RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

8 March 2017

	2016				
	Q1	Q2	Q3	Q4	Full Year
Real Sector					
Real GDP Growth, y-o-y %	1.9	1.9	1.2	2.9	2.0
Real GDP Growth, q-o-q saar %	−0.5	0.8	−0.4	12.3	-
Index of Industrial Production, y-o-y %	−0.3	1.6	1.9	11.7	3.7
Non-oil Domestic Exports, y-o-y %	−9.6	1.2	−5.4	2.7	−2.8
Labour Market and Prices					
Unemployment Rate, sa, % (Average)	1.9	2.1	2.1	2.2	2.1
CPI-All Items Inflation, y-o-y %	−0.8	−0.9	−0.4	0.0	−0.5
Wage Growth, y-o-y %	4.3	3.9	3.4	3.3	3.7

The Singapore economy grew by 2.0% in 2016

The Singapore economy expanded by 12.3% q-o-q saar (quarter-on-quarter seasonally-adjusted annualised rate) in Q4 2016, in a sharp turnaround from the 0.4% contraction in the previous quarter. The improvement was largely due to a rebound in the trade-related sectors, as well as a pickup in pockets of activity within the financial services industry. In comparison, growth in the domestic-oriented clusters was relatively weaker.

Global growth held firm in Q4 2016, but elevated policy uncertainty poses downside risks to the outlook

The global economy turned in a stable performance in Q4 2016, as a slower pace of expansion in the G3 economies was counterbalanced by a recovery in Asia ex-Japan. Nonetheless, the underlying pace of global activity appears to have picked up, alongside an upswing in the electronics cycle. Reflecting prevailing policy uncertainties, however, global GDP growth this year is expected to remain broadly unchanged from 2016, at about 3.9%.

Singapore's GDP should expand by 1–3% in 2017, keeping pace with last year

Growth of the Singapore economy is forecast to be in the range of 1–3% this year, after coming in at 2.0% in 2016. The trade-related cluster, alongside the upswing in the global IT cycle, will provide the main boost to GDP. Meanwhile, some recovery in financial services demand and increased ICT adoption among businesses will lend further support. Within the domestic-oriented cluster, resilient demand for essential services should offset weaknesses in the more cyclically-sensitive segments such as private construction.

Inflationary pressures are expected to be modest

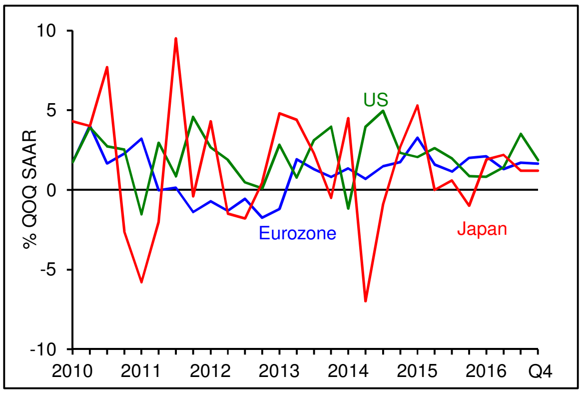
MAS Core Inflation is expected to average 1–2% in 2017, compared with 0.9% in 2016. Similarly, CPI-All Items inflation is projected to rise to 0.5–1.5% this year, from −0.5% in 2016. The firmer rate of inflation largely reflects the positive contribution of energy-related components on the back of a turnaround in global commodity markets, as well as administrative price increases. However, the pickup in inflation is likely to be modest, in the absence of generalised demand-induced price pressures.

A. External Developments

GDP growth in the G3 decelerated in Q4 2016 largely on account of a pullback in the US economy

G3 growth on average slowed to 1.6% q-o-q saar in Q4 2016, from 2.3% in Q3. This was largely due to the normalisation of economic activity in the US, following an unusually strong Q3 performance due to a one-off jump in soybean exports. Abstracting from this factor, the underlying economic momentum in the G3 was fairly stable in Q4, on account of steady domestic demand in the US and the Eurozone, and a pickup in Japan's exports. With high-frequency indicators, including PMIs, improving at the beginning of 2017, the near-term G3 outlook has also brightened in tandem. As a whole, the G3 is expected to expand by 1.8% and 1.7% in 2017 and 2018, respectively, from 1.5% last year.

G3 growth slowed on average in Q4.



Source: CEIC

US GDP growth pulled back to 1.9% q-o-q saar in Q4 2016 from 3.5% in Q3, as the drag from net exports outweighed resilient consumer spending and an uptick in business investment. Net exports subtracted 1.7% points from GDP growth in Q4, on account of a 4.0% q-o-q saar contraction in exports (with agricultural shipments normalising after an exceptional third quarter) as well as double-digit growth in goods imports. Consumption expenditures continued to grow at a creditable rate of 3.0% q-o-q saar in Q4, supported by resilient spending on durable goods. Private fixed investment, buoyed by a surge in housing construction, rose by 3.2% q-o-q saar after being in the doldrums for a year. Growth in the non-residential component of gross fixed capital formation also picked up, on the back of an uptick in investor sentiment and the recovery in the energy sector. Meanwhile, government spending growth slowed to just 0.4% q-o-q saar, weighed down by weak federal defence expenditures.

The US economy is expected to show an improved performance in 2017, mainly on the strength of domestic demand. Private consumption will remain a key pillar of support, underpinned by robust employment gains and stronger wage growth. Non-farm employment started the year on a strong footing, with 227,000 jobs added to the labour market in January 2017, significantly higher than the average monthly gain of 148,000 in Q4 2016. Encouragingly, the labour force participation rate moved up by 0.2% point from Q4 last year to 62.9% in January. A more elastic response of labour supply will mitigate cost-push pressures and sustain the economic expansion. Meanwhile, with both the ISM and Markit PMIs ticking up, business investment spending is expected to continue rising in the months ahead, as corporates remain optimistic over the new administration's pro-business policies. The US economy may also benefit from a mild fiscal stimulus in the form of tax cuts and infrastructure spending, although the scope and timing of these changes are unclear. At this point, US full-year growth is projected to rise from 1.6% in 2016 to 2.3% in 2017, and further to 2.4% in 2018.

