conditions in most regions improved

Global growth was stronger in Q1 2017, with firm outturns in the Eurozone and Asia offsetting some slippage in the US. The pickup in the underlying pace of global activity is expected to continue in the near term, alongside an upswing in the tech cycle and some recovery in investment spending. For 2017, global growth is expected to rise slightly to 4.0%, from 3.9% last year.

Barring the materialisation of downside risks, Singapore's GDP growth in 2017 could be stronger than the 2% recorded last year

The growth forecast range for the domestic economy is unchanged at 1–3%, to accommodate the risks from uncertainties in the global economy. The expansion will be anchored by the trade-related cluster, alongside the upswing in the global IT cycle. A modest recovery in financial services demand and increased ICT adoption among businesses will also lend support to the modern services cluster, although outcomes in the domestic-oriented cluster are likely to be mixed.

Inflation is expected to rise mildly

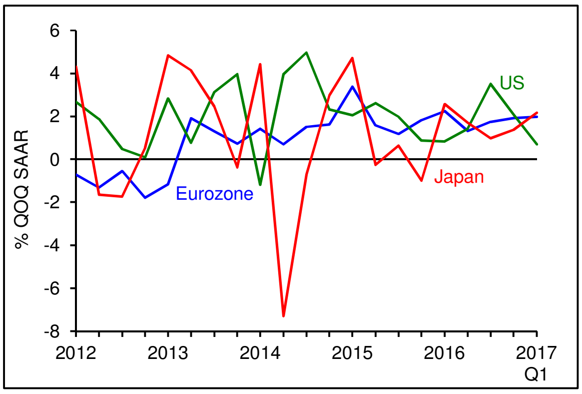
MAS Core Inflation is expected to average 1–2% in 2017, compared with 0.9% in 2016. Similarly, CPI-All Items inflation is projected to rise to 0.5–1.5% this year, from −0.5% in 2016. The firmer rate of inflation largely reflects the positive contribution of energy-related components, on the back of a turnaround in global commodity markets, and the temporary impact of various administrative price increases. In comparison, demand-induced price pressures remain subdued at this juncture.

A. External Developments

G3 growth eased in Q1 2017 although the underlying momentum remained firm

G3 growth slowed to 1.7% q-o-q saar in Q1 2017 from 1.9% in Q4 2016, owing mainly to a softening of economic activity in the US. However, the weakness in US Q1 growth—a recurrent feature of the past few years—is expected to be transitory. Underlying economic momentum in the G3 remained firm, underpinned by rising investment demand in the US and the Eurozone, and a modest recovery in household spending in Japan. High-frequency indicators such as PMIs continued to improve in early 2017, pointing to sustained near-term strength in the G3 economies. Overall, G3 growth is projected to pick up to 1.8% in both 2017 and 2018, from 1.5% last year.

G3 growth moderated in Q1.



Source: CEIC

US GDP growth retracted to 1.2% q-o-q saar in Q1 2017, from 2.1% in Q4 2016. Private consumption expanded by 0.6%—its slowest pace since Q4 2009—due in part to one-off factors such as a delay in income tax refunds. After staying resilient for most of 2016, durable goods spending contracted by 1.4% q-o-q saar in Q1, amid weakening motor vehicle sales. Fiscal expenditure also accentuated the pullback in household consumption, as federal defence spending as well as state and local expenditures contracted. However, business fixed investment increased by 11.9% q-o-q saar, a rate of growth not seen since Q1 2012, on account of a sharp rise in capital outlays on structures, including in the energy sector. Overall exports increased by 5.8% q-o-q saar in Q1, even as the slowdown in private consumption dampened imports. As a result, net exports added 0.1% point to growth, reversing the 1.8% drag in the previous quarter.

The US economy is expected to gather pace over the rest of 2017. Consumption spending is set to normalise in Q2 on the back of continued strength in the labour market. The unemployment rate edged down lower, to 4.3% in May, while the monthly increase in non-farm payrolls remained steady at 156,000 on average over the April–May period. Consumer confidence indices also stayed elevated, notwithstanding the pullback in household spending. Further, personal incomes rose by 0.4% m-o-m in April, double the increase in March. Manufacturing PMI indicators are holding at levels above that a year ago, alongside a brightening outlook for services, as evidenced by the rise in the Markit services index to 53.6 in May. However, considerable uncertainty over the current administration's economic policies continue to cloud the macroeconomic outlook somewhat. With a substantial fiscal stimulus unlikely to be enacted in the second half of this year, the US consensus growth forecast for 2017 has been shaved down to 2.1%, from 2.3% in January, before rising to 2.4% in 2018, when some tax cuts could materialise.

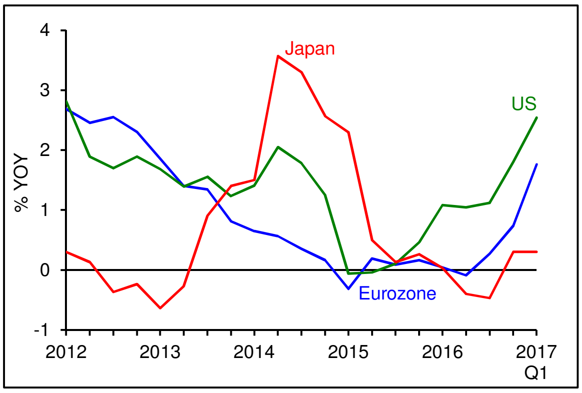
The Eurozone economy began the year on a strong footing, growing by 2.0% q-o-q saar in Q1 2017 after a 1.9% expansion in Q4 2016. Advance GDP estimates point to a broad-based pickup in growth across the region. Germany and Spain led the improvement with impressive expansions of 2.4% and 3.3% q-o-q saar, respectively, undergirded by robust domestic and external demand. France and Italy also registered firm growth of 1.8% in Q1, driven by stronger investment and private consumption, respectively. Despite uncertain progress on the country's latest bailout terms, the Greek economy expanded again in Q1, following a sizeable contraction in Q4 2016. Across the Eurozone, the fiscal stance was broadly supportive of growth.

Looking ahead, Eurozone growth will be buttressed by robust job creation, strong confidence and favourable credit conditions. Steady declines in both the overall and long-term rates of unemployment will underpin further growth in incomes and consumption. On the production side of the economy, leading indicators such as the Markit Composite PMI ratcheted to a multi-year high of 56.8 in May 2017, while manufacturing new orders have risen since December 2016. Average bank lending rates have remained at low levels, supporting investment growth. In addition, the gradual dissipation of political uncertainty following the success of mainstream parties in recent elections has resulted in higher confidence and stronger domestic demand. However, risks associated with the Brexit talks and Greek debt negotiations should not be entirely discounted at this juncture. All in, growth in the Eurozone is expected to come in at 1.7% this year and 1.6% in 2018.

