Monetary Authority of Singapore

RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

5 September 2014

	2013				2014	
	Q2	Q3	Q4	Full Year	Q1	Q2
Real Sector						
Real GDP Growth, y-o-y %	4.0	5.0	4.9	3.9	4.8	2.4
Real GDP Growth, q-o-q saar %	10.2	0.7	6.9	-	1.8	0.1
Index of Industrial Production, y-o-y %	0.8	5.2	7.1	1.7	9.9	1.5
Non-oil Domestic Exports, y-o-y %	−5.2	−3.6	−2.1	−6.0	−1.0	−3.4
Labour Market and Prices						
Unemployment Rate, sa, % (Average)	2.0	1.8	1.8	1.9	2.0	2.0
CPI-All Items Inflation, y-o-y %	1.6	1.8	2.0	2.4	1.0	2.4
Wage Growth, y-o-y %	4.0	3.3	4.7	4.3	3.2	2.7

The Singapore economy turned in almost flat growth in Q2 2014

GDP recorded a marginal 0.1% q-o-q saar (quarter-on-quarter seasonally-adjusted annualised rate) growth in Q2 2014, down from an expansion of 1.8% in the previous quarter. However, the subdued performance was largely on account of a pronounced retraction in the manufacturing sector, even as the rest of the economy experienced a moderate upturn.

Global economic growth is expected to pick up in H2, after an uneven recovery earlier this year

The G3 economies continued to turn in mixed performances in Q2 2014. While US growth rebounded, Japan’s economy shrank as the consumption tax hike choked off spending. Meanwhile, the recovery in the Eurozone stalled, alongside rising geopolitical tensions in the region. Asia ex-Japan also saw some recovery, driven mostly by exports. Looking ahead, the US expansion is set to gather pace, which should underpin global growth in H2 2014.

Singapore’s GDP growth is expected to come in at 2.5–3.5% in 2014

With the global outlook remaining generally supportive, the domestic economy could gain some momentum for the rest of 2014. Nonetheless, downside risks arising from vulnerabilities in the external environment remain. In addition, domestic supply-side constraints could cap the extent of the cyclical upturn.

MAS Core Inflation is likely to remain elevated

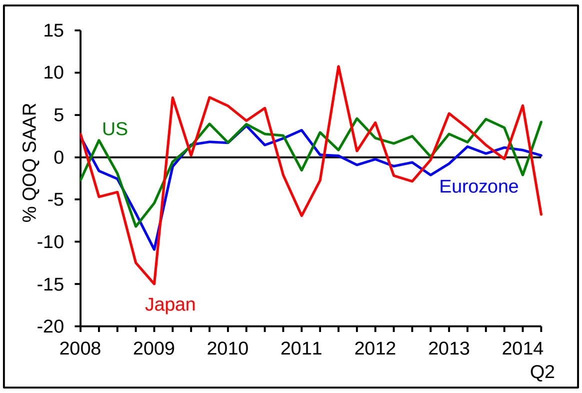
Notwithstanding the recent volatility in global oil prices, external price developments should be relatively benign for the rest of the year. Domestic cost pressures, particularly stemming from a tight labour market, will continue to be the primary source of inflation. Taking these factors into account, MAS Core Inflation is expected to stay elevated at 2–3% in 2014. CPI-All Items inflation should be dampened by the weakness in car prices and accommodation cost, and is projected to come in at 1.5–2.0%.

A. External Developments

G3 growth in Q2 2014 was weighed down by the Eurozone and Japan

Economic activity in the G3 decelerated further to 0.3% q-o-q saar in Q2 2014, marking its third straight quarter of slowdown. In a reversal of growth profiles, the US economy bounced back following a poor showing in the preceding quarter due to inclement weather conditions and a contraction in healthcare spending, while private spending in Japan plunged after a surge in Q1, as the consumption tax hike took effect in April. Meanwhile, growth in the Eurozone stagnated, as its three largest economies posted tepid performances. Nevertheless, G3 growth as a whole is envisaged to pick up for the rest of the year, led by the US.

The G3 turned in mixed performances in Q2.



Source: Datastream

The US economy rebounded in Q2 on robust domestic demand. GDP surged by a 4.2% q-o-q saar, after shrinking by 2.1% in the previous quarter. Economic activity revived across the board, on the back of stronger final demand. Household spending rose by 2.5% q-o-q saar in Q2, as purchases of durable goods—pent-up during the cold winter snap—surged to its fastest pace since Q3 2009. Capital investment by firms increased by 8.4% q-o-q saar, which together with a turnaround in residential construction and inventory replenishment, contributed to a 17.5% rise in gross private investment. Government spending added another 0.3% points to overall growth in Q2, as the drag from fiscal policy waned. However, net trade had a negative impact due to higher imports, even as exports recovered strongly.

US growth is expected to accelerate to an above-trend pace in H2. Leading indicators such as the ISM manufacturing PMI rose to a high of 59 in August from 57.1 in July, supported by a surge in new orders, production and inventories. Further, the August services PMI rose to 59.6, the highest reading since August 2005. Recent outturns in the labour market have also been encouraging—209,000 non-farm jobs were added in July, although this was lower than the 298,000 registered in June. As a result, the unemployment rate edged down to 6.2% in July from 6.7% in March. In the housing sector, sales have picked up as a slower pace of increase in property prices drew buyers back into the market. Following the pickup in investment in Q2, there are indications that business capex will accelerate further in H2. In July, core capital goods shipments increased by 1.5% m-o-m sa, compared to 0.9% in June, suggesting that corporates could finally be embarking on a new investment cycle.

Overall, US GDP growth is expected to moderate from 2.2% in 2013 to 2.1% in 2014, before picking up to 3.1% in 2015.

