Monetary Authority of Singapore

RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

7 March 2014

	2013				
	Q1	Q2	Q3	Q4	Full Year
Real Sector					
Real GDP Growth, y-o-y %	0.6	4.2	5.8	5.5	4.1
Real GDP Growth, q-o-q saar %	1.5	14.9	0.3	6.1	-
Index of Industrial Production, y-o-y%	-6.4	0.8	5.2	7.0	1.6
Non-oil Domestic Exports, y-o-y %	-12.5	-5.2	-3.6	-2.1	-6.0
Labour Market and Prices					
Unemployment Rate, sa, % (Average)	1.9	2.1	1.8	1.8	1.9
CPI Inflation, y-o-y %	4.0	1.6	1.8	2.0	2.4
Wage Growth, y-o-y %	4.9	4.0	3.3	4.7	4.3

The Singapore economy expanded by 4.1% in 2013

GDP growth rose to 6.1% q-o-q saar (quarter-on-quarter seasonally-adjusted annualised rate) in Q4 2013, from 0.3% in the preceding quarter. The increase was broad-based across both external and domestic-oriented sectors. Notably, manufacturing and the trade-related services industries recorded solid gains amid improving economic conditions in the external environment.

Global growth is poised for a stronger pickup this year

Even though growth in the US and Japan eased slightly in Q4 2013, the G3 as a whole still expanded at a healthy clip, and is expected to continue to improve. This should support stronger export performances in the Asia ex-Japan economies. However, the anticipated mild slowdown in China, as well as other country specific domestic factors, could put a cap on the extent of the pick-up in some of the regional countries.

GDP growth is expected to come in at 2–4% in 2014

The Singapore economy will likely advance along a modest upward trajectory over the course of this year. The expansion should be supported by external-facing activities even as the domestic-oriented sectors stay resilient. This however does not rule out bouts of volatility, given lingering policy uncertainties in the US and China, as well as periodic incidences of political instability around the world.

MAS Core Inflation is likely to rise in the next few quarters

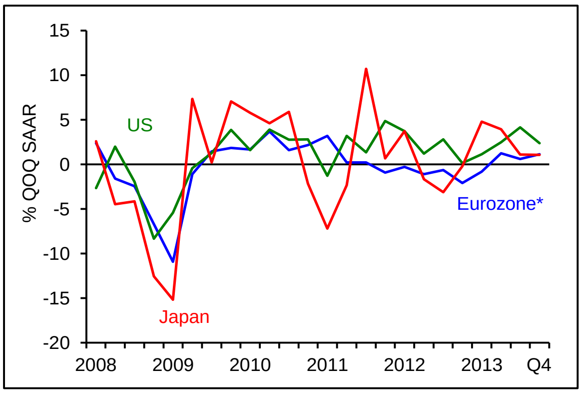
Given the rising cost pressures that firms are facing due to the tight labour market, the pass-through of costs to consumer prices could intensify. Both MAS Core Inflation and CPI-All Items inflation are projected to average 2–3% in 2014.

A. External Developments

G3 growth held steady in Q4 2013, with prospects expected to improve further in 2014

The G3 maintained their underlying growth momentum in Q4 2013 as a whole. The US economy pulled back from its stellar performance in Q3, as residential fixed investments cooled, while Japan's growth moderated slightly due to an unexpected fall-off in exports, even as domestic demand was firm. However, offsetting the deceleration in the US and Japan, the Eurozone recovery gained traction as more countries returned to modest growth after a protracted recession. On the whole, the G3 economies are still on track to chalk up stronger growth in 2014, compared to the last two years.

Growth in US and Japan slipped slightly in Q4.



Source: Datastream
* Based on 17 countries

US GDP growth slowed to 2.4% q-o-q saar in Q4 2013, from a robust 4.1% in Q3. The moderation was chiefly due to a sharp decline in residential fixed investment—in line with slackening home sales—and a smaller addition to stocks. Compared to the previous quarter, when inventory restocking boosted growth by 1.7% points, the change in stocks contributed only 0.1% point in Q4. Fiscal policy continued to be a drag on the economy, on account of a sharp decline in federal spending. The key support to the economy came instead from private household spending, which increased at the fastest pace since Q4 2011, by 2.6% q-o-q saar.

Early indications are that the US economy will expand at a more moderate clip in Q1 2014, in part due to adverse weather conditions at the beginning of the year. Real retail sales fell by 0.4% m-o-m, while shipments of durable goods declined by a further 0.4% in January. Nonetheless, the non-manufacturing PMI edged up to 54.0 in January from 53.0 a month earlier, suggesting some resilience in households' demand for services. Likewise, the ISM manufacturing PMI rose to 53.2 in February from 51.3 the month before, suggesting that the weakness in January was mostly weather-related. In the labour market, non-farm payrolls recovered to a lacklustre 113,000 in January from 75,000 the month before, but the gain was sufficient to bring the unemployment rate down to 6.6%. Over the course of this year, the macroeconomic policy mix will be supportive of the ongoing economic recovery. The drag from fiscal policy will wane given the agreement by Congress of a US$1.1 trillion budget, alongside an extension of the debt ceiling. Meanwhile, the Fed's tapering of QE will be measured, taking into account a broad range of indicators on the economy's performance.

The improvement in policy certainty should provide a boost to sentiments and hence put household and business spending on a stronger growth trajectory. On balance, consensus forecasts put US economic growth a full percentage point higher in 2014 at 2.9%, compared with the year before.

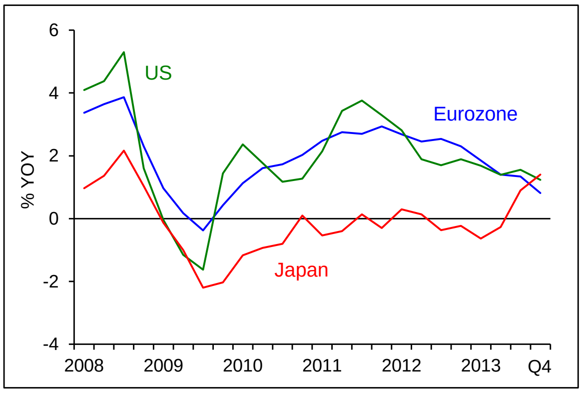
The recovery in the Eurozone has extended to the periphery countries. The third largest economy in the bloc, Italy, finally exited from a recession that lasted for more than two years, while Spain clocked a second quarter of growth in Q4 2013. The German economy expanded at a moderate pace of 1.5% q-o-q saar, supported by rising private investment and net exports, while the Netherlands and Portugal also put in strong performances. Reversing the output contraction in Q3, France grew by 1.2%, as business confidence stabilised. In contrast, Cyprus remained mired in recession, with its GDP falling by more than 5% in 2013 as a result of the banking crisis. Overall, the Eurozone recorded growth of 1.1% q-o-q saar in Q4 2013, following a paltry 0.6% expansion in the preceding quarter.