Japan's economy surprised on the upside with growth of 2.2% q-o-q saar in Q1 2017, as household consumption registered stronger gains. Private consumption growth recovered to 1.4% q-o-q saar in Q1, after a weak outturn of 0.2% in Q4 due in part to higher food prices. Net exports improved for the third consecutive quarter, contributing 0.6% point to Q1 growth. Exports rose by 8.9% q-o-q saar as regional shipments of electronics and capital goods increased, outstripping the 5.5% growth in imports. Corporate capital spending continued to rise in Q1, albeit by a more modest 0.9% q-o-q saar, following the 7.6% surge in Q4 2016. Public spending also began to grow again, by 0.4% q-o-q saar in Q1, after declining for several quarters, mainly due to an increase in consumption expenditure.

In the quarters ahead, firm exports and a moderate pickup in investment will shore up the Japanese economy. Exports are anticipated to remain strong on account of a favourable exchange rate and more supportive external demand. Private capital spending is expected to rise on the back of improved business sentiment and higher corporate profits, while public investment will gather pace as infrastructure projects come on stream. However, sluggish wage growth is likely to hold back increases in household income and spending, even as the job openings-to-applicants ratio rose to its highest level since 1974. On balance, Japan's growth is projected to come in at 1.4% in 2017, before slowing to 1.1% in 2018 as the effects from fiscal stimulus fade.

Inflation in the G3 economies picked up further in Q1.

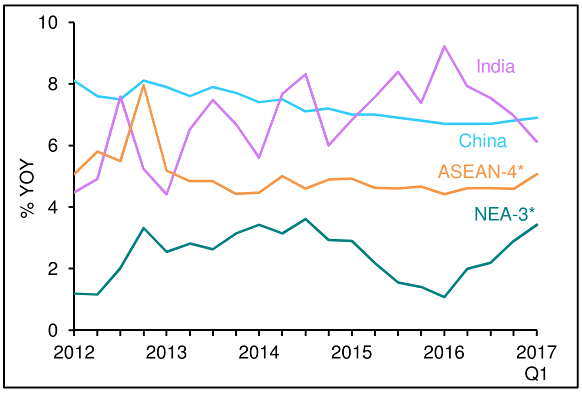


Source: CEIC

CPI inflation in the G3 economies continued on its ascent, reaching 2.0% in Q1 2017. US headline CPI inflation increased to 2.5% y-o-y in Q1 from 1.8% in the previous quarter, mainly due to higher energy prices. For the same reason, CPI inflation in the Eurozone surged to 1.8% y-o-y in Q1 from 0.7% in Q4 2016. However, core inflation in both the US and the Eurozone remained stable at 2.2% and 0.8%, respectively, the latter reflecting continuing slack in the economy. In Japan, headline inflation was 0.3% y-o-y in Q1, unchanged from the previous quarter, with the recovery in energy prices offset by a moderation in fresh food prices. In the absence of domestic cost pressures, core inflation dropped to –0.1% y-o-y in Q1 from 0.1% in Q4 2016. In view of these developments, headline inflation in the G3 economies is projected to rise to 1.9% in 2017 and 1.7% in 2018, from 0.7% last year.

Asia ex-Japan growth in Q1 2017 was underpinned by firmer external demand

Growth in Asia ex-Japan improved in Q1.



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 edged up to 5.2% y-o-y in Q1 2017 from 5.0% in Q4 2016, as firming activity in the G3 and China led to a broader recovery in regional trade. The ASEAN-4 saw a synchronised upswing in exports that lifted their GDP growth as a whole to a four-year high, while the NEA-3 economies continued to benefit from strong electronics demand. With improving trade flows supplementing resilient domestic demand, growth in Asia ex-Japan is projected to come in at 4.8% in 2017 and 4.7% in 2018.

Economic activity in China picked up in Q1 2017, as underlying private demand recovered and exports turned around. GDP growth edged up further to 6.9% y-o-y in Q1, from 6.8% in Q4 2016. In sequential terms, however, the growth pace eased to 1.3% q-o-q sa, from 1.7% previously. Net exports of goods and services contributed 0.3% point to headline y-o-y growth in Q1 after six quarters of decline. Concurrently, industrial production rose by 6.8% y-o-y, the strongest pace in seven quarters, boosted by depleting inventories and rising domestic as well as export orders. Industrial profits soared by 28.3%, spurring a modest recovery in capital expenditure by private enterprises—private fixed asset investment (FAI) grew by 7.7% y-o-y in Q1, even as state sector FAI growth, the main driver of investment last year, slowed from the previous quarter. Amid upbeat consumer confidence, retail sales increased at a steady pace of 10%. Meanwhile, services sector growth eased slightly to 7.7% y-o-y in Q1 from 8.3% in Q4 2016, owing primarily to less buoyant activity in the financial as well as transport and storage industries.

China's headline growth is expected to remain stable even as the authorities shift the policy focus to reducing leverage in the financial sector. With industrial slack being gradually taken up and underlying demand steady, the People's Bank of China and financial regulators have refocused their priorities on reducing debt and addressing financial stability risks. As credit flows via irregular channels are curtailed, growth in sectors which have been more reliant on shadow lending could be dented. At the same, measures to curb property speculation in the major Chinese cities would weigh on the real estate and construction industries. However, the strain of reduced credit supply on overall investment will likely be somewhat offset by firms' improved profits, which would provide a ready source of funds for capital spending. More generally, the effect of monetary tightening on growth will be cushioned by a supportive fiscal stance, with the general budget deficit target set at 3% of GDP this year. Against this backdrop, China's growth is expected to ease only marginally, from 6.7% last year to 6.6% in 2017, after which it is projected to slow more discernibly to 6.2% in 2018.