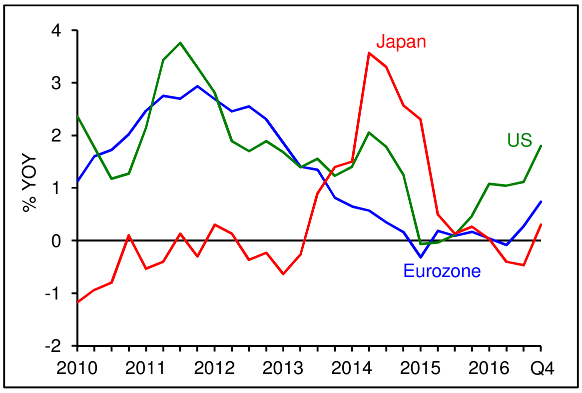
Growth in the Eurozone economy held up in Q4 2016, with flash estimates showing a mild easing to 1.6% q-o-q saar, from 1.7% in Q3. This brings the full-year outturn for 2016 to 1.7%, down slightly from 1.9% in 2015. After a slowdown in Q3, Germany's GDP rebounded by 1.7% in Q4, contributing to a third of the overall expansion in the monetary union. The French economy also strengthened in the final quarter of last year, driven by a pickup in domestic consumption and investment spending, as well as net exports. Spain maintained its run of robust GDP outturns, expanding by 2.8–3.4% q-o-q saar over the past 4 quarters. However, conditions in Italy remained difficult, with growth falling back to 0.7% in Q4 from 1.0% in the preceding quarter. Setbacks were also encountered in Greece, which saw its GDP contracting by 4.8% in the latest quarter, after a 2.4% gain in Q3. Yields on Greek sovereign debt have risen sharply, reflecting market concerns about the disagreement over the parameters of the third bailout programme.

The Eurozone economy is expected to continue growing at a steady pace in the quarters ahead, but may encounter some volatility. Domestic demand will play a pivotal role in shoring up the region's growth, aided by sustained monetary accommodation, steady employment gains and relatively low oil prices. Leading indicators such as the Markit Eurozone Composite PMI rose to a multi-year high of 56.0 in February 2017, driven by more buoyant sentiments in both manufacturing and services industries. An across-the-board pickup in output, new orders, employment and prices suggests that the expansion is likely to be resilient, but downside risks persist. In particular, a rising tide of Euroscepticism and populist sentiment has exacerbated political tensions ahead of key elections across Europe. Mounting concerns over regional cohesion could weigh on business confidence and lead to a retraction in investment spending. In addition, a 'hard Brexit' scenario—with the depreciation of the pound suggesting that markets were already pricing this in—could dampen the Eurozone's trade and investment flows with the UK. Overall, GDP growth is projected to ease to 1.6% in 2017 and 1.5% in 2018.

Japan's economy grew by 1.2% q-o-q saar in Q4 2016, unchanged from the previous quarter, with stronger net trade and business investment offsetting a pullback in household consumption. Private consumption slowed to 0.2% q-o-q saar in Q4, from 1.4% in the preceding quarter, as higher fresh food prices caused by inclement weather dampened spending. Net exports contributed 1.0% point to Q4 growth due in part to strong regional demand, including for electronics and automobile parts. Reflecting this cyclical upswing, Japan's exports surged by 11.0% q-o-q saar, outstripping the 5.3% rise in imports. Meanwhile, corporate capital spending increased by a stellar 8.4% q-o-q saar in Q4, reversing a 0.4% decline in Q3. In comparison, public spending edged down by 1.1% q-o-q saar, as a sharp drop in public investment more than offset the gains in government consumption.

Japan's improved growth prospects in the year ahead will be supported by fiscal stimulus and stronger exports. The government's spending package is expected to provide support for domestic demand, mainly through an increase in public investment, including new infrastructure spending. A moderate rise in exports is also anticipated on account of more sanguine external demand conditions and a favourable exchange rate. Nonetheless, there will be some drags on the economy, coming mainly from restrained private consumption. Wage growth has remained sluggish despite rising corporate profits, while increased global economic and policy uncertainty means firms are likely to remain cautious with capital expenditure. All in, Japan's growth has been revised upward to 1.2% in 2017 and 1.0% in 2018, compared with an estimated outturn of 1.0% in 2016.

Inflation in the G3 economies increased in Q4.

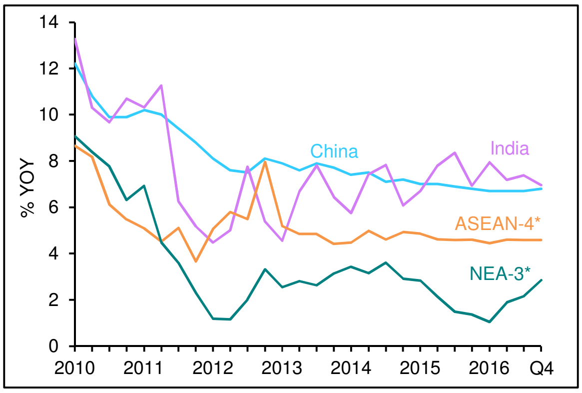


Source: CEIC

CPI inflation in the G3 economies rose sharply in Q4 2016, and picked up further in January 2017. US headline CPI inflation jumped to 1.8% y-o-y in Q4 from 1.1% in the previous quarter, driven mainly by a recovery in energy prices. This trend continued in January, with the inflation rate climbing further to 2.5%—the highest in five years. Core inflation, meanwhile, rose by a smaller margin to 2.3% in January, from 2.2% in Q4. Similarly, CPI inflation in the Eurozone surged to an average of 1.9% y-o-y in the first two months of this year, from 0.7% in Q4 2016. Core inflation, however, remained relatively stable at 0.9%, compared to 0.8% previously, reflecting continuing slack in the economy. In Japan, headline inflation rose to 0.4% y-o-y in January 2017, from 0.3% in Q4 2016, largely due to a weather-related spike in fresh food prices. The CPI excluding fresh food ticked up by 0.1% y-o-y in January, the first positive reading in over a year, as the disinflationary effects from energy prices waned. Given these developments early in the year, inflation in the G3 economies is projected to rise to 1.9% in 2017 and 1.8% in 2018, from 0.7% in 2016.