Readings from the latest economic surveys suggest that the Eurozone recovery is likely to be sustained in H1 2014. In the first two months of the year, the Eurozone Composite PMI Output Index stabilised at levels consistent with a modest pace of expansion across member countries. Structural reforms in the periphery are finally bearing fruit, with competitiveness gains gradually translating into higher exports and employment gains. However, not all countries and sectors will benefit equally from the upturn. National surveys and country-level PMI data indicate that the services sectors in France and Italy, in particular, are lagging the broader recovery in the rest of the region. All in, the Eurozone is projected to grow by 1.0% this year, a significant improvement from the 0.4% contraction in 2013.

Japan's economy moderated further in Q4 2013, despite robust domestic demand. Sequential growth in Q4 2013 eased marginally to 1.0% q-o-q saar, from 1.1% the quarter before, in spite of buoyant private consumption growth of 2.0%. Housing investment surprised on the upside with an expansion of 17.8%, the fastest rate in more than two years. To a large extent, the strength in these components of domestic demand can be attributed to the front-loading of big ticket spending by households ahead of the consumption tax hike in April 2014. The boost was nevertheless more than offset by the negative contribution from net exports, which subtracted 2.2% points from overall growth.

Japan's growth will receive a further fillip in Q1 2014, before pulling back in Q2 as the consumption tax hike kicks in. The frontloading of consumption and investment expenditures is set to intensify in Q1, with both durable and non-durable goods spending spiking as the tax hike draws nearer. Thereafter, the economy is expected to lapse into a temporary contraction in Q2, despite the partial mitigation from a fiscal spending package worth 5.5trn yen. In the latter half of the year, growth should regain momentum, alongside some strengthening in capital expenditures by firms in the services sector, as indicated by the BOJ Tankan survey. For 2014 as a whole, the Japanese economy is expected to grow by 1.6%, unchanged from the outcome in 2013.

G3 inflation presented a mixed picture.



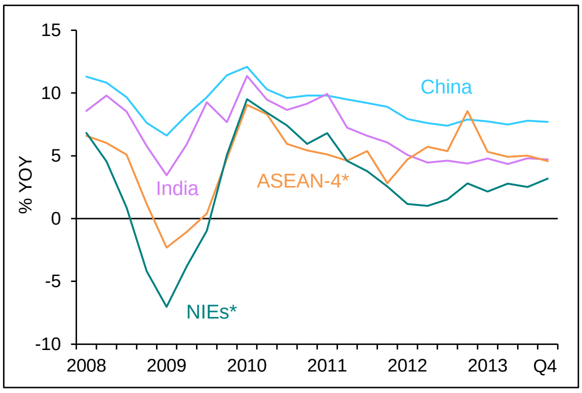
Source: Datastream

Headline inflation in the G3 has moved in divergent directions. While the US and the Eurozone have continued to face mild disinflationary pressures from a combination of excess capacity and low energy costs, Japan saw a sharp rise in consumer prices in Q4 2013. The pickup in Japan's inflation rate mostly reflected higher imported inflation and larger wage bills as firms increased overtime payments and bonuses. Overall, average CPI inflation in the G3 economies is projected to rise to 1.5% this year, from 1.3% in 2013, as output gaps in the US and Eurozone narrow and the tax hike in Japan is passed through to consumers.

Economic activity in Asia ex-Japan held up in Q4 2013, and should experience a cyclical upturn in 2014

Growth in Asia ex-Japan edged up slightly in Q4 2013 from the quarter before, with a faster expansion in the NIEs counterbalanced by a slight deceleration in the ASEAN region. The export-led recovery in the NIEs is expected to carry over into 2014 as the G3 economies strengthen, which would also benefit the ASEAN economies. Nonetheless, idiosyncratic country factors may restrain domestic demand growth in some economies. Further, with China's economy confronting short-term headwinds from its rebalancing and restructuring efforts, the region as a whole is expected to expand at only a slightly faster pace than the 5.0% seen last year.

Growth in Asia ex-Japan was stable in Q4.



Source: CEIC
* Regional groupings are weighted by Singapore's non-oil domestic exports (2009-2011 average)
Note: NIEs refers to Hong Kong, Korea and Taiwan while ASEAN-4 refers to Indonesia, Malaysia, the Philippines and Thailand

In China, fiscal stimulus helped to support GDP growth in the second half of 2013, amidst a subdued export performance. Buoyed by robust fixed investment, Chinese GDP expanded by 7.7% y-o-y in Q4 2013, only marginally slower than the 7.8% posted in Q3.

State-sponsored infrastructure spending remained the key driver of investment, but consumption spending gathered steam as well on the back of firm income growth. Following the slump induced by an official campaign to cut back on lavish public spending, retail sales growth rose for the third consecutive quarter in Q4. In the near term, policies to rein in credit expansion, especially in the shadow banking sector, and the implementation of economic reforms will weigh on growth. Already, high frequency indicators for Q1 2014 are pointing to slowing economic activity in both the services and manufacturing sectors. Nonetheless, consensus forecasts envisage only a mild deceleration to 7.5% this year, from 7.7% in 2013.

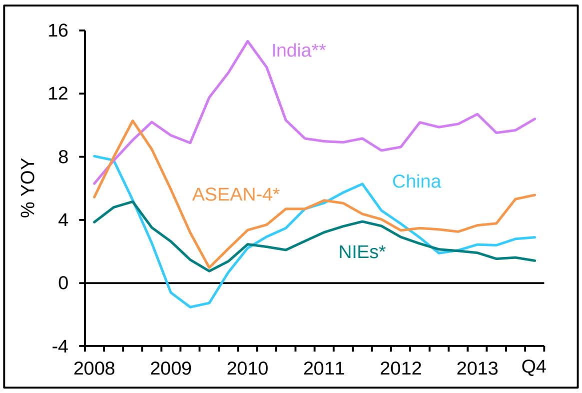
India's GDP growth remained anaemic in Q4 2013, and growth prospects for 2014 are also subdued. The slight growth deceleration to 4.7% in Q4 from 4.8% in Q3 was mainly due to sluggish private domestic demand. Household consumption slumped to 2.5% y-o-y, as high inflation reduced real disposable incomes, while fixed investment contracted 1.1% y-o-y after growing by 1.8% the previous quarter. The weakness in private demand was cushioned somewhat by higher-than-expected public spending, but this is unlikely to be sustained. The only bright spot in the economy was net exports, which contributed 3.9% points to overall growth in Q4. Looking ahead, India's growth prospects are constrained by a tight monetary policy stance to anchor inflationary expectations and a lack of fiscal space, given the government's commitment to budgetary consolidation. Reflecting the effects of policy tightening, India's services business activity index has remained in contraction territory since July 2013, with the latest reading at 48.8 in February 2014. Overall, the Indian economy is projected to grow by 4.7% for the fiscal year ending March 2014, before rising to 5.4% in the next fiscal year, as business confidence improves following the general election.