India's economic growth came in significantly below expectations in Q1 2017, following a firmer-than-expected outturn in the previous quarter. GDP growth declined from 7.0% y-o-y in Q4 2016 to 6.1%, the slowest pace in two years. The sharp deceleration in headline growth could reflect, in part, several one-off factors, including the lingering effects of demonetisation and statistical revisions. However, even abstracting from these factors, the underlying pace of activity in the Indian economy has weakened compared to the preceding quarters. Private consumption growth declined to 7.3% y-o-y from 11.1% in Q4 2016 while investment contracted by 2.1% y-o-y, reversing a 1.7% expansion in the previous quarter. Despite a boost to trade from the global cyclical upturn, net exports exerted a slight drag on growth as strong demand for imports overwhelmed a robust exports outturn. In contrast, government consumption surged by 31.9% y-o-y, reflecting ongoing disbursements of wage increases for public servants and elevated state spending. Despite the pullback in Q1 growth, India's GDP growth is projected to rise to 7.6% in FY2018, from 7.3% in FY2017, supported by a favourable monsoon and a relatively smooth remonetisation process.[1]

The NEA-3 economies as a whole grew by 3.5% y-o-y in Q1 2017, up from 2.9% in Q4 2016. On a q-o-q saar basis, the growth momentum also picked up to 3.5% from 3.2%. Korea's economic growth accelerated to 2.9% y-o-y in Q1 2017, while a low base last year enabled Hong Kong to post a solid expansion of 4.3% y-o-y in the same quarter. However, Taiwan's growth moderated to 2.6% y-o-y in Q1 due to a cutback in government expenditure. The robust outturns in all three economies were supported by resilient private consumption and a ramp-up in investment, likely in anticipation of a sustained upswing in the tech cycle. This was accompanied by a surge in capital imports in Korea and Taiwan, which provided further evidence of a continued manufacturing upturn. Additionally, all three economies continued to ride on strong demand in China, with exports to the latter in Q1 2017 rising by 17.5%, 27.0% and 12.6% y-o-y in Korea, Taiwan and Hong Kong respectively.

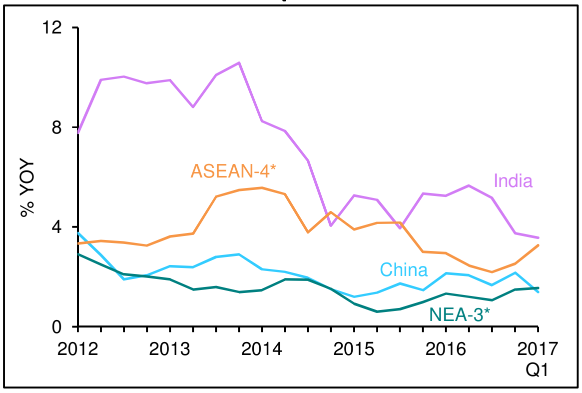
In the coming months, the recovery in the global technology cycle will continue to support the region's expansion. Electronics products should see strong demand, notwithstanding a possible inventory correction in semiconductors over the near term. In addition, household and business sentiment has improved in Korea following a relatively smooth presidential transition, while the roll-out of a multi-year infrastructure plan in Taiwan will boost domestic demand. Nonetheless, the steady absorption of supply chain activity back into China and rising geopolitical uncertainty in the Korean peninsula could weigh on economic activity. In light of these factors, GDP growth in the NEA-3 is forecast to improve to 2.3% in 2017, before inching down to 2.2% in 2018.

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

GDP growth in the ASEAN-4 as a whole touched a four-year high of 5.1% y-o-y in Q1 2017 as trade flows staged a synchronised recovery. Higher commodity prices and buoyant demand for electronics have underpinned the rebound in export growth across the region. While the concomitant upswing in imports meant net exports made a limited positive contribution to GDP growth, the 5.1% y-o-y expansion in Q1 was a notable improvement over the 4.6% turnout in each of the preceding three quarters. In particular, Malaysia performed significantly better than anticipated, as a spurt in private investment growth (particularly in machinery and equipment), firmer private consumption and higher government spending fuelled domestic demand. Elsewhere in the region, growth outcomes in Q1 were not that dissimilar to those observed in 2016. Headline GDP growth picked up slightly in Indonesia and Thailand, with support from exports in the former and private consumption in the latter. Meanwhile, growth momentum in the Philippines ebbed to a still-respectable 6.4% in Q1, as both public and private demand moderated.

ASEAN-4 growth is projected to moderate slightly and stay on an even keel. The stellar export performance seen in Q1 may not be sustained in the quarters ahead as commodity prices stabilise and Chinese import demand moderates. Instead, resilient private consumption and rising public spending is expected to pick up some of the slack. In Indonesia, household spending is likely to step up, with consumer confidence at a three-year high and unemployment at a record low. Thailand and the Philippines will see a ramp-up in infrastructure spending: a supplementary budget is due to be implemented in Thailand, while planned transport infrastructure investment in the Philippines is likely to proceed. However, some measure of fiscal restraint will weigh on the Malaysian economy in the coming quarters, as the government strives to keep to its budget deficit target of 3% of GDP for FY2017. Overall, growth in the ASEAN-4 economies is projected to come in at 4.7% in 2017 and in 2018.

Inflation in Asia ex-Japan came down in Q1.



Source: CEIC and EPG, MAS estimates

* Regional groupings are weighted by 2013 nominal GDP.

CPI inflation in Asia ex-Japan eased to 2.1% y-o-y in Q1 2017 from 2.4% in Q4 2016, as food prices declined in China and India. China's core inflation crept up in Q1, but headline inflation fell by 0.8% point to 1.4%, as idiosyncratic factors caused a plunge in vegetable prices. Similarly, subdued food prices continued to keep India's CPI inflation contained at 3.6% y-o-y in Q1. In the NEA-3 economies, CPI inflation inched up to 1.6% y-o-y from 1.5% in Q4 2016 as higher fuel prices offset lower grocery prices in Hong Kong and Taiwan. The pickup in headline inflation was more pronounced in the ASEAN-4, from 2.5% y-o-y in Q4 2016 to 3.3% in Q1 2017, owing to a combination of higher food and energy prices. Overall, headline inflation in Asia ex-Japan is expected to rise to 2.7% in 2017 and 2.9% in 2018.