Growth in Asia ex-Japan improved in Q4 2016 amid an incipient pickup in trade

Growth in Asia ex-Japan edged up in Q4.



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 picked up to 5.0% y-o-y in Q4 2016 from 4.8% in the preceding quarter. China posted a stronger-than-expected performance, while the NEA-3 saw a recovery in their electronics shipments. Meanwhile, resilient domestic demand in the ASEAN economies continued to underpin growth. In Q4 2016, signs have emerged of a broader recovery in trade in the region, although net exports remained weak due to strong import demand. On the whole, growth in Asia ex-Japan is projected to come in at 4.7% in 2016, before easing to 4.6% in 2017 and 2018.

Fiscal stimulus and an accommodative monetary policy lifted China's growth to 6.8% y-o-y in Q4 2016, bringing the full-year expansion to 6.7%. In sequential terms, GDP growth in Q4 eased marginally to 1.7% q-o-q sa. Fixed asset investment (FAI) largely held steady at 8.1% y-o-y YTD, as private sector FAI expansion posted a mild uptick to 3.2% while state sector investment growth slowed to 18.7%, from 21.1% in Q3. In heavy industry, significant cuts to excess capacity, in conjunction with firm demand from downstream industries such as real estate and automobiles, led to a recovery in corporate profits and an attendant boost to business confidence. At the same time, retail sales rose by 10.6% y-o-y in Q4 2016, as a car purchase tax cut lifted automobile sales growth to its highest level in nearly three years. In turn, the double-digit rise in automobile output kept industrial production growth steady at 6.1% y-o-y despite continued weakness in some heavy industrial segments.

China's underlying growth momentum in 2017 is relatively assured, creating room for a shift in policy priorities. With the significant drawdown in industrial inventories, the impetus for a production uptick is likely to strengthen. On the consumer front, retail spending is expected to be underpinned by a resilient labour market and resurgent equity prices. Despite subdued export orders, China's official PMIs for both manufacturing and services have expanded steadily in recent months, indicating firm domestic demand. Against this backdrop, the central bank has signalled a shift to a "prudent and neutral" monetary policy stance, in order to reduce leverage in the economy and address financial stability risks. In the same vein, property market restrictions enacted in Q4 last year would result in less buoyant real estate activity. Accordingly, China's growth is expected to ease to 6.5% in 2017 and further to 6.1% in 2018.

India's GDP growth surprised on the upside in Q4 2016, moderating only slightly despite the de-monetisation exercise. The firmer-than-expected outturn of 7.0% y-o-y suggested that the impact on domestic demand from the de-monetisation exercise was much less severe than previously envisaged. Growth in the predominantly cash-based services sector slowed to 6.8% y-o-y in Q4 from 8.2% in Q3, but the pace of increase in private consumption doubled to 10.1% y-o-y, defying expectations of a sharp slowdown. A turnaround in investment expenditure following three quarters of contraction, coupled with a double-digit expansion in government spending stemming mainly from wage increases for civil servants, also provided a boost to economic activity. At the same time, the stronger pullback in some monthly coincident indicators of rural economic activity suggests that official GDP figures might not have fully accounted for the impact of the de-monetisation exercise on small-value transactions and output in the informal sector. On balance, India's GDP growth is projected to slow to 6.8% y-o-y in FY2017, before recovering to 7.4% in the subsequent year.[1]

Growth outcomes in the NEA-3 were mixed, although electronics shipments benefited from the upturn in the global tech cycle. Taiwan's GDP growth dipped to 1.8% q-o-q saar in Q4 2016 from 4.0% in the preceding quarter, on account of a slump in government consumption, and a surge in capital goods imports that more than offset the rebound in electronics shipments. Private domestic demand however, came in relatively firm, with investment contributing 2.0% points to growth. The Korean economy expanded at a sub-par rate of 1.6% q-o-q saar in Q4, compared to 2.5% in Q3, as private consumption remained sluggish and residential construction investment contracted after the introduction of new housing resale restrictions. In addition, languid automobile shipments exerted a drag on overall exports despite an upturn in semiconductor demand. Meanwhile, Hong Kong's growth accelerated to 4.8% q-o-q saar in Q4 2016, from 3.3% in the previous quarter. Robust private consumption and investment contributed a combined 12.9% points to the expansion, while external trade remained a drag on growth, due in particular to lacklustre services exports.

Despite the cyclical upswing in trade, structural changes in supply chains will weigh on the region's outlook. Stronger growth in the US and China as well as rollouts of some new tech products will provide a fillip to external demand and economic activity in the NEA-3 this year. However, the implementation of protectionist trade policies by the US—a downside risk at present—would have negative effects on these export-oriented economies. In addition, the steady absorption of supply chain activity back into China poses structural challenges for Taiwan and Korea, while Hong Kong will have to contend with a stronger dollar and slowing Chinese tourist arrivals. In light of these factors, GDP growth in the NEA-3 is forecast to stay muted at 1.8% in 2017, before rising to 2.0% in 2018.