Despite slower growth in China, the trade-oriented NIEs are set for a cyclical upturn as the G3 gathers momentum. Growth in the NIEs was boosted towards the end of 2013 by a jump in overseas shipments to the advanced economies. In turn, consumer and business spending rose in Taiwan, which helped to shore up economic activity in Q4 2013. Similarly, private domestic spending rebounded in Hong Kong alongside higher export earnings. In Korea, the economy expanded by 3.9% y-o-y in Q4 2013, extending its gains in Q3. The recovery in domestic demand broadened, partly reflecting the second-round effects of fiscal stimulus rolled out earlier. However, the cyclical upturn in these economies could be constrained by domestic headwinds, including a household debt overhang in Korea, relatively stagnant income growth in Taiwan, and high property prices in Hong Kong. On balance, GDP growth in the NIEs is still projected to rise to 3.5% this year, from 2.7% in 2013.

ASEAN-4 GDP growth came off only slightly in Q4, as a slowdown in domestic demand was cushioned by rising net exports. Tighter monetary policy in Indonesia, political instability in Thailand, fiscal consolidation in Malaysia, and the disruption caused by Typhoon Haiyan in the Philippines put a collective dampener on domestic demand, which had already begun to retract since early 2013. As a result, weighted GDP growth for these economies decelerated to 4.6% y-o-y in Q4 2013 from 5.0% in Q3. Nevertheless, economic activity in Q4 was supported by an improvement in net exports, driven by a sharp compression in imports and a tentative recovery in exports. This development was facilitated by real exchange rate depreciation in Indonesia, Malaysia and the Philippines, which had led to an improvement in their export competitiveness *vis-à-vis* China and the NIEs.

Growth in the ASEAN-4 economies should edge up to around 5% in 2014, following a 4.9% expansion in 2013. Although growth in domestic demand in the region is expected to soften further, reflecting tightening financial conditions amid QE tapering, the anticipated recovery in the advanced economies will continue to provide a lift to regional exports. The economic outlook for the individual ASEAN economies, however, will vary according to the resilience of indigenous drivers of growth, the export product mix, and their relative dependence on the US and China markets. The Philippines is expected to record growth of above 6% in 2014, reflecting its considerable exposure to both the G3 markets and the recovering IT industry. Post-typhoon reconstruction spending will also provide a boost to domestic demand. In Indonesia and Malaysia, GDP growth is expected to range between 5.0 and 5.5%. Domestic demand in Indonesia will be restrained by the tight monetary policy stance needed to restore internal and external balance. In Malaysia, the global IT upturn and the continued rollout of ETP projects will bolster economic activity amid the ongoing fiscal consolidation. If the ongoing political impasse remains unresolved, Thailand's economy is likely to underperform the rest of the region.

Inflation was higher in India and ASEAN in Q4.



Source: CEIC
* Regional groupings are weighted by nominal GDP 2011
** India's series uses CPI (Industrial Workers) prior to 2012

Inflation in the Asia ex-Japan region rose slightly in Q4 2013, driven by higher energy prices in ASEAN and food prices in India. Subsidy rationalisation pushed up energy prices in Malaysia, while damage wrought by Typhoon Haiyan boosted food prices in the Philippines. Food prices in India have also increased, due to a combination of supply chain disruptions and rising production costs. Inflation developments in the rest of the region were muted. In the next few quarters, inflationary pressures will firm somewhat, as subsidy rationalisation proceeds apace, while supply-side constraints will continue to be binding in a few countries. Overall, inflation in Asia ex-Japan is expected to come in at 4.2% in 2014, compared to 4.0% last year.

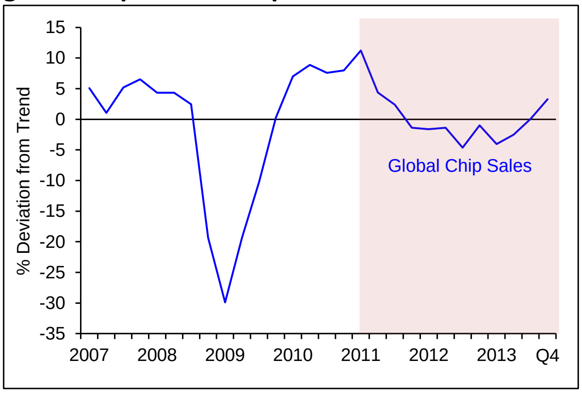
Table 1: Consensus Forecasts of GDP Growth

	2012	2013	Forecast 2014	Forecast 2015
		Percent		
Industrial				
US	2.8	1.9	2.9	3.0
Japan	1.4	1.6	1.6	1.3
Eurozone	-0.6	-0.4	1.0	1.4
UK	0.3	1.8	2.7	2.4
NIE				
Hong Kong	1.5	2.9	3.5	3.6
Korea	2.0	2.8	3.5	3.7
Taiwan	1.5	2.1	3.4	3.8
ASEAN				
Indonesia	6.3	5.8	5.5	5.8
Malaysia	5.6	4.7	5.1	5.0
Thailand	6.5	2.9	3.2	4.5
Philippines	6.8	7.2	6.4	6.2
China	7.7	7.7	7.5	7.3
India*	4.6	4.7+	5.4	6.8

Source: CEIC and Consensus Economics, February 2014
* Refers to fiscal year ending March
\+ Forecast

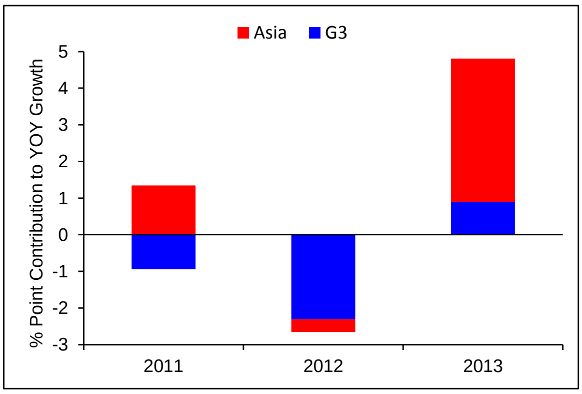
Recovery in the global IT industry became more entrenched in Q4 2013

The turnaround in the global electronics cycle gathered pace after a period of decline.



Source: Semiconductor Industry Association and EPG, MAS estimates

Both the G3 and Asia contributed positively to global chip sales growth last year.