Table 1: Consensus Forecasts of GDP Growth

	2015	2016	Forecast 2017	Forecast 2018
	Percent			
Industrial				
US	2.6	1.6	2.1	2.4
Japan	1.1	1.0	1.4	1.1
Eurozone	1.9	1.7	1.7	1.6
UK	2.2	1.8	1.7	1.4
NEA-3				
Hong Kong	2.4	2.0	2.2	2.1
Korea	2.8	2.8	2.6	2.5
Taiwan	0.7	1.5	2.1	2.0
ASEAN-4				
Indonesia	4.9	5.0	5.2	5.3
Malaysia	5.0	4.2	4.4	4.4
Thailand	2.9	3.2	3.3	3.3
Philippines	6.1	6.9	6.5	6.3
China	6.9	6.7	6.6	6.2
India*	7.5	8.0	7.3	7.6

Source: CEIC and Consensus Economics, May 2017

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

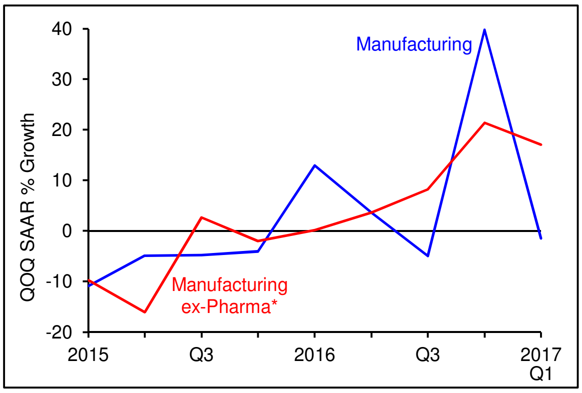
B. Domestic Developments

The Singapore economy moderated in Q1 2017

After expanding by a stellar 12.3% q-o-q saar in Q4 2016, overall economic activity in Singapore contracted by 1.3% in Q1 2017. The consolidation reflected in part the reversal in momentum of some sentiment-sensitive segments within the financial services industry. The trade-related sectors also saw a pullback, weighed down by a decline in pharmaceuticals production and oil-related wholesale trade. Nevertheless, a resilient domestic-oriented cluster provided some countervailing support. The construction sector picked up on the back of an increase in public demand for most building types and civil engineering works, following sluggish outturns in H2 2016.

The manufacturing sector contracted by 1.5% q-o-q saar in 2017, following a robust 39.8% expansion in the preceding quarter. This primarily reflected a 21.4% q-o-q sa reduction in output in the volatile pharmaceutical segment, after a 31.6% surge the quarter before. Concomitantly, the marine & offshore engineering segment shrank by 3.0% q-o-q sa, extending the 2.6% fall seen in Q4 2016, as demand for oil & gas exploration capital equipment remained weak. Despite the plant closures during the Chinese New Year holiday which temporarily impacted production and led to some loss of growth momentum, the electronics cluster has continued to expand, riding on the upswing in the global tech cycle. The optimism surrounding the global IT industry also benefited the precision engineering cluster—buoyed by stronger demand for semiconductor fabrication equipment, growth of the precision engineering cluster accelerated to 9.2% q-o-q sa in Q1, from 5.8% previously.

A sharp drop in pharmaceuticals production weighed on manufacturing output in Q1.



* EPG, MAS estimates

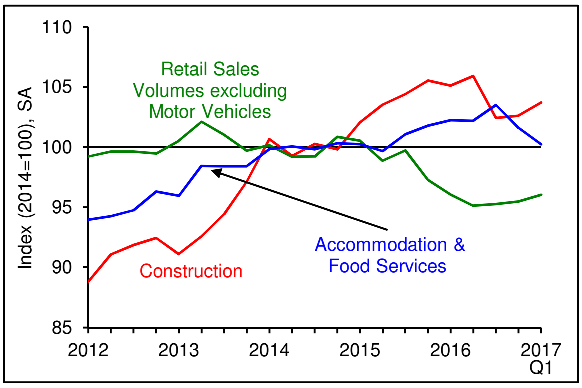
The overall downshift in the manufacturing sector dampened activity in the trade-related services sectors. Notably, the volume of air cargo handled fell by 0.3% q-o-q sa in Q1, in contrast to the 2.8% expansion recorded the quarter before. Similarly in the water transport segment, growth in sea cargo handled at Singapore's ports eased from 6.1% in Q4 2016 to 0.4% in Q1. In addition, the reduction in oil trading activity alongside the dissipation of arbitrage opportunities had also weighed on the wholesale trade sector. Specifically, wholesale of petroleum and petroleum products contracted by 4.0% q-o-q sa during the quarter, extending the 4.1% decline in Q4 2016.

Financial services contracted by 17.8% q-o-q saar in Q1 2017, after the 36.5% surge in the preceding quarter. The decline largely reflected a pullback in the sentiment-sensitive cluster. The fund management industry saw a marked sequential step-down in net fees and commissions from the year-end boost in Q4 2016, while forex turnover also declined modestly by 1.5% q-o-q. However, there was some support from lending activities. DBU non-bank lending grew by 1.7% q-o-q, alongside firmer loan demand from building and construction, general commerce and business services. ACU non-bank lending also saw a turnaround, amid broad-based sequential improvements in loans extended to East Asia, Europe and the Americas.

Both business services and the information & communications sector saw healthy growth in Q1. In business services, sustained corporate demand for headquarter functions and consultancy services were the main drivers of growth. Meanwhile, the information & communications sector saw an improvement in growth momentum from 0.9% q-o-q saar in Q4 2016 to 5.2% in Q1 2017, on the back of firms' robust demand for IT services, and a modest turnaround in media-related activities.

Growth of the domestic-oriented cluster held steady in Q1 2017, with firm expansion in public construction offsetting pockets of weakness in the consumer-facing industries. The construction sector grew by 4.3% q-o-q saar, a step-up from the 0.8% growth in Q4 2016. The improvement in Q1 was supported by an increase in public residential and non-residential building works. Meanwhile private sector construction activities remained in decline. Turning to the consumer-facing sectors, the accommodation & food services industry contracted by a further 5.2% q-o-q saar in Q1, after a 7.2% fall in the preceding quarter. Weak restaurant spending weighed on the performance of the industry, even as robust increases in visitor arrivals from China and India in Q1 boosted hotel revenues. Concomitantly, overall retail sales volumes picked up slightly in Q1 2017; strong growth in sales of luxury items such as watches and jewellery was largely offset by sluggish spending on other discretionary items such as apparel & footwear and household equipment.

Domestic-oriented activities in Q1 were supported by public construction and a slight pickup in retail spending.



The domestic economy is likely to expand at a slightly faster pace compared to 2016

Growth of the Singapore economy is expected to remain on a steady and modest growth path, with GDP projected to expand by 1–3% in 2017. Barring the materialisation of downside risks, the continued improvement in the external environment should support a slightly faster pace of expansion, compared to the 2% recorded last year. While growth in the US moderated in the beginning of the year, stronger outturns in Europe and Japan have kept G3 growth well anchored. This firm performance, coupled with the recovery in the global tech cycle, have led to a corresponding step-up in trade activity in the NEA-3 and ASEAN-4 economies. Further, even with tightening financial policies, underlying demand in China has remained relatively stable.