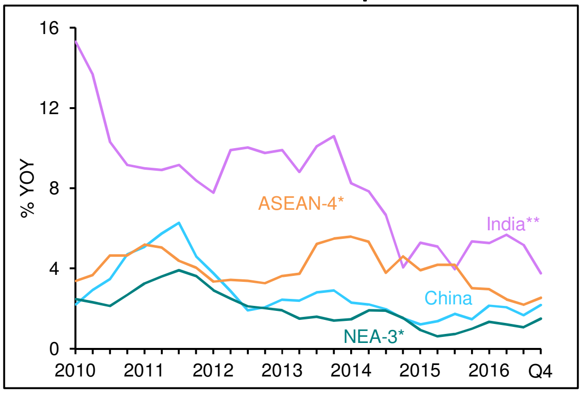
The ASEAN-4 economies recorded another quarter of unexceptional growth in Q4. The region as a whole expanded by 4.6% y-o-y in Q4, similar to the pace seen over the prior six quarters, but a step-down from the average of 4.9% over 2005–14. Domestic demand remained the lynchpin of growth in the region even as signs emerged of a pickup in external

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

activity. Exports turned around in Malaysia and Indonesia, and increased further in the Philippines and Thailand, but the overall pace of growth in the sector was lacklustre. Meanwhile, inventory accumulation accelerated in most countries as manufacturers rebuild stocks in anticipation of strengthening shipments. Across the region, private consumption was sustained by steady labour market conditions and growing real incomes. However, investment activity, with the exception of the Philippines, remained subdued due to slower growth in public development spending and weak economic sentiment in Malaysia and Thailand. Government consumption contracted in Indonesia and Malaysia, as authorities cut expenditure in response to fiscal revenue shortfalls earlier in the year.

The ASEAN-4 region is projected to stay on a modest growth trajectory in the quarters ahead, but individual country outturns will vary. Indonesia and the Philippines will continue to outperform the rest of the region, with growth underpinned by firm private consumption and a ramp-up in infrastructure spending. In Malaysia, weak business confidence and ongoing fiscal consolidation will weigh on the economy, with growth anticipated to stay below its post-GFC (2011–15) average of 5.3% for at least another year. Similarly, Thailand's economic expansion will remain subdued, as the ongoing political uncertainty hampers private investment. While Malaysia and Thailand stand to gain from an anticipated uptick in demand from the advanced economies, they would also be the hardest hit if global financial conditions tighten, given higher levels of indebtedness among households and corporates. As a whole, the ASEAN-4 economies are projected to expand by 4.6% for a second year in 2017, before growth inches up to 4.7% in 2018.

Inflation in most of Asia ex-Japan rose in Q4.



Source: CEIC and EPG, MAS estimates

* Regional groupings are weighted by 2013 nominal GDP.

** India's series uses CPI (Industrial Workers) prior to 2012.

CPI inflation in Asia ex-Japan ticked up to 2.4% y-o-y in Q4 2016 from 2.3% in Q3, mainly due to weather-induced food price shocks. In China, the headline inflation rate reached a two-and-a-half year high of 2.2% y-o-y in Q4, as food and housing prices increased and the economy emerged from more than four years of producer price deflation. In the NEA-3 economies, CPI inflation accelerated from 1.1% y-o-y in Q3 2016 to 1.5% in Q4, largely on account of higher food prices in Korea and Taiwan. Meanwhile, headline inflation in the ASEAN-4 rose from 2.2% y-o-y in Q3 2016 to 2.5% in Q4, owing to weather-induced food price inflation and the dissipation of the impact of earlier energy price declines. In comparison, India's CPI inflation slowed significantly to 3.7% y-o-y in Q4 2016 from 5.2% in the preceding quarter, as food prices eased due to a favourable monsoon season. In 2017, headline inflation in Asia ex-Japan is expected to rise to 2.9%, from 2.5% last year.

Table 1: Consensus Forecasts of GDP Growth

	2015	2016	Forecast 2017	Forecast 2018
	Percent			
Industrial				
US	2.6	1.6	2.3	2.4
Japan	1.2	1.0	1.2	1.0
Eurozone	1.9	1.7	1.6	1.5
UK	2.2	1.8	1.5	1.3
NEA-3				
Hong Kong	2.4	1.9	1.6	1.9
Korea	2.6	2.7	2.5	2.5
Taiwan	0.7	1.5	1.7	1.9
ASEAN-4				
Indonesia	4.9	5.0	5.2	5.3
Malaysia	5.0	4.2	4.2	4.4
Thailand	2.9	3.2	3.2	3.2
Philippines	5.9	6.8	6.4	6.3
China	6.9	6.7	6.5	6.1
India*	7.2	7.9	6.8	7.4

Source: CEIC and Consensus Economics, February 2017

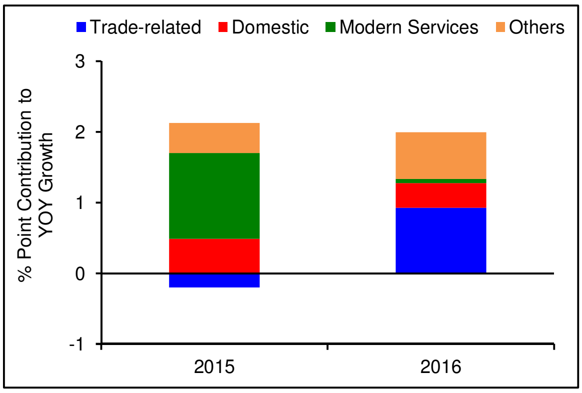
* Figures are reported on a Financial Year basis; FY2017 refers to the period from April 2016 to March 2017.

B. Domestic Developments

A year-end rally in trade-related and financial services sectors lifted Singapore's GDP growth

Following three quarters of subdued performance, activity in the domestic economy picked up strongly by 12.3% q-o-q saar in Q4 2016. The turnaround largely reflected robust expansions in the trade-related sectors, particularly in electronics and biomedical manufacturing. In addition, the modern services cluster recorded an improvement in performance, led by the financial sector, which saw buoyant activity in the sentiment-sensitive segments. However, domestic-oriented activities were weak. For the year as a whole, GDP grew by 2.0% in 2016, a pace broadly similar to the 1.9% registered in 2015. Nonetheless, the composition of growth had shifted. Modern services, which anchored the Singapore economy in 2015, saw a sharp slowdown in momentum in 2016, weighed down in part by lacklustre demand for financial intermediation services. In comparison, activity in the trade-related sectors recovered in 2016, as headwinds such as the expiration of drug patents, which had impacted pharmaceutical production the year before, dissipated. Semiconductor output also rebounded, as domestic producers were able to leverage on resilient demand for Chinese mid-tier smartphones and inventory-building activity across the global IT supply chain in the latter half of the year.