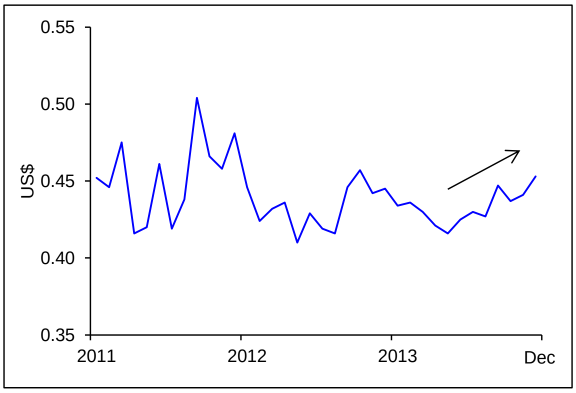
Source: Semiconductor Industry Association and EPG, MAS estimates

Global chip sales strengthened further and recorded its third consecutive quarter of expansion, of 4.0% q-o-q sa, in Q4 2013. Against a backdrop of favourable demand and supportive supply-side conditions, semiconductor sales came in slightly above trend during Q4. For the whole of 2013, global chip sales rose by 4.8%, a turnaround from the decline posted in the preceding year.

On the demand-side, both the advanced and developing economies contributed positively to semiconductor sales in 2013. Demand in Asia accounted for the bulk of the growth last year, driven mainly by an increase in retail and corporate IT demand in China. A mild resumption of household spending for IT products among the G3 economies provided a further boost, reversing the contraction recorded in the preceding two years. Notably, semiconductor sales in the Americas region surged by 13.1% in 2013, buoyed by an increase in consumer spending.

Turning to supply-side developments, semiconductor inventories recorded an uptick in Q4 2013, following a significant decline during mid-2013. This likely occurred as manufacturers increased their stockpiles in anticipation of the year-end holiday season. Nonetheless, concerns over an inventory overhang, which had plagued the industry in 2012, should gradually dissipate, especially in light of some consolidation among major players in the sector.

The average selling price of semiconductors broadly trended up from H2 2013.



Source: WSTS and EPG, MAS estimates

The improvement in demand and supply conditions has in turn provided support for semiconductor prices. Following a steep decline in prices in 2012, the drag to chip sales from falling prices largely diminished in 2013. In fact, the global average selling price of semiconductors has broadly trended up since the middle of last year, in part due to robust gains in the DRAM segment.

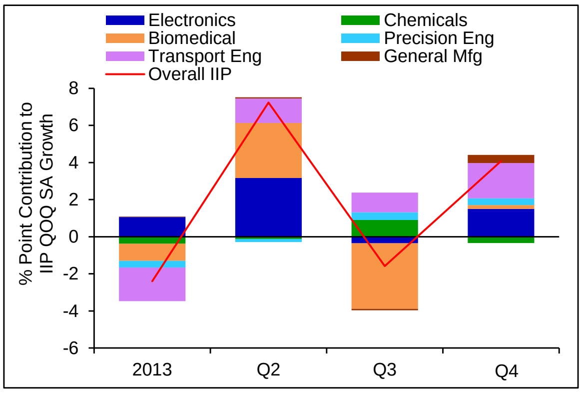
The global IT industry is expected to record modest gains in 2014. While growth in Asia should continue to provide support, the advanced economies, led by the US, are likely to feature as stronger growth drivers this year. Anchored by a rise in private consumption in the US, retail spending on electronics should see some increase, with highly anticipated product launches—such as Samsung's Galaxy S5 and new versions of Apple's iPhone and iPad series—providing an added impetus. Nonetheless, the road to recovery could be uneven. In light of adverse weather conditions and excessive inventory accumulation in the US during Q4 2013, the latest Empire State Manufacturing Survey in February showed that sentiment among US firms deteriorated slightly. Consequently, there were indications of a tentative retraction in technology spending. Barring this soft patch, however, as the uncertainty surrounding monetary and fiscal policy decisions gradually lifts and capacity utilisation tightens further, investments in equipment by firms should provide some boost to the corporate IT segment. All in, worldwide chip sales are expected to grow by slightly over 5% this year.

B. Domestic Developments

The Singapore economy recorded stronger growth in 2013, led by the trade-related industries

The pace of activity in the Singapore economy quickened in Q4 2013, with GDP growth rising by 6.1% q-o-q saar, up from 0.3% in the previous quarter. For the year as a whole, GDP grew by 4.1% in 2013, compared to more modest expansion of 1.9% in the preceding year. The upward momentum in Q4 2013 was broad-based across external and domestic-oriented sectors. Notably, growth in the trade-related industries—which comprise manufacturing, wholesale trade and transport & storage—accelerated to 7.9% q-o-q saar in Q4 2013, from 2.9% in the preceding quarter. The financial services sector in particular posted a strong uptick following a sharp contraction in the previous quarter.

Manufacturing output surged in Q4, buoyed by a rebound in transport engineering and electronics production.



The manufacturing sector exceeded expectations and grew by 10.4% q-o-q saar in Q4, following a flat outturn in the preceding quarter. This was due in part to the stellar growth within the transport engineering cluster. The year-end surge in the marine & offshore segment was driven by robust rig-building and ship building & conversion activities. The electronics cluster also recorded strong gains, on the back of a sharp increase in production of PC peripherals and data storage. In contrast, the chemicals cluster experienced a soft patch in Q4, weighed down by a retraction in petroleum output due to a compression in refining margins. The petrochemicals segment likewise saw some reduction in production activity following a surge in output during Q3.

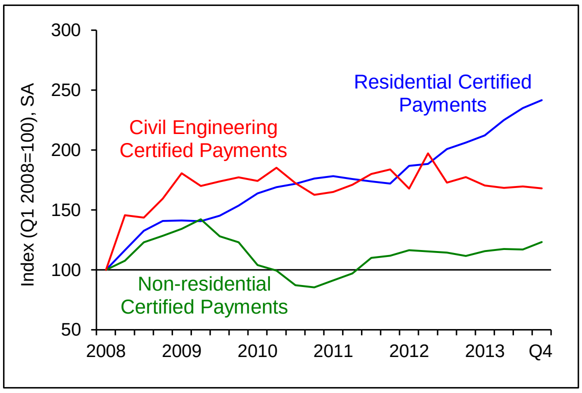
Stronger manufacturing activity in turn created positive spillovers for trade-related services activities. The foreign wholesale trade index advanced further in Q4 and expanded by 2.3% q-o-q sa, with growth largely driven by demand for electronic products in the run-up to the year-end holiday season. Further, the sector also benefitted from the roll-out of infrastructure projects in the region which led to greater trade flows in construction materials. As commerce activity picked up, the transport & storage sector registered modest gains in tandem, supported by the water segment as sea cargo volumes gathered pace.