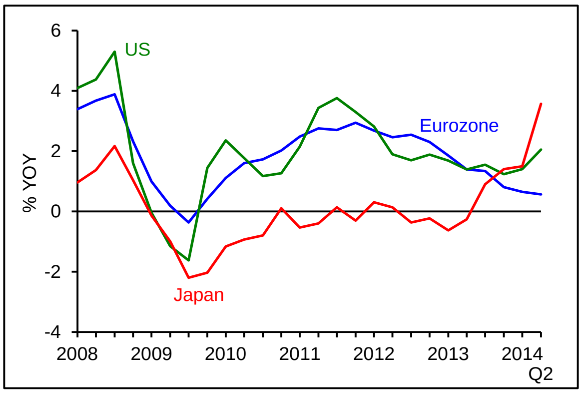
The Eurozone's nascent recovery faltered in Q2. Growth almost halted, with the region's GDP rising by just 0.2% on an annualised basis, following a subdued expansion of 0.8% in the previous quarter. Germany, the main pillar of growth in the current recovery phase, surprised with a contraction of 0.6%. The other two largest Eurozone economies did not fare well either as uncertainty over fiscal policy and piecemeal implementation of structural reforms drained business confidence. The French economy continued to stagnate, while Italy relapsed into a technical recession. In comparison, Spain and Portugal, which have undertaken more significant reforms, expanded at slightly above 2% in annualised terms.

Growth in the Eurozone is still expected to improve modestly in H2 2014, notwithstanding the disappointing outcome in the first half of the year. The contraction that Germany experienced in Q2 is expected to be a one-off event, as private consumption continues to be supported by steady wage growth. The outlook for trade is more clouded, however, with slackening demand from China and sanctions on Russia weighing on exports. Meanwhile, growth is likely to remain sluggish in France and Italy, as reforms announced by the respective governments take time to produce results. However, the peripheral economies are projected to expand more robustly, especially with the ECB's latest actions to reduce its main policy rate and purchase asset-backed securities and covered bonds in October. Overall, the Eurozone is expected to grow by a sub-par 1.0% this year, before picking up pace to 1.5% in 2015.

Japan's economy slumped in Q2 on the back of a pullback in spending after the consumption tax hike in April. GDP plunged by 6.8% q-o-q saar, outweighing the 6.1% increase in the preceding quarter from the frontloading of expenditures. The large decline was attributable to a fall-off in both private consumption and investment, which was only partially offset by positive contributions from inventory investment and net exports. While exports decreased by 1.8% q-o-q saar, imports fell by much more as domestic spending retracted. Meanwhile, public investment growth slowed in Q2, albeit to a still elevated level, reflecting the tapering of the previous fiscal stimulus package.

Nonetheless, the Japanese economy should revert to moderate growth in H2. While slightly sharper than initially expected, the contraction seen in the immediate aftermath of the tax increase was broadly consistent with past experience, and is likely to be short-lived. In the latter half of the year, exports should recover moderately as demand in the US and Asian economies firms up. Steady gains in employment and household income will also provide support to domestic spending, and non-residential investment is expected to recover as corporate profits remain healthy. For 2014 as a whole, the Japanese economy is expected to grow by 1.5%, similar to the pace of expansion in 2013.

Inflation in the US and Japan rose in Q2.

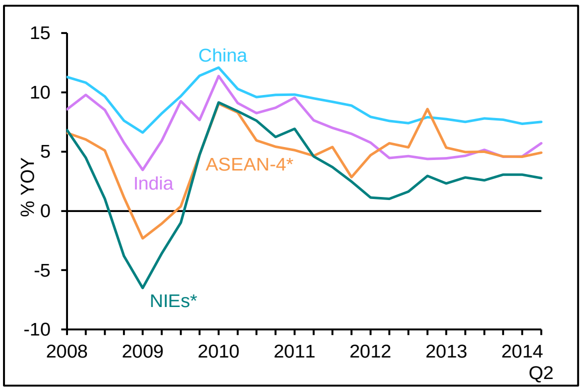


Source: Datastream

Headline inflation in the G3 rose in Q2. In the US, CPI inflation climbed to 2.1% y-o-y, from 1.4% in the previous quarter, as transportation costs were driven higher by energy prices. Meanwhile, headline inflation in Japan more than doubled to 3.6% between April and June, reflecting the 3% point consumption tax hike. In comparison, price increases in the Eurozone stayed muted as the region continued to grapple with disinflationary pressures stemming from sluggish domestic demand and excess capacity. On balance, CPI inflation in the G3 is expected to be contained, but will trend up modestly to 1.5% this year and further to 1.7% next year, amid improving demand conditions.

Growth in Asia ex-Japan was lifted by an upturn in exports in Q2, although domestic headwinds persisted in some economies

Growth in Asia ex-Japan firmed in Q2.



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, Thailand and the Philippines

Asia ex-Japan recorded faster GDP growth in Q2 2014, as a recovery in external demand shored up economic activity in the region. However, the upswing in trade was offset by sluggish domestic demand, particularly in Korea and Hong Kong, where growth was lacklustre. Similarly, growth slipped further in Indonesia as a result of tighter financial conditions. Nonetheless, the gradual recovery in the G3 and stabilisation of the Chinese economy should continue to buttress the region's exports for the rest of the year.

China regained some growth momentum in Q2 on the back of increased infrastructure spending and stronger external demand. Sequentially, the economy expanded by 2.0% q-o-q sa in Q2, from 1.5% in the previous quarter. Although real estate and manufacturing fixed asset investment (FAI) continued to slow, a ramp-up in public infrastructure works partially arrested the weakness in overall FAI. At the same time, China's exports resumed their expansion in Q2, helping to bolster industrial production. On the domestic front, retail sales increased at a stable pace, as robust purchases of mobile phones and daily necessities compensated partly for reduced spending on luxuries, amid an austerity campaign.