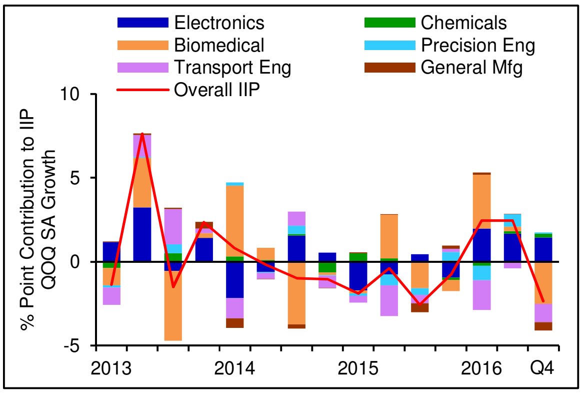
The composition of domestic growth shifted in 2016.



Source: EPG, MAS estimates

The manufacturing sector expanded by 39.8% q-o-q saar in Q4 2016, in its best sequential performance since Q1 2011. Gains were underpinned by a 31.4% q-o-q sa surge in pharmaceutical output, as well as a strengthening in the electronics cluster. Notably, growth of the semiconductor segment accelerated to 19.9% q-o-q sa, from 7.5% the quarter before, amid the cyclical upturn in the global IT industry. Concomitantly, the precision engineering cluster grew by 6.0%, supported by firm demand for semiconductor equipment, particularly from China, as the latter sought to in-source more intermediate products.

Manufacturing output rebounded strongly in Q4 2016.



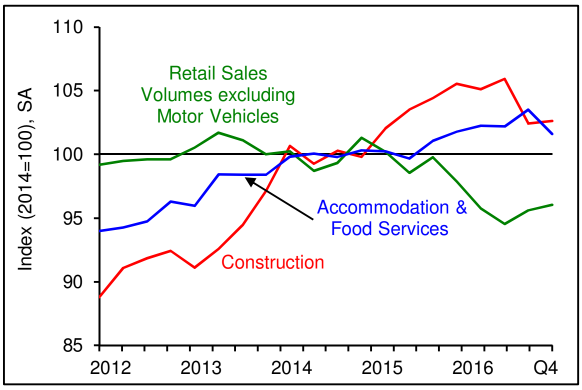
While firmer manufacturing activity in Q4 generated positive spillovers, the trade-related services were further impacted by developments in the oil-related segments. The water transport segment received a boost from a sharp increase in the volume of mineral oil cargo handled, even as other general sea and air cargo registered modest improvements in growth momentum. Meanwhile, growth in the wholesale trade sector was weighed down by a reduction in oil trading activity, alongside the dissipation of contango opportunities.

The financial services sector saw a 36.5% q-o-q saar rebound in activity in Q4 2016, compared with a mild 0.7% expansion in the preceding quarter. The step-up in outturns largely reflected the performance-based fees earned and recognised at year-end in the fund management industry. Sentiment-sensitive activities such as security dealings and forex trading benefited from the rally in global financial markets, with turnover values of the local bourse and the forex market growing by 12.2% q-o-q and 3.4% q-o-q, respectively. Among the financial intermediation segments, domestic non-bank lending grew by 2.3% q-o-q in Q4, supported by a recovery in business lending to corporates in the trade-related segments. While offshore non-bank loans continued to contract, the pace of decline moderated compared to the preceding quarter, amid tentative signs of a recovery in trade financing.

Business services grew marginally by 0.3% q-o-q saar in Q4, following a 1.0% contraction in Q3. A recovery in corporate demand for headquarter functions and accounting services helped to offset the sustained weakness in the architectural & engineering services segment, which was impacted by the still-contracting marine & offshore engineering (M&OE) industry. Meanwhile, following a 3.6% q-o-q saar pullback in the preceding quarter, the information & communications sector also registered modest growth of 0.9% in Q4. Notably, telecommunications activity saw improved outturns on the back of healthy demand for mobile and broadband data, as well as digital home services.

Growth in the domestic-oriented sectors was lacklustre in Q4. The construction sector expanded by 0.8% q-o-q saar, supported by public non-residential and civil engineering works, while private sector construction activity remained weak. Overall retail sales volumes (excluding motor vehicles) increased in Q4, albeit marginally as well. While there was some recovery in the electronics and watches & jewellery segments, it was offset by declines in the sales of furniture and apparel. Meanwhile, the accommodation & food services sector registered a pullback of 7.2% q-o-q saar in Q4, reversing the 5.2% growth in the previous quarter. This was primarily due to declining sales in restaurants. Moreover, total visitor arrivals declined by 1.4% q-o-q sa. Concomitantly, the hotel occupancy rate and turnover fell by 4.3% and 4.6% q-o-q sa, respectively.

Domestic-oriented activities were weak in Q4.



The domestic economy should expand at a similar pace as 2016

Looking ahead, growth of the Singapore economy is expected to remain modest, with GDP projected to expand by 1–3% in 2017, after coming in at 2.0% in 2016. Global growth could see some improvement this year, on the back of reflationary policies in the US and firmer commodity prices. Meanwhile, economic activity in Asia ex-Japan will be anchored by the stabilisation of growth in China and sustained domestic demand expansion in ASEAN. Nevertheless, consumer and business confidence could be dampened by concerns over rising trade frictions, which would create negative spillovers on trade-dependent countries in the region. At the same time, increased policy uncertainty could weigh on investment decisions. On balance, external demand conditions facing the Singapore economy is expected to see only a mild step-up in the near term.

The turnaround in the global electronics industry towards the end of last year will continue to provide a positive boost to the manufacturing sector in 2017. Increasing chip-content in mid-tier Chinese smartphones, as well as new premium smartphone launches, will sustain demand for semiconductors. The precision engineering cluster will benefit from strong demand for semiconductor manufacturing equipment, as global semiconductor firms accelerate their investments to maintain their technological lead. Nevertheless, global demand for semiconductors should moderate when the inventory adjustment has run its course. The drag from the M&OE segment should gradually dissipate through the course of this year, alongside slightly more positive prospects for the global oil & gas industry, given higher global oil prices.