In comparison, tourism-related activities recorded a more muted performance. Air passenger arrivals declined by 0.7% q-o-q sa in Q4, largely due to fewer tourists from

China and the EU. Consequently, demand for accommodation services moderated slightly, with hotel occupancy rates dipping to 86.0% sa, from 86.5% in Q3 2013.

The financial services sector expanded by a robust 19.0% q-o-q saar in Q4 2013, a sharp turnaround from the 15.2% contraction in the previous quarter. The recovery was underpinned by a pick-up in the financial intermediation segment. Buoyed by stronger credit demand from businesses, growth of domestic non-bank loans accelerated to 5.1% q-o-q, following a modest expansion of 2.6% in the preceding quarter. Similarly, offshore non-bank lending grew at a faster pace of 5.6% q-o-q in Q4, up from 3.6% in Q3 2013. While lending activity increased across all major geographical regions, loan growth to East Asia contributed most significantly to the overall gains. Within the sentiment-sensitive cluster however, stock broking activity was lacklustre as the US government shutdown and the penny stock incident[1] weighed on trading interest. Average daily turnover volume in the local bourse posted a 27.5% q-o-q decline in Q4 2013.

Activity in the construction sector stayed strong.



Source: EPG, MAS estimates

Activities reliant on domestic demand stayed firm as a whole, although there was some differentiation in performance across sectors. The construction sector expanded by 1.4% q-o-q saar in Q4 2013, slower than the average pace of 6.3% registered in the first three quarters of the year. The sequential moderation reflected in part the base effects arising from the completion of major projects such as the Marina Coastal Expressway as well as several residential and commercial developments. Nonetheless, underlying construction activity remained firm, as work on the Sports Hub complex, South Beach and Westgate continued apace. Civil engineering output in Q4 was also boosted by the roll-out of major infrastructural works at Changi Airport.

Meanwhile, activity in the consumer-facing services was tepid. Vehicle sales remained weak due in part to the tighter financing rules. Non-motor vehicle retail sales also displayed a subdued performance as a result of a pullback in discretionary purchases including that of household durables, wearing apparel and footwear. Similarly, food and beverage receipts declined on the back of lower turnover volumes in the restaurant segment. In comparison, the corporate-facing clusters stayed resilient. For instance, IT services and professional business services—particularly legal and management consultancy services—continued to expand towards the end of 2013.

[1] The sudden collapse of stock prices of three companies (Blumont Group Ltd, LionGold Corp Ltd and Asiasons Capital Ltd) on 4 October 2013 triggered a withdrawal of liquidity from the Singapore stock market.

The domestic economy is expected to expand by 2–4% in 2014

The global economy remains on track for a stronger pick-up in this year, underpinned by a sustained growth momentum in the advanced economies. Growth in Asia ex-Japan is also anticipated to rise at a moderate pace, particularly in view of the expected lift to its export performance from a gradual rise in G3 final demand.

Overall, the external environment is broadly supportive of modest growth in the Singapore economy. Industries which are tied to demand in the advanced countries should stand to gain. Manufacturing and trade-related services in particular are expected to be the largest recipients of spillovers from a G3-led recovery[2]. In addition, sectors with sizable exposure to emerging Asia—such as the tourism and information & communications industries—could also see some upside to their growth performance this year should activity in the region strengthen. Meanwhile, the domestic-oriented industries would be supported by supply-side driven expansions especially in the construction, business services and community, social and personal services sectors.

Nonetheless, downside risks remain, both externally and domestically. Uncertainties regarding the pace of QE tapering and political instability in various parts of the world could weigh on the financial markets and business sentiments in the near term. Ongoing policy adjustments in China may also have unintended consequences on growth in the region. On the domestic front, supply-side constraints could translate into higher business costs and limit the extent of the cyclical upturn.

All in, GDP growth in Singapore is forecast to come in at 2–4% in 2014. This assessment nonetheless does not preclude some degree of fluctuation in momentum around the mild uptrend, especially in view of the lingering risks in the external environment.

[2] According to estimates from the OECD-WTO TiVA Database, these two sectors have the highest exposure to G3 final demand.

C. Labour Market and Consumer Prices

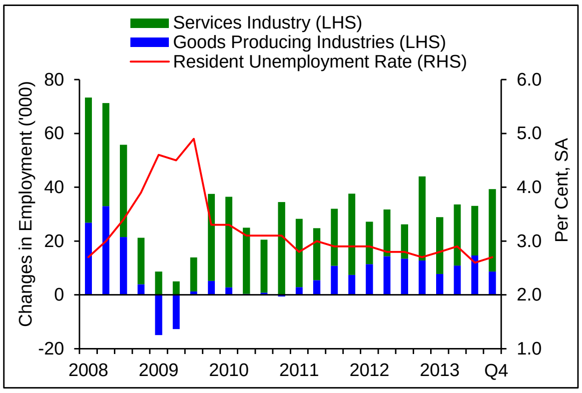
Job creation picked up in 2013

Preliminary estimates show that total employment expanded by an estimated 39,200 in Q4 2013, up from 33,100 a quarter earlier. The stronger job creation largely reflected the seasonal increase in hiring in the services sector, such as in the retail trade and accommodation & food services clusters, for the year-end festive period. In contrast, employment gains in the manufacturing sector eased from 3,300 to 500, mainly due to weaker job creation in the transport equipment segment. The construction sector also saw slower, albeit still robust, net headcount growth of 7,800 compared with 10,700 in Q3, as a number of major projects were completed.

For the whole of 2013, overall employment rose by 134,900, larger than the 129,100 increase in 2012. The pickup was led by stronger labour demand in services, especially in the business services and information & communications segments. Notably, residents accounted for around 60% of the job gains last year—the first time since 2009 that it has garnered a greater share than foreigners—amid further foreign manpower tightening measures and an increase in the participation rate of residents to as high as 66.7%. Resident employment had grown by 81,600 last year, substantially higher than the 58,700 and 37,900 gains in 2012 and 2011 respectively.

Given the strong demand for workers, the labour market remained tight, with the seasonally-adjusted resident unemployment rate staying low at 2.7% in Q4 2013. Consequently, resident wage growth rose from 3.3% in Q3 to 4.7% in Q4, and averaged 4.3% for the whole of 2013 compared with 2.3% in 2012.

The resident unemployment rate remained low.