Nonetheless, high-frequency data suggest that China's recovery remains tentative. Industrial production, retail sales and FAI slowed down in July, alongside steeper declines in new home prices. The official manufacturing PMI also edged down in August from a 26-month high in July on a pullback in domestic and export orders, although it remained in expansionary territory. Given the government's recent focus on stabilising growth, however, targeted fiscal and monetary policy easing is likely be sustained and this should prop up domestic demand for the rest of the year. On balance, China's economy is projected to expand by 7.4% in 2014, before easing to 7.2% next year.

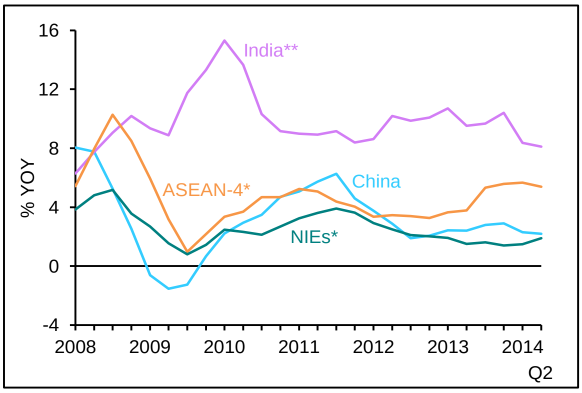
The Indian economy showed early signs of a pickup in Q2 2014. GDP growth came in at 5.7% y-o-y, up from 4.6% in the previous quarter, as a revival in the manufacturing sector and stronger government spending boosted economic activity. Investment spending increased by 7.0%—the strongest outcome in nine quarters. With the policy changes initiated by the new government resulting in a discernible improvement in investor sentiment, India's near-term prospects have brightened. For the fiscal year ending March 2015, overall GDP growth is projected to rise to 5.4%, compared to 4.7% in the previous year.

The NIEs were boosted by overseas shipments, but growth was held back by domestic headwinds. All three economies witnessed notable increases in merchandise exports in Q2 2014, but only Taiwan grew at a faster pace of 3.9% q-o-q saar. Korea's GDP growth slipped to 2.0% q-o-q saar as private spending retreated amid downbeat consumer sentiment following the Sewol ferry disaster. Hong Kong's output also contracted by 0.6% on an annualised sequential basis—the first decline since Q2 2011—as retail sales were hit by political uncertainty and lower spending by Chinese tourists. Nonetheless, growth in the NIEs is poised to pick up in H2 2014, in tandem with a steady recovery in the global economy and the launch of new consumer IT products. In Korea, domestic demand should also be lifted by recent pump-priming measures and monetary easing. Accordingly, GDP growth in the region is projected to rise to 3.3% this year, and further to 3.4% next year.

Meanwhile, the ASEAN economies remained generally resilient in Q2, as a pickup in exports provided some offset to softening domestic demand. Merchandise export growth recovered in most countries, led by stronger shipments to the US and the Eurozone. Indonesia, however, saw a decline in goods exports, owing to an export ban on unprocessed mineral ores. Domestic demand slowed as the effects of past rounds of monetary policy tightening filtered through more strongly. Consequently, Indonesia's GDP growth rate eased slightly to 5.1% y-o-y in Q2. In comparison, the Malaysian economy expanded by a stronger 6.4% y-o-y, supported by buoyant exports and investment. The Philippines also witnessed GDP growth of 6.4% y-o-y in Q2. Some slowdown in investment spending in Q2 was due in part to bottlenecks at the Manila port. Thailand's economy reverted to growth in Q2, expanding by a modest 0.4% y-o-y. Both private consumption and investment showed strong sequential upticks following the tentative restoration of political stability.

Growth in the ASEAN-4 economies is projected to moderate to 4.6% this year, from 5.0% in 2013, dragged down mostly by Thailand. Malaysia and the Philippines are expected to post solid growth of around 5–6% in 2014. Exports from these economies should rise, reflecting their significant exposures to recovering G3 markets, as well as a modest upswing in the global electronics industry. While further anticipated policy tightening will restrain domestic demand to some extent, the stimulus from exports will flow through to higher household incomes and business earnings, with positive effects on private consumption and investment respectively. In Indonesia, GDP growth is forecast to ease to 5–5.5% this year. Domestic demand will remain subdued amid a tight monetary policy, but the ongoing recovery in the global economy could deliver a boost to commodity exports. As Thailand's economy is expected to recover more decisively only towards the end of the year, a weak growth rate of 1–2% is projected for 2014 as a whole.

Headline inflation was stable in Asia ex-Japan.



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

CPI inflation in Asia ex-Japan was largely unchanged at 3.4% y-o-y in Q2. In China and India, headline inflation eased further alongside steady food and commodity prices. In ASEAN, however, consumer price increases stayed high at 5.4% y-o-y, reflecting the effects of subsidy rationalisation in Indonesia and Malaysia, as well as high food prices in the Philippines. However, inflation was subdued in Thailand, owing to a large negative output gap. In comparison, the average inflation rate in the NIEs rose slightly, mainly due to a spike in Taiwan's food prices. On balance, inflation in Asia ex-Japan is expected to moderate to 3.7% in 2014, before rising to 3.9% next year in tandem with stronger economic growth.

Table 1: Consensus Forecasts of GDP Growth

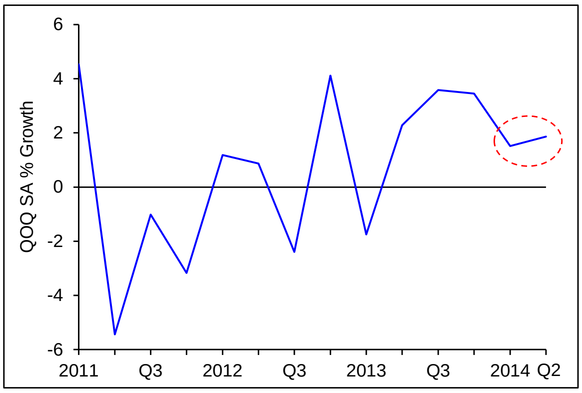
	2012	2013	Forecast 2014	Forecast 2015
	Percent			
Industrial				
US	2.3	2.2	2.1	3.1
Japan	1.5	1.5	1.5	1.2
Eurozone	−0.6	−0.4	1.0	1.5
UK	0.3	1.7	3.1	2.6
NIEs				
Hong Kong	1.5	2.9	3.0	3.2
Korea	2.3	3.0	3.6	3.7
Taiwan	1.5	2.1	3.5	3.6
ASEAN				
Indonesia	6.3	5.8	5.2	5.6
Malaysia	5.6	4.7	5.3	5.0
Thailand	6.5	2.9	1.2	4.2
Philippines	6.8	7.2	6.2	6.2
China	7.7	7.7	7.4	7.2
India*	4.5	4.7	5.4	6.2