Singapore's trade-related sectors are thus expected to be further supported by the improvement in external conditions. In particular, the upswing in the global IT cycle, fuelled by strong demand for semiconductors and semiconductor manufacturing equipment, will continue to provide a positive boost to the electronics and precision engineering cluster in 2017. Apart from the IT-related industries, the drag from the M&OE segment should also gradually dissipate throughout the course of this year, alongside slightly more positive prospects for the global oil & gas industry. The transport & storage sector would similarly benefit from the improvement in global trade flows.

Meanwhile, modern services should contribute more to overall growth in 2017, compared with 2016. Financial intermediation activities are on a stronger footing after the soft patch last year. In particular, the pickup in regional trading volumes should anchor growth in trade financing. In insurance, health and annuity-type policies will continue to see incremental demand from an aging population, although rising claims could constrain the extent of overall segment expansion. In the information & communications industry, growth will also be buttressed, in part, by the ongoing rollout of Smart Nation initiatives. These include projects such as digital identity, e-payments, and an island-wide wireless sensors system. Initiatives such as the SMEs Go Digital programme and the setting up of the SME Technology Hub will also help businesses identify and implement appropriate ICT solutions.

The domestic-oriented sectors will contribute steadily to overall growth. Public infrastructure projects brought forward, as announced in Budget 2017, will provide an anchor for construction activity. These projects include the upgrading of community clubs and sports facilities, as well as the ongoing extensions to the rail network. While local consumer demand remains subdued, further growth in tourist arrivals is expected as the external environment gradually improves, thus providing some support to the retail segment.

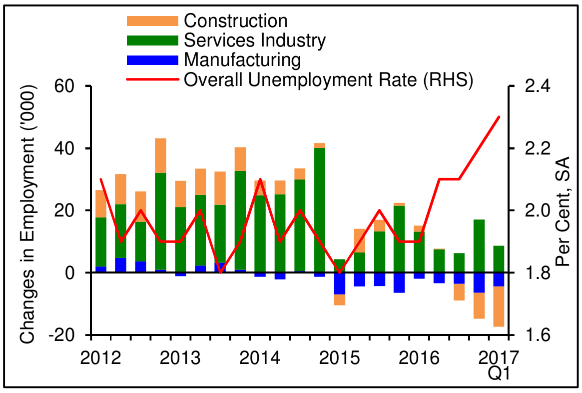
C. Labour Market and Consumer Prices

Overall net employment contracted by 8,500 in Q1 2017

Preliminary estimates showed that overall net employment in Singapore declined by 8,500 in Q1 2017, after 2,300 workers were added in Q4 last year. The contraction occurred in the manufacturing and construction sectors, and was mainly due to a reduction in the number of work permit holders. Employment in construction fell for the third consecutive quarter (−12,900), while the extent of job losses in manufacturing (−4,400) moderated from the preceding quarter. In contrast, employment in the services sector continued to expand (8,700), but at a much slower pace than the last quarter of 2016, which was boosted by seasonal hiring.

The overall unemployment rate rose slightly in Q1, while the resident unemployment rate held steady. The seasonally-adjusted overall rate edged up slightly to 2.3% in March 2017, from 2.2% in the prior three months. Meanwhile the latter was unchanged at 3.2% over the same period. In total, 4,800 workers were laid off in Q1 2017, lower than that in Q4 (5,440), although comparable to a year ago. Redundancies fell in manufacturing, but continued to rise in construction and services.

The overall unemployment rate edged up slightly to 2.3% in March 2017.

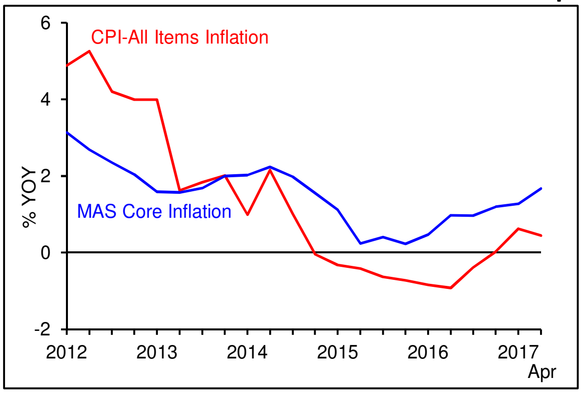


Resident wage growth moderated to 1.9% on a y-o-y basis in Q1 2017, compared to 3.3% in the previous quarter. Nevertheless, sectors such as accommodation & food, administrative & support, information & communications and wholesale trade continued to post healthy salary increments.

The employment outlook for 2017 is not expected to be significantly different from last year. In the quarters ahead, net employment growth is expected to remain modest and uneven across sectors. It is likely to be stronger in the health and social services sector where manpower demand is more resilient, but weaker in manufacturing and construction. Overall, soft labour demand will dampen underlying wage pressures in the economy.

Inflation has risen since the start of 2017

Core and headline inflation have trended up.



Both core and headline inflation have continued to trend up, reflecting the positive contribution of oil-related items. MAS Core Inflation, which excludes the costs of accommodation and private road transport, edged up to 1.3% y-o-y in Q1 2017 from 1.2% in the preceding quarter. Meanwhile, CPI-All Items inflation rose by more, to 0.6% from 0.0% over the same period. While the turnaround in the prices of oil-related items affected both measures of inflation, they have a larger weight in, and thus a more significant effect on, headline inflation. Subsequently in April, core inflation rose further to 1.7%, due to the steeper increase in electricity tariffs. However, CPI-All Items inflation moderated to 0.4%, as higher core and private road transport inflation were more than offset by a sharper decline in the cost of accommodation.

The costs of electricity and fuel have risen on the back of higher global oil prices. On a year-ago basis, the price of electricity and gas[2] increased by 3.8% in Q1, compared to the 5.2% decline in Q4 2016. It continued to rise by 18.7% y-o-y in April, mainly on account of a steeper increase in electricity tariffs. Petrol prices also picked up more strongly, by 11.3% y-o-y in Q1 and 12.1% in April, after registering a mild increase of 0.6% in Q4 2016.

Services inflation edged up in Q1 but was stable in April. Overall services inflation was 1.7% in Q1, up from 1.5% in Q4 2016, due to a stronger pickup in the cost of healthcare services, as well as higher telecommunications services fees following price declines in Q4. Services inflation remained at 1.7% in April, as a larger rise in telecommunications services fees and an increase in airfares were offset by the slower pace of increase in the costs of education and domestic services.

Food inflation has continued to ease, moderating to 1.5% in Q1 from 2.0% in the preceding quarter. This reflected smaller price increases for non-cooked food items as a result of a milder-than-usual seasonal pickup in food prices during the Chinese New Year festive period this year, as well as a high base in the previous year due to weather-related disruptions to the supply of perishable food items. It eased further to 1.3% in April, as restaurant meals registered more modest price increases, while non-cooked food inflation slowed further.