Both CPI-All Items inflation and MAS Core Inflation rose in Q4 2013

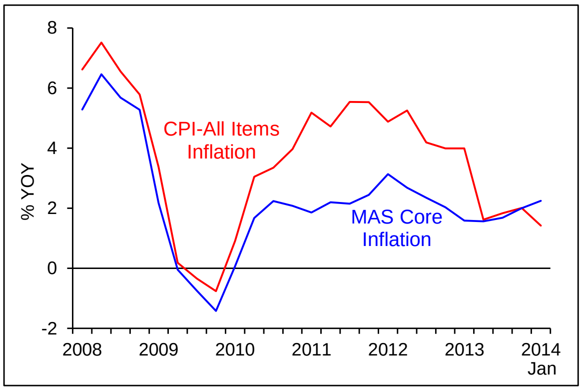
MAS Core Inflation, which excludes the costs of accommodation and private road transport, rose to 2.0% y-o-y in Q4 from 1.7% in Q3, largely reflecting a pickup in domestic cost pass-through. This, together with the increase in private road transport cost, led CPI All-Items inflation to edge up from 1.8% in Q3 to 2.0% in Q4 2013. For the whole of 2013, MAS Core Inflation came in at 1.7% compared with 2.5% in the previous year. CPI-All Items inflation averaged 2.4% in 2013, sharply lower than the 4.6% in 2012.

Services and food inflation picked up in Q4 2013. Services fees were 2.7% higher in Q4, after increasing by 2.6% in the preceding quarter, as the cost of items such as holiday travel and tuition rose following the temporary bout of weakness earlier in the year. Food inflation edged up to 2.6% from 2.3% in Q3, with sharper price increases for both non-cooked food and prepared meals. At the same time, prices of oil-related items fell by a more modest 0.1%, compared with the 0.9% decline in Q3, on account of a smaller correction in electricity tariffs.

Private road transport cost added to overall inflation for the first time in three quarters, reflecting higher car COE premiums. It rose by 1% in Q4 after coming in flat a quarter earlier. Meanwhile, the increase in accommodation cost continued to moderate in Q4, on account of softer conditions in the housing rental market.

In January, MAS Core Inflation edged up to 2.2% while CPI-All Items inflation eased to 1.4%. While services and food inflation picked up further, private road transport cost declined and accommodation cost saw a further slowdown in the pace of increase.

MAS Core Inflation continued on a mild upward trend while CPI-All Items inflation has been more volatile recently.



MAS Core Inflation is expected to rise over the next few quarters and average 2–3% in 2014. The pass-through of domestic costs to prices of consumer services could intensify as firms face rising cost pressures, especially from higher wages. Meanwhile, overall imported inflation is expected to remain subdued because of spare production capacity in the advanced economies and ample supply buffers in the commodity markets.

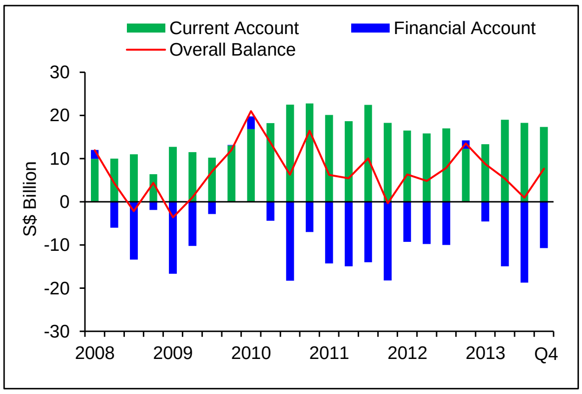
CPI-All Items inflation is projected at 2–3% for 2014. Car COE premiums could remain volatile in the short term as the market continues to adjust to changes in the COE system. Imputed rentals on owner-occupied accommodation will increase at a slower pace as more housing supply comes into the market.

D. Balance of Payments

The overall balance of payments surplus widened in Q4 2013 but narrowed in 2013 as a whole

In Q4 2013, the overall balance of payments recorded a larger surplus of $7.7 billion compared to $0.9 billion in the third quarter. This was underpinned by a decrease in net outflows from the financial account, which outweighed the slight decline in the current account surplus.

Both the surplus in the current account and net outflows from the financial account narrowed in Q4 2013.



The current account registered a smaller surplus of $17 billion in Q4 2013, compared to $18 billion in the previous quarter, as a larger surplus in the goods balance was insufficient to offset the increase in the primary income deficit and a reversal of the services account from a surplus to a deficit position.

Meanwhile, the deficit in the financial account narrowed to $11 billion in Q4 2013, from $19 billion in the previous quarter. This was driven by a small increase in net FDI inflows, as well as the reversal in the "other investment" account from large net outflows in Q3 to net inflows in Q4, as resident banks saw a sharp increase in net inflows in the fourth quarter. Together, these changes exceeded the acceleration in net portfolio outflows.

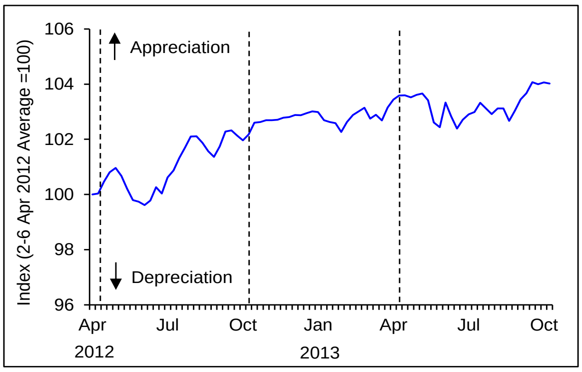
For 2013 as a whole, the overall balance of payments surplus fell to $23 billion in 2013, compared with $33 billion in 2012. This primarily reflected a larger net outflow from the capital and financial account (from $27 billion to $49 billion), which outweighed the increase in the current account surplus (from $62 billion to $68 billion).

E. Macroeconomic Policies

Monetary Policy: In October 2013, MAS reaffirmed the prevailing monetary policy stance

Underpinned by the recovery in global demand, the domestic economy is projected to grow at a modest pace in 2014. Short-term uncertainties in the external environment have emerged, such as the potentially disorderly market adjustments to the Fed's tapering of asset purchases. Nevertheless, the recovery in the global economy is expected to continue, led by a turnaround in the G3 economies. Against this backdrop, the Singapore economy is projected to remain on a broad expansion trend in the quarters ahead, although growth rates could be volatile.

MAS maintained the gradual and modest appreciating stance.



---- indicates release of Monetary Policy Statement

Domestic core inflationary pressures could rise over 2014. The expansion of the Singapore economy is likely to come against increasingly binding supply-side constraints, especially in the labour market. As a result, wages should continue to rise, and the pass-through of domestic cost to consumer prices could intensify, leading to upward pressures on core inflation.

MAS thus kept the S$NEER policy band on a modest and gradual appreciation path in October 2013, with no change to its slope, level or width. This policy stance was assessed to be appropriate, taking into account the balance of risks between external demand uncertainties and rising domestic inflationary pressures.