Source: CEIC and Consensus Economics, Aug 2014
*Refers to fiscal year ending Mar

Growth in the global IT industry gathered pace in Q2 2014 on the back of a turnaround in US demand

Amid broadly supportive global economic conditions and the robust US GDP outturn in in Q2 2014, the global IT industry gained momentum in the quarter. Global chip sales grew by 1.9% q-o-q sa in Q2 2014, following the 1.5% q-o-q sa expansion in the preceding quarter.

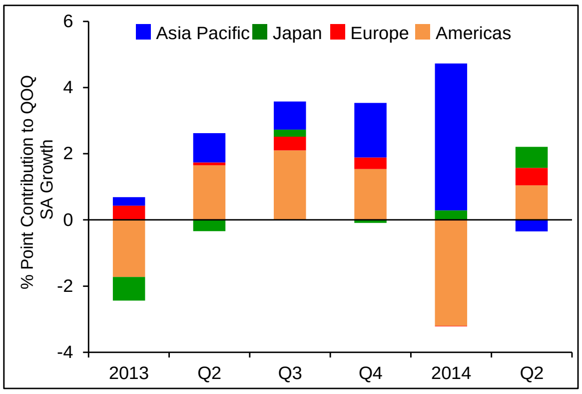
Global chip sales gathered pace in Q2 2014.



Source: Semiconductor Industry Association and EPG, MAS estimates

The pickup in chip sales largely reflected a turnaround in the US market, as business confidence and IT spending rebounded following the weather-induced dip in Q1 2014. Notably, chip sales to the Americas rose by 5.1% q-o-q sa and accounted for more than half of overall growth in Q2 2014. The corporate segment was a key source of support, as evident from the brisk 67% q-o-q sa surge in new orders for PCs in Q2. Notably, major US IT-firms such as Intel and Micron recently reported higher earnings on the back of stronger demand for PCs. Meanwhile, demand in the other G3 economies provided some uplift to chip sales, with revenues in Europe and Japan registering modest growth.

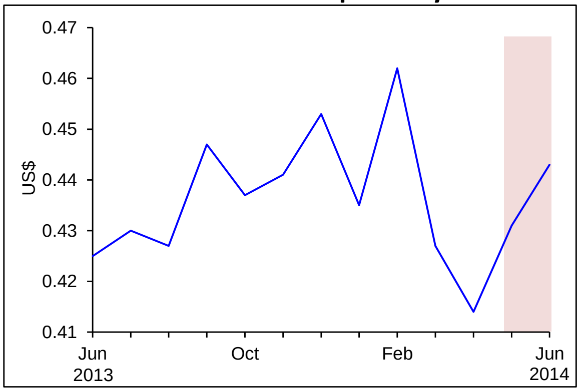
Stronger demand in the developed economies supported chips sales growth.



Source: Semiconductor Industry Association and EPG, MAS estimates

The demand-supply dynamics in the semiconductor industry improved appreciably in Q2. The dissipation of the inventory overhang, alongside the consolidation of major memory players in the sector, should help to stabilise chip supply. Indeed, against resilient demand and steady supply conditions, semiconductors prices rose modestly in May–Jun 2014.

The average global selling price of semiconductors inched up in May–Jun 2014.



Source: WSTS

The IT industry is expected to be marked by bright spots in the quarters ahead. In the consumer electronics segment, the highly anticipated product launches of flagship brands in the second half of the year, such as Apple's iPhone and iPad series, alongside a number of lower-end smartphones, are anticipated to bolster electronics retail spending. Against a gradual improvement in global economic conditions, the expected rise in business confidence and tightening capacity utilisation should lend some support to corporate spending as well. Indeed, the semiconductor equipment book-to-bill ratio, a leading indicator of IT corporate demand, posted a firm reading of 1.07[1] in July. For the year as a whole, worldwide chip sales are expected to grow by slightly over 8%.

[1] A semiconductor equipment book-to-bill ratio of 1.07 means that $107 worth of new orders were received for every $100 of product billed in a month. A book-to-bill ratio of above 1 implies expansionary demand.

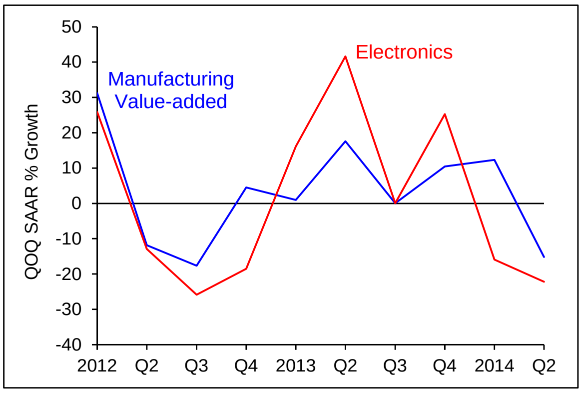
B. Domestic Developments

A decline in manufacturing activity constrained the Singapore economy in Q2 2014

The Singapore economy grew by 0.1% q-o-q saar in Q2 2014, following a modest expansion of 1.8% in the preceding quarter. The muted performance stemmed largely from weakness in the manufacturing sector, which was in turn due to the steep decline in the electronics cluster. Abstracting from the pullback in IT production, the rest of the domestic economy saw some improvement, supported in part by firmer demand in US and China in Q2. Most industries—notably wholesale trade and financial services—recorded a pickup in activity following the soft patch in Q1 2014.