Private road transport inflation has accelerated in recent months, while the cost of accommodation declined further. The cost of private road transport rose by 6.0% in Q1 and 7.0% in April this year, compared to 0.6% in Q4 2016. This was mainly on account of higher car prices following year-ago declines in the past few quarters, as well as a faster pace of

[2] Electricity and gas includes electricity, liquefied petroleum gas (LPG) and gas (for domestic use).

increase in petrol prices. In comparison, the cost of accommodation has remained on a downtrend, declining by 3.8% and 4.0% in Q4 and Q1, respectively, due to continued softness in the housing rental market. In April, accommodation cost fell more steeply by 6.7%, owing to base effects associated with the timing of disbursement of Service & Conservancy Charges (S&CC) rebates.[3]

External inflationary pressures have picked up alongside a turnaround in global commodity markets. Global oil prices have risen from their trough last year, and are likely to average higher in 2017, although upward pressures would be capped by elevated inventories as well as rising US crude oil production. Administrative price adjustments[4] will also contribute to a temporary increase in inflation this year. Overall, domestic sources of inflation remain relatively muted. Conditions in the labour market have slackened, and this is expected to dampen underlying wage pressures, even as commercial and retail rents have continued to ease. The subdued economic environment will also limit the extent to which businesses pass on higher costs to consumers.

For the whole of 2017, MAS Core Inflation is expected to average 1–2%, compared with 0.9% in 2016. CPI-All Items inflation is projected to pick up to 0.5–1.5% this year, from −0.5% in 2016. The projected pickup in inflation can be attributed to the positive contribution of energy-related components and the impact of administrative price increases, rather than generalised demand-induced price pressures.

[3] S&CC rebates, which lower the housing maintenance & repair component of the cost of accommodation, were disbursed in May last year, but in April this year. Hence, there will be a negative contribution to year-on-year inflation in April but a positive contribution in May from these rebates. The other months of disbursement remain in July and October.

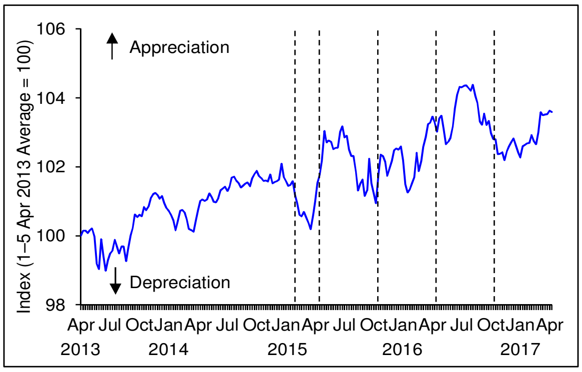
[4] These include the upward revision in car park charges and household refuse collection fees which took effect from December 2016 and January 2017 respectively, as well as upcoming increases in water prices and S&CC. U-Save rebates, which have also been increased and will partially offset the impact of higher water prices, are not taken into account in the CPI.

D. Macroeconomic Policies

Monetary Policy: MAS reaffirmed the neutral policy stance in April 2017

The Singapore economy is projected to expand by 1–3% in 2017. The outlook for 2017 has improved slightly but GDP growth is expected to remain modest and uneven across different sectors. Amid the slight improvement in external demand, GDP growth will be supported by the manufacturing and transportation & storage sectors, even as the performance of the transport engineering segment remains weak. Similarly, activity across other sectors in the economy will likely be uneven. While information & communications and education, health & social services will be resilient, the construction, retail trade and food services industries are expected to stay lacklustre.

MAS reaffirmed the neutral policy stance in April 2017.



---- indicates release of Monetary Policy Statement

While MAS Core Inflation is expected to rise on account of higher global oil prices and administrative price increases, demand-driven inflationary pressures will likely be relatively restrained. In 2017, imported inflation will turn positive as global oil prices will, on average, be higher this year than a year ago. Nevertheless, elevated oil inventories and rising US crude oil production should cap upward pressures on global oil prices. Domestically, administrative price adjustments will lead to a temporary increase in inflation. However, generalised demand-induced price pressures are likely to remain muted as conditions in the labour market this year are not expected to be significantly different from 2016, given that any turnaround due to mildly improving economic conditions will only come with a lag. The soft labour market will dampen underlying wage growth even as commercial and retail rentals continue to ease. MAS Core Inflation is expected to average 1–2% in 2017, compared to 0.9% in 2016, while CPI-All Items inflation is projected to rise to 0.5–1.5% from −0.5% last year.

In April 2017, MAS maintained the rate of appreciation of the S$NEER policy band at 0%, with no change to the width of the band or the level at which it was centred. As indicated in the October 2016 Monetary Policy Statement, maintaining a neutral policy stance for an extended period of time would be appropriate for ensuring medium-term price stability.

Fiscal Policy: The FY2017 Budget aimed to prepare firms and workers for the future economy

Budget 2016's surplus of $5.2 billion (1.3% of GDP) was larger than the $3.4 billion previously anticipated. This was mainly due to slower-than-expected growth in operating expenditure in healthcare, national development and transport.

Budget 2017 was multi-faceted and aimed to position the Government as a partner to firms and households, to create an innovative and connected economy and build a caring and inclusive society. First, the bulk of the Budget's economic measures focused on the Government's role as a proximate enabler, rather than direct driver, of restructuring. In this vein, many of the policies introduced aimed to leverage on the Government's expertise, networks, know-how and risk-bearing capacity to help firms operationalise their plans to innovate, scale-up and internationalise. For instance, this approach was evident in the SMEs Go Digital Programme, which focused on guiding SMEs through the adoption of digitisation strategies suitable for their stage of development and skills. By emphasising the in-person help available at SME Centres and a new Technology Hub for SMEs, Budget 2017 acknowledged that the Government can support firms in their human capital development plans by leveraging on its existing expertise. Similarly, by tasking A*STAR—a major research institution—with the role of helping Singapore-based firms identify appropriate technology solutions (Operation and Technology Road-mapping), the Government will use its know-how to directly help businesses overcome information asymmetries and hurdles to investment.

Second, Budget 2017 reinforced key thrusts recommended by the Committee for the Future Economy (CFE), by introducing initiatives to help enterprises scale-up and internationalise, and foster innovation. It set aside, for instance, $600 million in a new International Partnership Fund for the Government to co-invest with firms seeking to expand abroad. The Budget also introduced complementary programmes such as Innovators Academy and Innovation Launchpads to help students, businesses and industry connect to the world's marketplaces and ideas. At the same time, the Government will be a lead purveyor of more innovative (and therefore expensive and risky) solutions in order to give start-ups a helping hand. Budget 2017 further highlighted regulatory "sandboxes" that give firms space to experiment, thereby reducing the cost of corporate innovation. Meanwhile, the Intellectual Property Intermediary (IPI) will help firms reduce their search costs by matching them with suitable intellectual property.