Fiscal Policy: The FY2014 Budget focused on supporting the economy's restructuring process and achieving more equitable growth over the longer term

The overall budget for FY2013 is estimated to have recorded a surplus of $3.9 billion (1.1% of GDP), higher than the $2.4 billion projected in Budget 2013. This was due to stronger-than-expected revenues from stamp duties and an increase in vehicle quota premiums, as well as delays in public infrastructure projects which contributed to lower development expenditures.

Budget 2014 built on the restructuring efforts put in place since Budget 2010. First, it sharpened the incentives for firms to invest and reduce their reliance on labour. To encourage firms invest, the Budget extended the Productivity and Innovation Credit (PIC) scheme for another three years, and introduced PIC+ for small and medium enterprises (SMEs), which increased the expenditure cap on firms' qualifying activities. At the same time, the Budget also announced targeted measures to boost productivity in the construction sector: levies for the least-skilled foreign workers were increased, while firms were encouraged to retain higher-skilled workers for longer.

Second, the Budget sought to promote process transformation and innovation in firms. To help businesses to scale up the use of information technology, the Budget provided generous subsidies for SMEs adopting ICT-based productivity solutions and for firms pioneering emerging technology solutions. Budget 2014 also extended the duration where companies could qualify for tax deductions on R&D expenditures. This should encourage firms to invest in R&D and innovation.

This year's budget made further strides in strengthening social safety nets and improving social mobility. Budget 2014 introduced the Pioneer Generation Package, which will benefit approximately 450,000 Singaporeans aged 65 and above. These "pioneers" will get additional subsidies at government outpatient clinics, top-ups to their Medisave accounts, and subsidies for MediShield Life premiums. In addition, the Budget made incremental steps to enhance healthcare affordability for all Singaporeans, hiking CPF rates for Medisave by one percentage point for all workers. Following last year's efforts to raise the capacity and quality of pre-school education, this year's budget included more fee assistance for kindergartens for those in lower and middle-income families, and raised subsidies for children with special needs, so as to improve their access to early intervention services.

For FY2014, the government has projected an overall budget deficit of $1.2 billion (0.3% of GDP). This includes special transfers, top-ups to trust and endowment funds and revenue contributed by net investment returns. The basic balance, which includes special transfers only, is projected to be in a deficit of $0.8 billion (0.2% of GDP).

Summary of Fiscal Position

	FY 2012		FY 2013 Revised		FY 2014 Budgeted	
	$billion	% of GDP	$billion	% of GDP	$billion	% of GDP
Operating Revenue	55.8	15.6	57.1	15.5	59.5	15.3
Total Expenditure	49.0	13.7	52.3	14.2	56.7	14.6
Operating Expenditure	36.4	10.2	40.4	11.0	42.9	11.0
Development Expenditure	12.6	3.5	11.9	3.2	13.8	3.5
Primary Surplus/Deficit (-)	**6.8**	**1.9**	**4.8**	**1.3**	**2.8**	**0.7**
Less: Special Transfers Excluding Top-ups to Endowment and Trust Funds	1.5	0.4	3.2	0.9	3.6	0.9
Basic Surplus/Deficit (-)	**5.4**	**1.5**	**1.6**	**0.4**	**(0.8)**	**(0.2)**
Less: Top-ups to Endowment and Trust Funds	7.4	2.1	5.6	1.5	8.5	2.2
Add: NIR Contribution	7.9	2.2	7.9	2.1	8.1	2.1
Budget Surplus/Deficit (-)	**5.8**	**1.6**	**3.9**	**1.1**	**(1.2)**	**(0.3)**

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

Note: Labour market statistics were obtained from the Ministry of Manpower, while trade and index of industrial production (IIP) data were provided by IE Singapore and EDB respectively. All other data in this document were obtained from the Building and Construction Authority, Department of Statistics, Ministry of Trade and Industry, unless otherwise stated.

Selected Indicators

GENERAL INDICATORS, 2013			
Land Area (Sq km)	716.1	Literacy Rate* (%)	96.5
Total Population ('000)	5,399.2	Real Per Capita GDP (US$)	48,045
Labour Force ('000)	3,443.7	Gross National Savings (% of GNI)	45.7
Resident Labour Force Participation Rate (%)	66.7		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2013		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2013	
Manufacturing	18.6	Private Consumption	38.4
Finance & Insurance	12.2	Public Consumption	10.3
Business Services	15.6	Private Gross Fixed Capital Formation	19.1
Construction	4.4	Public Gross Fixed Capital Formation	4.0
Transportation & Storage	7.0	Increase in Stocks	3.1
Information & Communications	4.0	Net Exports of Goods & Services	23.1
Wholesale & Retail Trade	18.2	Statistical Discrepancy	2.0
Accommodation & Food Services	2.5		

MAJOR EXPORT DESTINATIONS (% SHARE), 2013		MAJOR ORIGINS OF IMPORTS (% SHARE), 2013	
Total Exports (S$ Billion)	513.4	Total Imports (S$ Billion)	466.8
Malaysia	12.2	China	11.7
China	11.8	Malaysia	10.9
Hong Kong	11.2	US	10.3
Indonesia	9.9	Taiwan	7.8
US	5.7	South Korea	6.4
Asean	31.4	Asean	20.9
NIEs	19.0	NIEs	15.0
EU	7.5	EU	12.2

Source: IE Singapore

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2013		MAJOR IMPORTS BY COMMODITY (% SHARE), 2013	
Domestic Exports (S$ Billion)	274.2	Total Imports (S$ Billion)	466.8
Mineral Fuels	38.8	Mineral Fuels	31.3
Electronics	19.4	Electronics	26.1
Chemicals	16.9	Machinery & Transport Equipment (ex. Electronics)	15.8
Machinery & Transport Equipment (ex. Electronics)	9.3	Manufactured Articles	7.7
Manufactured Articles	9.2	Chemicals	6.8
Manufactured Goods	2.3	Manufactured Goods	6.3