The manufacturing sector contracted sharply by 15.2% q-o-q saar in Q2 2014, reversing the solid gains of the preceding quarter. Overall activity was largely weighed down by a decline in the electronics cluster, which was in part due to a firm-specific factor.[2] Beyond the electronics cluster, the transport engineering clusters experienced some pullback in output as well, as revenue recognition[3] for major projects may have been deferred in the quarter. In comparison, the biomedical cluster saw a further increase in production of higher value active pharmaceutical ingredients in Q2 2014, following the marked expansion in Q1.

Manufacturing value-added fell sharply in Q2, weighed down by a retraction in electronics production.



Against these dynamics, the trade-related services industries turned in a mixed performance in Q2 2014. Although the overall downshift in production activities weighed on sea and air cargo volumes, wholesale trade activity reverted to positive territory in Q2 2014 on the back of a turnaround in regional trade flows. Notably, re-exports to China rebounded strongly in Q2 2014, supported mainly by the electronics segment. In fact, this segment has been the main driver of re-export flows to China since 2013. The rising

[2] EDB public statement: http://www.edb.gov.sg/content/edb/en/news-and-events/news/2014-news/monthly-manufacturing-performance-april-2014.html

[3] Revenue recognition for ship and rig building projects in the marine and offshore segment are similar to construction projects and may be subject to quarterly variances over the construction cycle. Specifically, revenues may be accrued or deferred in accordance with project milestones.

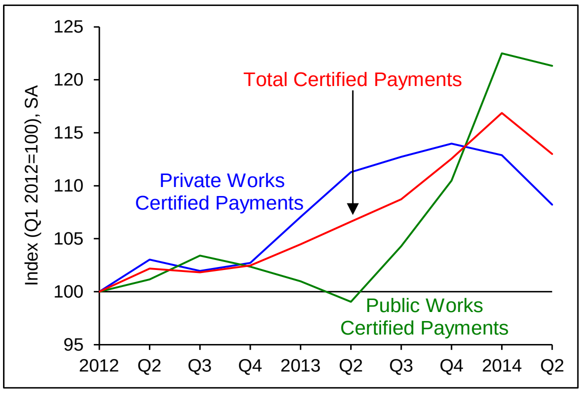
prominence of electronics re-exports to China reflects Singapore's evolving role in the regional production chain. Increasingly, electronics products manufactured in the region are sent to Singapore for testing, packaging and distribution, before onward shipment to China for further assembly or final consumption. These functions, together with other activities such as R&D, sales and marketing, have grown in tandem with Singapore's regional hubs/HQs role for the major MNCs in the electronics space.

The financial services sector also saw a significant step-up in momentum in Q2 2014, registering growth of 11.6% q-o-q saar following the 4.6% expansion in the preceding quarter. The uptick in activity was underpinned by a robust performance in the financial intermediation cluster. Despite the moderation in domestic non-bank loan volumes, net interest income growth remained healthy, alongside some increase in borrowing rates. In the offshore lending segment, firm credit growth was sustained into Q2, on the back of a more solid economic outturn in China in the same quarter. The insurance industry also fared well in Q2, with the life insurance segment recording a 15.4% q-o-q rise in new business premiums on the back of strong demand for single premium policies. In contrast, tepid trading activity on the local bourse was a drag on growth. Average daily turnover volume fell by 26.3% q-o-q in Q2, in part reflecting cautious investor sentiment amid geopolitical tensions in Ukraine, Thailand and Iraq.

In comparison, tourism-related activities registered a muted performance, as the disappearance of flight MH370 in March and political uncertainties in Thailand cast a pall over the regional tourism industry. Tourist arrivals from China in particular, fell sharply by 43.7% q-o-q in Q2 2014. In turn, overall visitor arrivals contracted by 5.7% q-o-q sa over the same period. Consequently, hotel occupancy rates dipped from 86.7% in Q1 to 83.9% in Q2 2014.

Meanwhile, activities reliant on domestic demand saw modest growth. The construction sector posted a marginal increase of 0.3% q-o-q saar in Q2 2014, following a 0.5% contraction in Q1. While the public segment generally held steady on the back of stream of building works—such as the Ng Teng Fong and Sengkang General Hospital—the private segment waned with the cooling private residential market. Despite continued sluggishness in the real estate business services, growth in the corporate-facing services picked up in Q2 2014. These gains largely reflected a stronger demand for IT and other administrative & support services.

Construction activities was resilient in Q2, supported by ongoing public works.



Source: EPG, MAS estimates

However, growth in the consumer services was subdued. Following the modest expansion in Q1 2014, overall retail sales volume registered a contraction of 0.5% q-o-q sa in the recent quarter. Whilst motor vehicle sales were brisk on the back of new model launches and a dip in COE prices, discretionary spending in other segments fell due in part to the decline in visitor arrivals.

The domestic economy is expected to expand by 2.5–3.5% in 2014

Notwithstanding the moderation in growth momentum in the first half of 2014, conditions are broadly supportive of a modest growth trajectory for the Singapore economy for the rest of the year. GDP growth in Singapore is forecast to come in at 2.5–3.5% in 2014. Gradual improvements in the global economy should provide support to Singapore's external-oriented industries. Sectors that are more closely tied to demand in the advanced economies, such as the financial and trade-related services, are expected to be the largest recipients of positive spillovers from the G3-led recovery. Other services industries with sizable exposure to emerging Asia, such as tourism[4] and general insurance[5], would also be supported by steady growth in the ASEAN economies. Meanwhile, the domestic-oriented sector is expected to be resilient, buttressed by public sector-driven infrastructure expansions. These include the construction of the Thomson and Eastern Region MRT lines; healthcare facilities such as hospitals at the Jurong Lakeside District; and 40,000 new HDB homes in the Tampines North, Punggol Matilda and Bidadari regions.