In modern services, the financial services sector is expected to see modest improvements after a subpar performance in 2016. Segments such as forex trading will benefit from investor demand for safe-haven currencies, amid an environment of heightened financial volatility. Certain pockets of insurance activities such as health insurance and annuity-type products should also see sustained expansions, given underlying demand from an aging population. In the information & communications industry, growth will be anchored in part by government initiatives. The SMEs Go Digital Programme announced in Budget 2017 aims to encourage increased adoption of subsidised off-the-shelf technology solutions among businesses. In addition, firms requiring customised solutions can also readily connect with a network of ICT vendors and consultants at SME Centres, or seek specialist advice at the SME Technology Hub.

Prospects for the domestic-oriented sectors are mixed. The essential services segments, such as education and healthcare, are expected to remain stable, but cyclically-sensitive activities such as construction and retail are likely to be comparatively weaker. Growth in the construction industry will continue to be driven by public projects, while the retail sector may be weighed down by the softening labour market and subdued consumer sentiments.

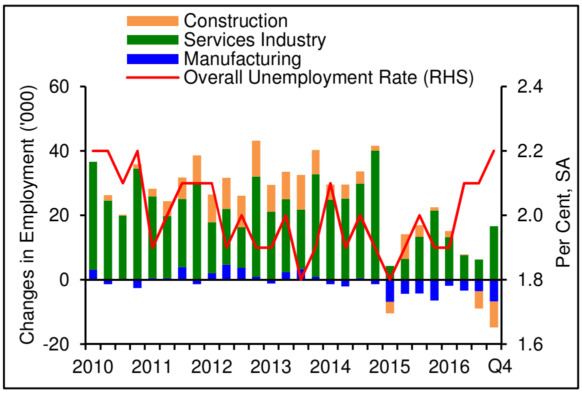
C. Labour Market and Consumer Prices

Overall net employment expanded by 1,900 in Q4 2016

Preliminary estimates showed that overall net employment grew by 1,900 in Q4 2016, after contracting by 2,700 in the preceding quarter. This improvement was attributed entirely to the services sector, which in turn was supported by year-end seasonal hiring. A total of 16,700 workers were added across various services industries, higher than 6,300 in Q3, although still lower than the same period a year ago (21,500). Reflecting ongoing restructuring and soft demand conditions in certain clusters, headcount in the manufacturing sector declined by 6,800 in Q4, extending the 3,600 jobs lost in the previous quarter. At the same time, net employment in the construction industry continued to fall (−8,000), amid lacklustre private sector building activities.

The overall and resident unemployment rates rose slightly in Q4 as more people entered the labour force to seek employment. The overall seasonally-adjusted unemployment rate edged up to 2.2% in December 2016, from 2.1% three months prior. Over the same period, the resident unemployment rate climbed to 3.2% from 2.9%. Meanwhile, aggregate redundancies increased from 4,220 in Q3 to 5,300 in Q4. While lay-offs rose in services and construction as well, it was most pronounced in manufacturing.

The overall unemployment rate edged up to 2.2% in December 2016.



Resident wages grew by 3.3% on a y-o-y basis in Q4 2016, comparable to 3.4% recorded in Q3. Salary gains were stronger in retail trade, information & communications and community, social & personal (CSP) services, but weaker in manufacturing, construction and financial & insurance services.

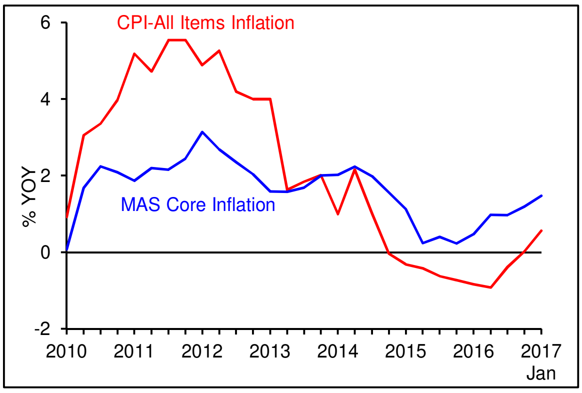
For the whole of 2016, wage growth came in slightly stronger at 3.7%, compared to 3.5% for the preceding year, while preliminary estimates showed that overall employment expanded by 16,400 (or 0.4%), lower than 32,300 (or 0.9%) in 2015. Locals accounted for 65% of the employment gains last year. Excluding foreign domestic workers, foreign employment contracted for the first time since 2009.

In the near term, overall employment growth is expected to stay subdued, amid the soft economic environment. Wage pressures are thus likely to be restrained. Nevertheless, pay increments will remain higher in industries where manpower demand is more resilient, such as information & communications and CSP services.

Inflation remained on a mild upward trajectory

Both core and headline inflation have remained on a moderate ascent, with the latter turning positive in recent months. MAS Core Inflation, which excludes the costs of accommodation and private road transport, rose to 1.5% in January 2017, up from 1.2% and 1.0% in Q4 and Q3 2016, respectively. CPI-All Items inflation was on a similar uptrend, rising from −0.4% in Q3, to 0.0% in Q4 and 0.6% in the first month of 2017. This mainly reflected the increase in oil-related inflation.

MAS Core Inflation and CPI-All Items inflation have risen.



Following the recovery in global oil prices since Q4 2016, the costs of electricity and fuel have increased. On a year-ago basis, the price of electricity, LPG & gas fell at a slower rate of 5.2% in Q4 2016 compared to the 12.6% decline in Q3. It subsequently came in 3.1% higher in January 2017, reflecting an increase in electricity tariffs. Similarly, petrol prices picked up strongly, from 0.6% y-o-y in Q4 to 8.2% in January, after declining by 7.4% in Q3.