Source: IE Singapore

OVERALL ECONOMY	2012	2013	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	Dec-13	Jan-14
GDP at current prices (S$ bil)	355.3	370.1	87.4	90.8	89.8	92.8	92.4	95.1	na	na
GDP (US$ bil)	284.3	295.7	70.0	74.3	72.5	74.3	72.8	76.1	na	na
Real GDP Growth (YOY % change)	1.9	4.1	0.4	2.2	0.6	4.2	5.8	5.5	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	-6.3	7.6	1.5	14.9	0.3	6.1	na	na
By Sector (YOY % change):										
Manufacturing [1/]	0.3	1.7	-1.4	-0.2	-6.3	0.8	5.3	7.0	6.4	3.9
Electronics [2/]	-11.3	3.4	-8.3	-10.6	-11.1	0.3	7.5	19.0	22.3	7.4
Non-electronics [2/]	6.2	0.9	1.8	4.4	-4.2	0.9	4.3	2.5	0.8	2.5
Finance & Insurance	1.3	10.6	-3.7	3.6	12.5	10.3	10.0	9.7	na	na
Business Services	5.9	5.1	5.8	6.6	4.4	6.0	5.2	4.6	na	na
Construction	8.6	5.9	7.7	6.7	5.6	6.6	6.6	4.8	na	na
Transportation & Storage	3.4	3.0	2.5	3.9	-1.0	2.6	5.8	4.8	na	na
Information & Communications	6.2	5.5	4.5	5.2	5.1	5.7	6.0	5.0	na	na
Wholesale & Retail Trade	-1.4	5.0	-0.8	-2.1	-0.1	6.1	6.3	7.3	na	na
Accommodation & Food Services	2.3	3.0	1.2	1.7	2.5	3.7	3.6	2.2	na	na
By Expenditure Component (YOY % change):										
Consumption	2.8	4.4	2.8	1.7	5.5	4.2	3.7	4.2	na	na
Private	4.1	2.7	3.5	3.8	3.1	3.0	2.7	1.9	na	na
Public	-1.9	11.2	0.5	-6.3	12.4	10.5	7.5	13.9	na	na
Gross Fixed Capital Formation	8.7	-2.6	-1.4	9.6	-6.0	-2.5	4.4	-6.3	na	na
Private	8.7	-3.1	-3.2	8.8	-7.7	-2.7	5.9	-7.5	na	na
Public	8.8	-0.5	8.7	13.6	2.4	-1.6	-2.8	-0.5	na	na
External Demand	1.4	3.6	-1.2	1.0	-3.0	4.6	6.5	6.1	na	na
TRADE										
Total Exports, fob (YOY % change)	-0.9	0.6	-4.2	-5.1	-8.7	-0.2	5.8	6.0	8.9	4.2
Non-Oil Domestic Exports	0.5	-6.0	-3.2	-4.2	-12.5	-5.2	-3.6	-2.1	6.0	-3.3
Re-Exports	-3.5	6.2	-0.2	-8.1	-6.1	9.1	7.9	14.2	12.7	7.3
Total Imports, cif (YOY % change)	3.2	-1.6	-1.3	-0.4	-9.3	-4.0	5.9	1.4	3.4	-0.9
WAGE-PRICE INDICATORS										
Unemployment Rate (SA,%)	2.0	1.9	1.9	1.8	1.9	2.1	1.8	1.8	na	na
Average Nominal Wages (S$ per month)	4,433	4,622	4,078	4,773	4,948	4,329	4,212	4,998	na	na
Consumer Price Index Inflation (YOY % change)	4.6	2.4	4.2	4.0	4.0	1.6	1.8	2.0	1.5	1.4
MAS Core Inflation (YOY % change)	2.5	1.7	2.4	2.0	1.6	1.6	1.7	2.0	2.0	2.2
FINANCIAL INDICATORS [3/]										
S$ Exchange Rate Against: (end-period)										
US Dollar	1.2221	1.2653	1.2254	1.2221	1.2436	1.2652	1.2572	1.2653	1.2653	1.2759
100 Japanese Yen	1.4214	1.2061	1.5799	1.4214	1.3205	1.2797	1.2834	1.2061	1.2061	1.2468
Euro	1.6151	1.7452	1.5844	1.6151	1.5892	1.6535	1.6975	1.7452	1.7452	1.7419
Interest Rates (end-period, % p.a.)										
3-month Fixed Deposit Rate	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.15
3-month S$ SIBOR	0.38	0.40	0.38	0.38	0.38	0.37	0.37	0.40	0.40	0.41
Prime Lending Rate	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38
Money Supply (end-period)										
Broad Money, M2 (YOY % change)	7.2	4.3	6.1	7.2	8.5	9.1	7.5	4.3	4.3	3.6
Straits Times Index (end-period)	3,167.1	3,167.4	3,060.3	3,167.1	3,308.1	3,150.4	3,167.9	3,167.4	3,167.4	3,027.2
YOY % change	19.7	0.0	14.4	19.7	9.9	9.4	3.5	0.0	0.0	-7.8
GOVERNMENT BUDGET [4/]										
Operating Revenue (S$ mil)	54,284	57,054	14,554	13,030	13,531	15,522	15,475	12,525	na	na
Total Expenditure (S$ mil)	47,271	52,329	10,745	11,787	17,323	9,738	11,645	13,624	na	na
Operating Expenditure	34,810	40,390	8,113	8,555	13,698	6,788	9,240	10,664	na	na
Development Expenditure	12,461	11,939	2,632	3,232	3,625	2,949	2,405	2,960	na	na
Primary Surplus/Deficit (S$ mil)	7,013	4,725	3,809	1,243	-3,792	5,785	3,831	-1,099	na	na
% of GDP	2.0	1.3	4.4	1.4	-4.2	6.2	4.1	-1.2	na	na
BALANCE OF PAYMENTS										
Current Account Balance (% of GDP)	17.4	18.4	19.5	13.6	14.9	20.5	19.8	18.3	na	na
Goods Balance	22.1	23.0	24.6	19.1	19.2	24.5	23.7	24.2	na	na
Services Balance	0.2	0.1	0.3	0.1	0.3	-0.4	0.8	-0.3	na	na
Primary Income Balance	-2.4	-2.4	-2.7	-2.9	-2.3	-1.4	-2.4	-3.3	na	na
Secondary Income Balance	-2.6	-2.3	-2.7	-2.8	-2.3	-2.2	-2.3	-2.3	na	na
Capital & Fin Account Balance (% of GDP)	-7.6	-13.2	-11.4	2.1	-5.0	-16.1	-20.2	-11.3	na	na
Direct Investment	16.7	12.5	16.4	15.1	14.8	12.6	10.7	11.9	na	na
Portfolio Investment	-22.9	-15.2	-19.2	-32.5	-22.6	-4.6	-3.4	-29.8	na	na
Financial Derivatives	5.8	-1.0	3.9	2.5	0.0	-1.6	-1.1	-1.4	na	na
Other Investment	-7.3	-9.5	-12.4	17.0	2.7	-22.4	-26.4	8.1	na	na
Overall Balance (% of GDP)	9.2	6.1	9.0	14.9	9.7	5.8	1.0	8.1	na	na
Official Foreign Reserves (US$ mil) [5/]	259,307	273,065	252,148	259,307	258,186	259,816	268,103	273,065	273,065	271,538
Months of Imports	8.2	8.8	8.1	8.2	8.3	8.4	8.6	8.8	8.8	8.8

Source:

[1/] Monthly data from Index of Industrial Production, EDB

[2/] Data from Index of Industrial Production, EDB

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

[4/] Ministry of Finance

[5/] MAS

na: Not available