There are potential external and domestic headwinds to growth. Financial market volatility in response to the pace of exit from QE and political instability in various parts of the world—such as in Ukraine and the Middle East—could weigh on investor and business sentiments in the near term. An escalation of conflicts in the oil-producing regions could also pose upward pressures on oil prices, which would in turn weigh on global growth. Ongoing policy adjustments in China may also have spillover consequences on growth in the region.

On the domestic front, the restructuring towards productivity-led growth may generate further transitional frictions—notably through higher business costs—and firms will face continued margin pressures. In turn, this could limit the extent of the cyclical upturn in the short term.

[4] In 2013, 77% of visitors who arrived in Singapore were from the Asian region.

[5] In 2012, Asia accounted for 60% of Singapore's total insurance exports. The insurance business in Singapore comprises life insurance which is more domestic-oriented and general insurance which is more external-oriented. The general insurance business provides coverage for a wide range of risks such as fire, marine and aviation, motor, workmen's compensation and public liability.

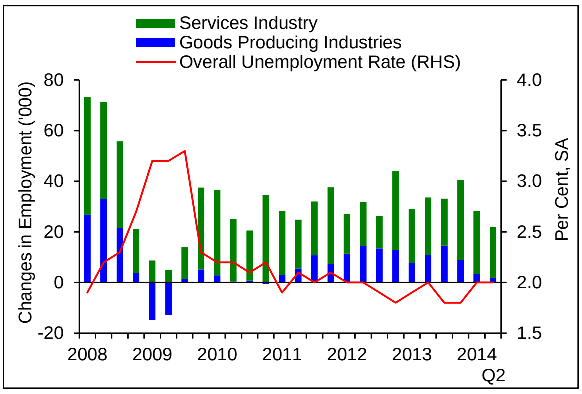
C. Labour Market and Consumer Prices

Job creation slowed in Q2 2014

Preliminary estimates show that overall employment gains moderated to 22,000 in Q2 2014 from 28,300 in the previous quarter, with job creation slowing across all sectors. The manufacturing sector shed 2,600 workers, following the 1,400 decline in headcount a quarter earlier. Construction added 4,300 jobs, slightly lower than the 4,700 in Q1, as several major projects such as the Sports Hub and Orchard Gateway neared or reached completion. At the same time, the services sector expanded employment by 20,100, significantly lower than the 24,900 increase in the previous quarter, given the tight labour market.

The seasonally-adjusted overall unemployment rate stayed low at 2.0% in Q2 2014, while the resident unemployment rate inched down slightly to 2.8%. Wage growth eased to 2.7% y-o-y from 3.2% in Q1 2014, but this was due to weaker pay adjustments in the public administration & defence sector. Excluding this sector, wage growth was slightly stronger in Q2 compared to Q1.

Overall unemployment rate was steady in Q2.



Going forward, labour demand is expected to be firm, as the economic environment stays generally favourable. According to the Manpower Group's latest survey for Q3 2014, more firms in the manufacturing sector plan to increase headcount, while hiring sentiments remain relatively strong in most other segments. However, the tight labour market will constrain actual employment growth and continue to exert upward pressure on wages.

MAS Core Inflation edged up, while CPI-All Items inflation was volatile owing to base effects from car prices

MAS Core Inflation, which excludes the cost of accommodation and private road transport, edged up to 2.2% y-o-y in Q2 and July, from 2.0% in Q1, as domestic cost increases continued to pass through to consumer prices. CPI-All Items inflation was volatile due to base effects associated with car prices. It rose from 1.0% in Q1 to 2.4% in Q2 2014, before falling to 1.2% in July.

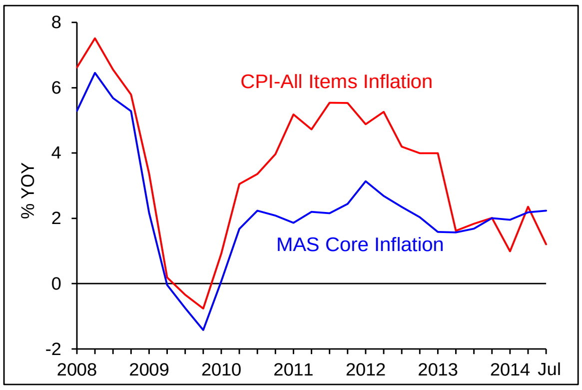
Food prices rose at a faster pace, while oil-related items were no longer a drag on inflation. Food inflation was 3.1% in Q2 and 3.0% in July, up from 2.7% in Q1, due to steeper price increases for both prepared meals and non-cooked food. Meanwhile, prices of oil-related items rose by 1.7% in Q2 and 1.3% in July on account of higher petrol pump prices, after declining in the previous five quarters.

Services inflation was firm at 2.4% in Q2 and 2.5% in July, similar to the 2.5% in Q1 2014, even with the high base last year due to administrative measures.[6] Abstracting from the impact of these measures, services inflation would have been 0.3% point higher in Q2 and July compared to Q1. Notably, July's medical treatment cost and school & tuition fees saw the fastest pace of increase this year amid rising domestic business cost.

Private road transport cost has been volatile. It fell by 4.5% y-o-y in Q1 2014, rose by 5.5% in Q2 and then declined by 1.6% in July. The volatility was largely due to base effects associated with fluctuations in COE premiums.[7] Meanwhile, accommodation cost inflation moderated from 2.0% in Q1 to 0% in July given the soft housing rental market.

MAS Core Inflation is projected to stay elevated at 2–3% in 2014. External price developments should be relatively benign for the rest of the year, notwithstanding some volatility in global oil prices recently. Supply buffers in the major commodity markets continue to be ample, and inflation in most of Singapore's key import source countries is expected to remain modest. Domestic cost pressures, particularly stemming from a tight labour market, are likely to remain the primary source of inflation.