Services inflation also rose at the start of the year. Compared to a year ago, overall services fees were 1.9% higher in January, up from 1.5% and 1.6% in Q4 and Q3 2016, respectively. Over this period, the cost of medical & dental treatment ticked up more strongly, mainly reflecting the progressive phasing-out of Transitional Subsidies for MediShield Life premiums.[2] Higher services inflation in January further reflected larger increases in the costs of education and holiday travel, as well as telecommunication services. Meanwhile, prices of recreational services and public road transport continued to fall in Q4 and January, with the latter reflecting a reduction in bus and train fares.[3]

Food inflation has been on a mild downward trend. Overall food inflation came in at 1.9% in January, slightly softer than the 2.0% recorded in Q4 and 2.1% in the preceding quarter, largely on account of a slower pace of price increases for non-cooked food items. Prices of prepared meals were broadly stable over this period.

Private road transport cost reversed year-ago declines, but accommodation cost continued to fall. Private road transport cost rose by 0.6% in Q4, and 4.1% in January,

[2] Government subsidies and support for MediShield Life premiums consist of permanent and transitional components. The rise in healthcare cost inflation in November 2016 was due to the progressive phasing down of the Transitional Subsidies for MediShield Life premiums, as well as the effect of the low base in November 2015. The permanent component of government subsidies and support for MediShield Life premiums is unchanged.

[3] Public transport fares were reduced by 4.2% from 30 December 2016.

compared to a 1.9% decline in Q3. This was largely the result of higher petrol prices and car park fees.[4] The smaller decline in car prices also contributed to the pickup in private road transport inflation in January. In comparison, the cost of accommodation continued to dampen inflation, falling by 3.8% and 3.9% in Q4 2016 and January 2017 respectively, as the housing rental market softened further.

Despite pockets of price increases, the rise in inflation is likely to remain gradual going forward. On the external front, imported inflation is likely to rise modestly on the back of a turnaround in global commodity markets. In particular, global oil prices are expected to average higher in 2017 compared to last year, but upward pressures would be capped by existing inventories as well as an anticipated increase in US crude oil output. Domestically, overall price pressures should be muted. Amid some pullback in hiring, underlying wage growth will be capped, even as non-labour business costs have eased. The subdued growth environment will also constrain the extent of cost pass-through to consumer prices.

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. This largely reflects the positive contribution of energy-related components as well as some administrative price increases such as the upcoming increase in water prices[5], rather than generalised demand-induced price pressures.

[4] The Housing Development Board (HBD) and Urban Redevelopment Authority (URA) raised public car park charges for short-term and season parking schemes with effect from 1 December 2016.

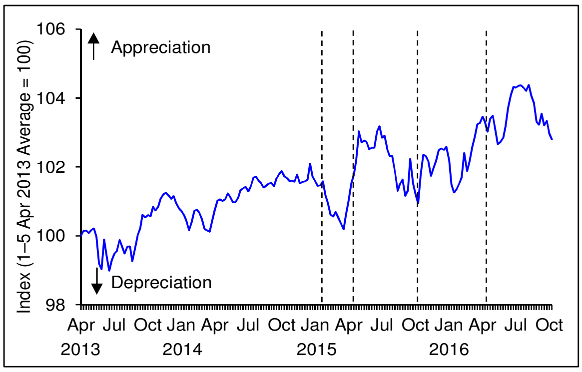
[5] These include the upward revision of car park charges and household refuse collection fees, which took effect from December 2016 and January 2017 respectively, as well as upcoming increases in water prices and service & conservancy charges (S&CC).

D. Macroeconomic Policies

Monetary Policy: MAS reaffirmed the neutral policy stance in October 2016

In **October 2016, 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. It was assessed that a neutral policy stance would be needed for an extended period of time to ensure medium-term price stability.

MAS reaffirmed the neutral policy stance in October 2016.



---- indicates release of Monetary Policy Statement

The Singapore economy is expected to grow at a modest pace this year. In Q4 2016, economic activity rebounded to expand by 12.3% q-o-q saar in light of the robust growth in the electronics and biomedical manufacturing clusters, bringing full-year GDP growth to 2.0%. However, the performance was uneven across industries. For example, the M&OE and private construction segments were weak, as were the accommodation & food services industries. All in, the GDP growth forecast remains at 1−3% for 2017.

MAS Core Inflation is expected to pick up only gradually in 2017 and trend towards but average slightly below 2% over the medium term. While external sources of inflation are likely to rise moderately this year, underlying price pressures should remain muted given the modest growth outlook and soft labour market conditions.

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 Service & Conservancy Charges 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* (%), 2015	96.8
Total Population ('000)	5,607.3	Real Per Capita GDP (US$)	51,914
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	7.6	Taiwan	8.0
US	6.4	Japan	7.3
ASEAN	29.2	ASEAN	21.3
NEA-3	21.4	NEA-3	14.9
EU	8.6	EU	13.1