Third, Budget 2017 contained explicit measures to correct for externalities and distortions in the energy and water markets. The announcement that a more comprehensive vehicular emissions scheme and carbon taxes would be introduced in 2018 and 2019 respectively, represents an attempt to account for the social costs of emissions. Similarly, the shift from a lump-sum tax on diesel vehicles to a volume-based duty would bring it in line with the tax structure on petrol and compressed natural gas, and discentivise usage. These measures are in line with the aim to sustain a high-quality living environment and underscore Singapore's commitment to combating climate change. The price of water was also raised so as to better reflect the scarcity of a basic resource.

Fourth, the Budget provided near-term relief for firms and households affected by restructuring and rising costs of living. In recognition of the still modest and uneven pace of growth, Budget 2017 extended the Corporate Income Tax Rebate to YA2018 and enhanced the relief offered in YA2017. At the same time, the Budget deferred the hike in the foreign worker levy for the Marine and Process sectors for another year, and extended the Special Employment Credit till end-2019. These measures should provide near-term cashflow relief for businesses. Recognising the weakness in the construction sector, $700 million worth of public sector infrastructure projects was brought forward to FY2017 and FY2018. The Budget also provided targeted assistance for households. While all eligible workers will benefit from the Personal Income Tax Rebate (20% of tax payable capped at $500), the permanent increase in utility rebate and one-off cash special payment under the GST Voucher scheme, as well as the extension of the S&CC rebate, were tiered such that more vulnerable households obtained a greater quantum of assistance. This will help to offset some of the impact of higher water prices on these households.

For FY2017, the government has projected an overall budget surplus of $1.9 billion (0.4% 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 but excludes top-ups to endowment and trust funds, is projected to record a deficit of $8.2 billion (1.9% of GDP).

Summary of Fiscal Position

	FY 2015		FY 2016 Revised		FY 2017 Budgeted	
	$billion	% of GDP	$billion	% of GDP	$billion	% of GDP
Operating Revenue	64.8	15.9	68.7	16.6	69.5	16.3
Total Expenditure	67.4	16.5	71.4	17.3	75.1	17.7
Operating Expenditure	48.1	11.8	52.7	12.8	56.3	13.3
Development Expenditure	19.4	4.7	18.7	4.5	18.8	4.4
Primary Surplus/Deficit (-)	**(2.6)**	**(0.6)**	**(2.7)**	**(0.7)**	**(5.6)**	**(1.3)**
Less: Special Transfers Excluding Top-ups to Endowment and Trust Funds	4.4	1.1	2.9	0.7	2.6	0.6
Basic Surplus/Deficit (-)	**(7.0)**	**(1.7)**	**(5.6)**	**(1.4)**	**(8.2)**	**(1.9)**
Less: Top-ups to Endowment and Trust Funds	6.0	1.5	3.6	0.9	4.0	0.9
Add: NIR Contribution	8.9	2.2	14.4	3.5	14.1	3.3
Budget Surplus/Deficit (-)	**(4.0)**	**(1.0)**	**5.2**	**1.3**	**1.9**	**0.4**

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

Selected Indicators

GENERAL INDICATORS, 2016			
Land Area (Sq km)	719.2	Literacy Rate* (%)	97.0
Total Population ('000)	5,607.3	Real Per Capita GDP (US$)	52,630
Labour Force ('000)	3,672.8	Gross National Savings (% of GNI)	45.8
Resident Labour Force Participation Rate (%)	68.0		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2016		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2016	
Manufacturing	19.6	Private Consumption	36.9
Business Services	15.8	Private Gross Fixed Capital Formation	19.7
Wholesale & Retail Trade	14.2	Public Consumption	11.4
Finance & Insurance	13.1	Public Gross Fixed Capital Formation	5.5
Transportation & Storage	7.6	Increase in Stocks	0.5
Construction	5.0	Net Exports of Goods & Services	26.1
Information & Communications	4.2		
Accommodation & Food Services	2.2		

MAJOR EXPORT DESTINATIONS (% SHARE), 2016		MAJOR ORIGINS OF IMPORTS (% SHARE), 2016	
Total Exports (S$ Billion)	466.9	Total Imports (S$ Billion)	403.3
China	13.1	China	13.9
Hong Kong	12.8	Malaysia	11.0
Malaysia	10.5	US	10.6
Indonesia	7.9	Taiwan	8.0
US	6.4	Japan	7.3
ASEAN	29.4	ASEAN	21.5
NEA-3	21.4	NEA-3	14.9
EU	8.6	EU	13.2

Source: IE Singapore

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2016		MAJOR IMPORTS BY COMMODITY (% SHARE), 2016	
Domestic Exports (S$ Billion)	223.9	Total Imports (S$ Billion)	403.3
Mineral Fuels	28.3	Electronics	29.1
Electronics	20.8	Machinery & Transport Equipment (ex. Electronics)	18.9
Chemicals	20.2	Mineral Fuels	17.5
Machinery & Transport Equipment (ex. Electronics)	11.6	Manufactured Articles	9.2
Manufactured Articles	8.9	Chemicals	8.0
Food and Live Animals	2.6	Manufactured Goods	6.6