MAS Core Inflation firmed in recent months while CPI-All Items inflation was volatile.



CPI-All Items inflation is projected to come in at 1.5–2.0% in 2014. CPI-All Items inflation is expected to ease for the rest of 2014 due to lower contributions from imputed rentals on owner-occupied accommodation (OOA) and car prices. For the whole year, imputed rentals are likely to add negligibly to overall inflation while car prices should pose a slight drag.

[6] Household services fees increased significantly in 2013, mainly from the change in policy that made it mandatory for employers to give foreign domestic workers a weekly rest day or compensation in lieu, while medical insurance was costlier on account of enhanced coverage under the MediShield scheme.

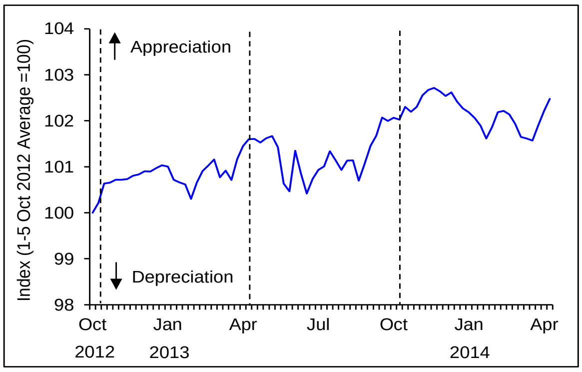
[7] Car COE premiums reached a high of over \$90,000 in January 2013, but corrected sharply to slightly above \$60,000 in Mar–Apr 2013 following the implementation of the financing restrictions on motor vehicle loans. Premiums subsequently rebounded to over \$70,000 in June last year.

D. Macroeconomic Policies

Monetary Policy: In April 2014, MAS reaffirmed the prevailing monetary policy stance

The Singapore economy is projected to grow at a moderate pace in 2014. Global growth will be anchored by the recovery in the advanced economies. Alongside a modest turnaround in the global IT cycle, this should provide support to regional demand and thereon to Singapore's external-oriented industries as a whole. Meanwhile, the domestic-oriented sectors are expected to remain resilient, supported by ongoing capacity expansions in the healthcare and education segments, and construction of transport infrastructure. Nevertheless, the overall growth outlook remains modest, as GDP growth is likely to be capped by binding labour market constraints amid economic restructuring. For the full year, GDP growth should come in at 2–4%.

MAS maintained the gradual and modest appreciation path of the S$NEER policy band in April 2014.



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Domestic core inflationary pressures are likely to persist in 2014. Aggregate demand in the Singapore economy is expected to increase in line with the pickup in the global economy. At the same time, amid high levels of resource utilisation in the labour market, wage pressures will persist and the pass-through to consumer prices is likely to continue. MAS Core Inflation is thus expected to pick up to 2–3% in 2014 from 1.7% in 2013.

MAS thus kept the S$NEER policy band on a modest and gradual appreciation path in April 2014, with no change to its slope, level or width. This policy stance was assessed to be appropriate for containing domestic and imported sources of inflation, and ensuring medium-term price stability as a basis for sustainable growth.

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 (1.0% of GDP), higher than the $2.4 billion projected. This was due to stronger-than-expected revenues from stamp duties and 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 to 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 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 also 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 an incremental step to enhance healthcare affordability for all Singaporeans, by 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 from 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	15.5	57.1	15.1	59.5	15.3
Total Expenditure	49.0	13.6	52.3	13.9	56.7	14.6
Operating Expenditure	36.4	10.1	40.4	10.7	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**	**1.0**	**(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)	716.5	Literacy Rate* (%)	96.5
Total Population ('000)	5,399.2	Real Per Capita GDP (US$)	53,869
Labour Force ('000)	3,443.7	Gross National Savings (% of GNI)	48.5
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	18.8	Private Consumption	37.3
Wholesale & Retail Trade	18.5	Public Consumption	10.3
Business Services	15.4	Private Gross Fixed Capital Formation	21.7
Finance & Insurance	11.9	Public Gross Fixed Capital Formation	4.4
Transportation & Storage	6.9	Increase in Stocks	3.2
Construction	4.9	Net Exports of Goods & Services	23.2
Information & Communications	3.9		
Accommodation & Food Services	2.2		