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	29.5
Electronics	20.8	Machinery & Transport Equipment (ex. Electronics)	18.4
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
Manufactured Goods	2.5	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 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	Dec-16	Jan-17
GDP at current prices (S$ bil)	408.1	410.3	101.6	104.5	101.0	101.0	101.0	107.2	na	na
GDP (US$ bil)	296.8	297.0	73.0	74.3	71.9	74.4	74.7	76.1	na	na
Real GDP Growth (YOY % change)	1.9	2.0	2.1	1.3	1.9	1.9	1.2	2.9	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	2.6	5.1	-0.5	0.8	-0.4	12.3	na	na
By Sector (YOY % change):										
Manufacturing [1/]	-5.1	3.6	-5.7	-6.2	-0.4	1.5	1.8	11.5	22.1	2.2
Electronics [1/]	-6.8	15.9	-6.3	-12.2	3.2	11.7	15.9	33.0	49.2	14.8
Non-electronics [1/]	-4.5	-0.9	-5.4	-3.8	-1.7	-2.1	-3.7	3.8	11.7	-3.3
Finance & Insurance	5.7	0.7	5.0	3.0	1.9	0.1	0.1	0.6	na	na
Business Services	3.9	-0.9	4.3	2.9	0.3	-0.1	-1.8	-1.9	na	na
Construction	3.9	0.2	3.8	5.6	3.1	2.7	-2.2	-2.8	na	na
Transportation & Storage	1.6	2.3	2.0	0.2	0.1	2.9	0.7	5.4	na	na
Information & Communications	-0.6	2.3	-1.0	-1.7	2.9	3.5	1.3	1.4	na	na
Wholesale & Retail Trade	3.7	0.6	4.2	3.3	1.8	0.4	0.1	0.4	na	na
Accommodation & Food Services	0.7	1.7	1.4	1.4	2.1	2.4	2.5	-0.2	na	na
By Expenditure Component (YOY % change):										
Consumption	5.3	1.8	6.3	6.7	4.8	2.9	-0.1	-0.3	na	na
Private	4.6	0.6	4.4	5.9	3.3	1.2	0.2	-2.3	na	na
Public	8.0	6.3	13.5	9.9	9.6	10.1	-1.3	7.0	na	na
Gross Fixed Capital Formation	1.1	-2.5	0.7	1.4	-2.2	1.4	-4.3	-5.0	na	na
Private	-0.4	-5.5	0.3	-2.6	-5.6	-1.8	-7.9	-6.5	na	na
Public	7.4	9.0	2.5	19.6	10.6	14.6	11.3	0.6	na	na
External Demand	2.6	1.6	2.3	2.3	-1.8	4.1	2.5	1.6	na	na
TRADE										
Total Exports, fob (YOY % change)	-6.5	-5.1	-7.8	-4.4	-13.1	-4.8	-4.5	2.1	9.2	11.1
Non-Oil Domestic Exports	1.5	-2.8	-0.7	-2.0	-9.6	1.2	-5.4	2.7	9.1	8.6
Re-Exports	-0.9	-4.4	-1.5	2.8	-9.5	-4.6	-1.0	-2.4	2.4	1.3
Total Imports, cif (YOY % change)	-11.5	-4.7	-8.7	-9.4	-8.5	-7.4	-9.1	6.1	13.2	21.0
WAGE-PRICE INDICATORS										
Unemployment Rate (SA,%)	1.9	2.1	2.0	1.9	1.9	2.1	2.1	2.2	na	na
Average Nominal Wages (S$ per month)	4,892	5,074	4,493	5,205	5,483	4,789	4,646	5,379	na	na
Consumer Price Index Inflation (YOY % change)	-0.5	-0.5	-0.6	-0.7	-0.8	-0.9	-0.4	0.0	0.2	0.6
MAS Core Inflation (YOY % change)	0.5	0.9	0.4	0.2	0.5	1.0	1.0	1.2	1.2	1.5
FINANCIAL INDICATORS										
S$ Exchange Rate Against: (end-period)										
US Dollar	1.4139	1.4463	1.4253	1.4139	1.3511	1.3490	1.3656	1.4463	1.4463	1.4196
100 Japanese Yen	1.1743	1.2394	1.1884	1.1743	1.2020	1.3126	1.3468	1.2394	1.2394	1.2500
Euro	1.5457	1.5230	1.6045	1.5457	1.5290	1.4977	1.5318	1.5230	1.5230	1.5183
Interest Rates (end-period, % p.a.)										
3-month Fixed Deposit Rate	0.18	0.19	0.18	0.18	0.19	0.19	0.19	0.19	0.19	0.19
3-month S$ SIBOR [2/]	1.19	0.97	1.14	1.19	1.06	0.93	0.87	0.97	0.97	0.96
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)	1.5	8.0	3.2	1.5	2.1	4.3	5.2	8.0	8.0	8.4
Straits Times Index (end-period) [3/]	2,882.7	2,880.8	2,790.9	2,882.7	2,840.9	2,840.9	2,869.5	2,880.8	2,880.8	3,046.8
YOY % change	-14.3	-0.1	-14.8	-14.3	-17.6	-14.4	2.8	-0.1	-0.1	15.9
GOVERNMENT BUDGET [4/]										
Operating Revenue (S$ mil)	63,562	67,969	17,888	14,477	15,601	18,153	18,843	15,372	na	na
Total Expenditure (S$ mil)	61,155	72,917	14,352	16,111	24,856	14,916	15,111	18,034	na	na
Operating Expenditure	45,359	51,081	11,123	12,289	16,691	9,823	11,510	13,057	na	na
Development Expenditure	15,797	21,835	3,230	3,822	8,165	5,093	3,601	4,976	na	na
Primary Surplus/Deficit (S$ mil)	2,407	-4,947	3,535	-1,634	-9,255	3,237	3,732	-2,661	na	na
% of GDP	0.6	-1.2	3.5	-1.6	-9.2	3.2	3.7	-2.5	na	na
BALANCE OF PAYMENTS										
Current Account Balance (% of GDP)	18.1	19.0	19.5	18.8	15.8	21.0	22.5	16.9	na	na
Goods Balance	27.9	27.9	26.6	28.6	25.3	30.0	30.1	26.2	na	na
Services Balance	-2.0	-2.0	-1.5	-2.0	-2.1	-2.3	-1.3	-2.2	na	na
Primary Income Balance	-4.4	-3.2	-2.2	-4.4	-3.9	-2.8	-2.5	-3.5	na	na
Secondary Income Balance	-3.4	-3.7	-3.4	-3.4	-3.5	-3.8	-3.7	-3.6	na	na
Capital & Fin Account Balance (% of GDP)	17.4	20.0	20.1	18.9	24.2	16.4	18.0	21.2	na	na
Direct Investment	-13.2	-12.7	-15.6	-14.9	-8.0	-12.8	-12.0	-17.6	na	na
Portfolio Investment	18.3	7.0	7.4	35.4	-16.7	12.4	18.8	13.0	na	na
Financial Derivatives	-4.2	1.6	-15.2	0.5	12.7	-8.8	-0.9	3.1	na	na
Other Investment	16.4	24.1	43.5	-2.1	36.3	25.5	12.2	22.6	na	na
Overall Balance (% of GDP)	0.4	-0.6	0.5	-0.3	-8.6	4.7	5.4	-3.7	na	na
Official Foreign Reserves (US$ mil) [5/]	247,747	246,575	251,640	247,747	246,196	248,859	253,408	246,575	246,575	252,743
Months of Imports	9.7	10.1	9.4	9.6	9.9	10.2	10.6	10.1	10.1	10.2

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