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	2015	2016	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	Mar-17	Apr-17
GDP at current prices (S$ bil)	408.1	410.3	104.5	101.0	101.0	101.0	107.2	105.7	na	na
GDP (US$ bil)	296.9	297.1	74.3	71.9	74.4	74.7	76.0	74.7	na	na
Real GDP Growth (YOY % change)	1.9	2.0	1.3	1.9	1.9	1.2	2.9	2.7	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	5.1	-0.5	0.8	-0.4	12.3	-1.3	na	na
By Sector (YOY % change):										
Manufacturing [1/]	-5.1	3.7	-6.2	-0.4	1.6	1.8	11.8	8.4	11.0	6.7
Electronics [1/]	-6.8	15.8	-12.2	3.1	11.6	15.8	33.2	33.6	38.6	48.0
Non-electronics [1/]	-4.5	-0.9	-3.8	-1.7	-2.1	-3.7	3.9	-1.8	0.2	-9.4
Finance & Insurance	5.7	0.7	3.0	1.9	0.1	0.1	0.6	0.9	na	na
Business Services	3.9	-0.9	2.9	0.3	-0.1	-1.8	-1.9	2.1	na	na
Construction	3.9	0.2	5.6	3.1	2.7	-2.2	-2.8	-1.4	na	na
Transportation & Storage	1.6	2.3	0.2	0.1	2.9	0.7	5.4	4.2	na	na
Information & Communications	-0.6	2.3	-1.7	2.9	3.5	1.3	1.4	1.7	na	na
Wholesale & Retail Trade	3.7	0.6	3.3	1.8	0.4	0.1	0.4	0.5	na	na
Accommodation & Food Services	0.7	1.7	1.4	2.1	2.4	2.5	-0.2	-1.9	na	na
By Expenditure Component (YOY % change):										
Consumption	5.3	1.8	6.7	4.8	2.9	-0.1	-0.3	1.1	na	na
Private	4.6	0.6	5.9	3.3	1.2	0.2	-2.3	-0.4	na	na
Public	8.0	6.3	9.9	9.6	10.1	-1.3	7.0	5.5	na	na
Gross Fixed Capital Formation	1.1	-2.5	1.4	-2.2	1.4	-4.3	-5.0	-0.3	na	na
Private	-0.4	-5.5	-2.6	-5.6	-1.8	-7.9	-6.5	-4.0	na	na
Public	7.4	9.0	19.6	10.6	14.6	11.3	0.6	11.5	na	na
External Demand	2.6	1.6	2.3	-1.8	4.1	2.5	1.6	5.1	na	na
TRADE										
Total Exports, fob (YOY % change)	-6.5	-5.1	-4.4	-13.1	-4.8	-4.5	2.1	17.0	18.7	4.2
Non-Oil Domestic Exports	1.5	-2.8	-2.0	-9.6	1.2	-5.4	2.7	15.2	16.5	-0.7
Re-Exports	-0.9	-4.4	2.8	-9.5	-4.6	-1.0	-2.4	6.5	10.1	-1.4
Total Imports, cif (YOY % change)	-11.5	-4.7	-9.4	-8.5	-7.4	-9.1	6.1	15.6	18.9	7.5
WAGE-PRICE INDICATORS										
Unemployment Rate (SA,%)	1.9	2.1	1.9	1.9	2.1	2.1	2.2	2.3	na	na
Average Nominal Wages (S$ per month)	4,892	5,074	5,205	5,483	4,789	4,646	5,379	5,586	na	na
Consumer Price Index Inflation (YOY % change)	-0.5	-0.5	-0.7	-0.8	-0.9	-0.4	0.0	0.6	0.7	0.4
MAS Core Inflation (YOY % change)	0.5	0.9	0.2	0.5	1.0	1.0	1.2	1.3	1.2	1.7
FINANCIAL INDICATORS										
S$ Exchange Rate Against: (end-period)										
US Dollar	1.4139	1.4463	1.4139	1.3511	1.3490	1.3656	1.4463	1.3978	1.3978	1.3964
100 Japanese Yen	1.1743	1.2394	1.1743	1.2020	1.3126	1.3468	1.2394	1.2470	1.2470	1.2565
Euro	1.5457	1.5230	1.5457	1.5290	1.4977	1.5318	1.5230	1.4923	1.4923	1.5175
Interest Rates (end-period, % p.a.)										
3-month Fixed Deposit Rate	0.18	0.19	0.18	0.19	0.19	0.19	0.19	0.14	0.14	0.14
3-month S$ SIBOR [2/]	1.19	0.97	1.19	1.06	0.93	0.87	0.97	0.95	0.95	1.00
Prime Lending Rate	5.35	5.35	5.35	5.35	5.35	5.35	5.35	5.28	5.28	5.28
Money Supply (end-period)										
Broad Money, M2 (YOY % change)	1.5	8.0	1.5	2.1	4.3	5.2	8.0	7.5	7.5	7.0
Straits Times Index (end-period) [3/]	2,882.7	2,880.8	2,882.7	2,840.9	2,840.9	2,869.5	2,880.8	3,175.1	3,175.1	3,175.4
YOY % change	-14.3	-0.1	-14.3	-17.6	-14.4	2.8	-0.1	11.8	11.8	11.9
GOVERNMENT BUDGET [4/]										
Operating Revenue (S$ mil)	63,562	67,969	14,477	15,601	18,153	18,843	15,372	16,578	na	na
Total Expenditure (S$ mil)	61,155	72,917	16,111	24,856	14,916	15,111	18,034	22,982	na	na
Operating Expenditure	45,359	51,081	12,289	16,691	9,823	11,510	13,057	17,736	na	na
Development Expenditure	15,797	21,836	3,822	8,165	5,093	3,601	4,976	5,246	na	na
Primary Surplus/Deficit (S$ mil)	2,407	-4,947	-1,634	-9,255	3,237	3,732	-2,661	-6,404	na	na
% of GDP	0.6	-1.2	-1.6	-9.2	3.2	3.7	-2.5	-6.1	na	na
BALANCE OF PAYMENTS										
Current Account Balance (% of GDP)	18.1	19.0	18.8	15.8	21.0	22.5	16.9	18.4	na	na
Goods Balance	27.9	27.9	28.6	25.3	30.0	30.1	26.2	25.7	na	na
Services Balance	-2.0	-2.0	-2.0	-2.1	-2.3	-1.3	-2.2	-2.4	na	na
Primary Income Balance	-4.4	-3.2	-4.4	-3.9	-2.8	-2.5	-3.5	-1.6	na	na
Secondary Income Balance	-3.4	-3.7	-3.4	-3.5	-3.8	-3.7	-3.6	-3.4	na	na
Capital & Fin Account Balance (% of GDP)	17.4	20.0	18.9	24.2	16.4	18.0	21.2	3.1	na	na
Direct Investment	-13.2	-12.7	-14.9	-8.0	-12.8	-12.0	-17.6	-15.9	na	na
Portfolio Investment	18.3	7.0	35.4	-16.7	12.4	18.8	13.0	2.7	na	na
Financial Derivatives	-4.2	1.6	0.5	12.7	-8.8	-0.9	3.1	-7.8	na	na
Other Investment	16.4	24.1	-2.1	36.3	25.5	12.2	22.6	24.1	na	na
Overall Balance (% of GDP)	0.4	-0.6	-0.3	-8.6	4.7	5.4	-3.7	15.7	na	na
Official Foreign Reserves (US$ mil) [5/]	247,747	246,575	247,747	246,196	248,859	253,408	246,575	259,638	259,638	260,725
Months of Imports	9.7	10.1	9.6	9.9	10.2	10.6	10.1	10.3	10.3	10.3

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