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	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	Jun-14	Jul-14
GDP at current prices (S$ bil)	358.5	372.8	91.0	92.5	93.2	96.2	95.5	93.9	na	na
GDP (US$ bil)	286.9	297.9	73.5	74.0	73.5	77.0	75.3	75.0	na	na
Real GDP Growth (YOY % change)	2.5	3.9	1.5	4.0	5.0	4.9	4.8	2.4	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	1.9	10.2	0.7	6.9	1.8	0.1	na	na
By Sector (YOY % change):										
Manufacturing [1/]	0.3	1.7	-6.3	0.8	5.3	7.0	9.9	1.5	0.8	3.3
Electronics [2/]	-11.3	3.5	-11.1	0.3	7.4	19.4	10.4	-4.7	-4.4	-2.9
Non-electronics [2/]	6.2	0.9	-4.2	1.0	4.3	2.5	9.7	4.1	3.1	6.0
Finance & Insurance	1.8	10.8	13.2	11.1	8.3	10.5	5.7	5.5	na	na
Business Services	5.5	4.3	4.1	4.5	4.3	4.3	3.3	2.3	na	na
Construction	8.6	6.1	5.4	6.1	5.6	7.3	6.4	4.4	na	na
Transportation & Storage	5.2	3.2	-0.8	2.6	5.8	5.1	5.5	2.0	na	na
Information & Communications	6.0	4.3	4.5	4.4	4.6	3.6	2.6	2.5	na	na
Wholesale & Retail Trade	-0.1	6.1	4.6	6.8	6.4	6.4	3.8	1.7	na	na
Accommodation & Food Services	2.3	4.5	4.2	5.4	5.0	3.4	2.1	0.5	na	na
By Expenditure Component (YOY % change):										
Consumption	3.1	4.1	5.0	3.8	3.3	4.2	-1.2	3.6	na	na
Private	3.9	2.6	2.9	2.8	2.6	2.1	2.0	1.3	na	na
Public	-0.1	9.9	11.0	9.2	5.9	12.9	-9.9	15.4	na	na
Gross Fixed Capital Formation	8.9	-1.9	-4.6	-1.8	3.4	-4.6	-1.1	-1.8	na	na
Private	8.9	-2.4	-6.1	-1.7	4.4	-6.1	-4.5	-5.6	na	na
Public	8.6	0.3	1.9	-2.0	-1.1	2.0	13.1	17.5	na	na
External Demand	1.5	3.6	-2.7	4.3	6.8	6.0	7.1	2.5	na	na
TRADE										
Total Exports, fob (YOY % change)	-0.9	0.6	-8.7	-0.2	5.8	6.0	7.6	2.7	4.0	-1.6
Non-Oil Domestic Exports	0.5	-6.0	-12.5	-5.2	-3.6	-2.1	-1.0	-3.4	-4.6	-3.3
Re-Exports	-3.5	6.2	-6.1	9.1	7.9	14.2	12.9	2.3	7.9	-1.1
Total Imports, cif (YOY % change)	3.2	-1.6	-9.3	-4.0	5.9	1.4	6.8	3.0	0.9	-3.5
WAGE-PRICE INDICATORS										
Unemployment Rate (SA,%)	2.0	1.9	1.9	2.0	1.8	1.8	2.0	2.0	na	na
Average Nominal Wages (S$ per month)	4,433	4,622	4,948	4,329	4,212	4,998	5,108	4,445	na	na
Consumer Price Index Inflation (YOY % change)	4.6	2.4	4.0	1.6	1.8	2.0	1.0	2.4	1.8	1.2
MAS Core Inflation (YOY % change)	2.5	1.7	1.6	1.6	1.7	2.0	2.0	2.2	2.1	2.2
FINANCIAL INDICATORS [3/]										
S$ Exchange Rate Against: (end-period)										
US Dollar	1.2221	1.2653	1.2436	1.2652	1.2572	1.2653	1.2605	1.2490	1.2490	1.2458
100 Japanese Yen	1.4214	1.2061	1.3205	1.2797	1.2834	1.2061	1.2252	1.2326	1.2326	1.2122
Euro	1.6151	1.7452	1.5892	1.6535	1.6975	1.7452	1.7328	1.7041	1.7041	1.6692
Interest Rates (end-period, % p.a.)										
3-month Fixed Deposit Rate	0.14	0.14	0.14	0.14	0.14	0.14	0.15	0.14	0.14	0.14
3-month S$ SIBOR	0.38	0.40	0.38	0.37	0.37	0.40	0.41	0.40	0.40	0.40
Prime Lending Rate	5.38	5.38	5.38	5.38	5.38	5.38	5.35	5.35	5.35	5.35
Money Supply (end-period)										
Broad Money, M2 (YOY % change)	7.2	4.3	8.5	9.1	7.5	4.3	2.0	0.6	0.6	1.7
Straits Times Index (end-period)	3,167.1	3,167.4	3,308.1	3,150.4	3,167.9	3,167.4	3,188.6	3,255.7	3,255.7	3,374.1
YOY % change	19.7	0.0	9.9	9.4	3.5	0.0	-3.6	3.3	3.3	4.7
GOVERNMENT BUDGET [4/]										
Operating Revenue (S$ mil)	54,284	57,054	13,531	15,522	15,475	12,525	13,498	15,868	na	na
Total Expenditure (S$ mil)	47,271	52,329	17,323	9,738	11,645	13,624	16,722	10,920	na	na
Operating Expenditure	34,810	40,390	13,698	6,788	9,240	10,664	13,033	7,698	na	na
Development Expenditure	12,461	11,939	3,625	2,949	2,405	2,960	3,689	3,222	na	na
Primary Surplus/Deficit (S$ mil)	7,013	4,725	-3,792	5,785	3,831	-1,099	-3,224	4,948	na	na
% of GDP	2.0	1.3	-4.2	6.3	4.1	-1.1	-3.4	5.3	na	na
BALANCE OF PAYMENTS										
Current Account Balance (% of GDP)	17.5	18.3	15.0	20.6	20.1	17.5	17.5	20.1	na	na
Goods Balance	22.1	22.8	18.7	24.1	24.0	24.0	21.7	25.2	na	na
Services Balance	0.3	0.3	0.8	0.2	0.8	-0.7	0.1	-0.3	na	na
Primary Income Balance	-2.4	-2.4	-2.2	-1.5	-2.4	-3.5	-1.9	-2.5	na	na
Secondary Income Balance	-2.6	-2.3	-2.3	-2.3	-2.3	-2.3	-2.4	-2.4	na	na
Capital & Fin Account Balance (% of GDP)	-8.1	-12.6	-4.7	-14.6	-20.4	-10.5	-16.7	-16.0	na	na
Direct Investment	16.6	12.4	14.9	12.6	10.6	11.4	15.1	8.4	na	na
Portfolio Investment	-22.7	-15.8	-22.0	-4.2	-4.5	-32.0	-23.0	-28.8	na	na
Financial Derivatives	5.4	-0.4	0.4	-0.9	-0.4	-0.8	0.3	-0.5	na	na
Other Investment	-7.5	-8.7	1.9	-22.1	-26.1	10.9	-9.1	4.9	na	na
Overall Balance (% of GDP)	9.1	6.1	9.6	5.8	1.0	8.0	0.5	5.0	na	na
Official Foreign Reserves (US$ mil) [5/]	259,307	273,065	258,186	259,816	268,103	273,065	272,941	277,967	277,967	273,658
Months of Imports	8.2	8.8	8.3	8.4	8.6	8.8	8.7	8.8	8.8	8.7

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