Monetary Authority of Singapore

RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

3 December 2014

	2013			2014		
	Q3	Q4	Full Year	Q1	Q2	Q3
Real Sector						
Real GDP Growth, y-o-y %	5.0	4.9	3.9	4.8	2.3	2.8
Real GDP Growth, q-o-q saar %	0.7	6.9	-	1.9	−0.3	3.1
Index of Industrial Production, y-o-y %	5.2	7.1	1.7	9.6	1.3	1.8
Non-oil Domestic Exports, y-o-y %	−3.6	−2.1	−6.0	−1.0	−3.4	1.1
Labour Market and Prices						
Unemployment Rate, sa, % (Average)	1.8	1.8	1.9	2.0	2.0	1.9
CPI-All Items Inflation, y-o-y %	1.8	2.0	2.4	1.0	2.4	0.9
Wage Growth, y-o-y %	3.3	4.7	4.3	3.2	2.7	2.4

The Singapore economy saw an uptick in Q3 2014

GDP rose by 3.1% q-o-q saar (quarter-on-quarter seasonally-adjusted annualised rate) in Q3 2014, reversing the contraction of 0.3% seen in the previous quarter. The pickup was largely on account of an improvement in the manufacturing sector, which benefitted from the uplift in the US economy. In comparison, some external-oriented services industries experienced a mild slowdown on the back of softer regional demand.

The global economy is expected to strengthen modestly in 2015, although divergences across regions will persist

Growth in the G3 economies picked up overall in Q3 2014, driven by a robust performance in the US. However, activity remained subdued in the Eurozone, and the Japanese economy continued to be weighed down by the consumption tax hike. Meanwhile, Asia ex-Japan's growth held steady as an export pickup in the NEA-3 offset a mild slowdown in China and India. As the US embarks on a more assured growth path, a modest acceleration in global growth can be expected in 2015.

Moderate domestic economic growth is expected to continue into next year

With the global outlook remaining generally supportive, growth in the domestic economy will continue apace. Overall, GDP is projected to grow at around 3% in 2014 and 2–4% in 2015. 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 firm

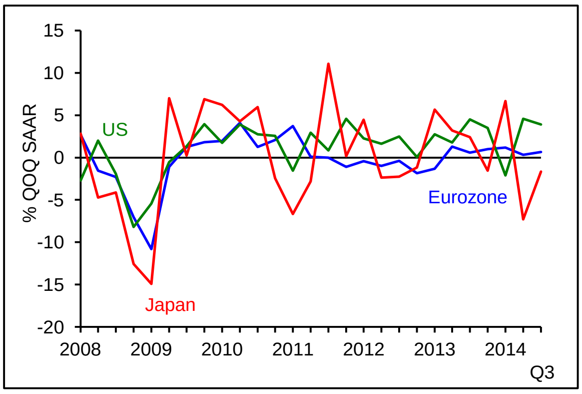
Core inflation will continue to be driven largely by rising domestic costs, while external price developments are expected to stay generally benign. Domestic cost pressures, especially stemming from the tight labour market, will persist and filter through to prices of various services items, particularly those for which demand conditions remain firm. MAS Core Inflation is projected to average 2–2.5% in 2014 and 2–3% in 2015. CPI-All Items inflation is expected to stay subdued amid anticipated increases in the supply of car COEs and newly-completed housing units, and come in at 1–1.5% in 2014 and 0.5–1.5% in 2015.

A. External Developments

Overall growth in the G3 improved in Q3 2014, despite regional divergences

Overall GDP growth in the G3 strengthened to 1.5% q-o-q saar in Q3 2014 from 0.4% in the previous quarter, underpinned by continued vigour in the US economy. In the Eurozone, poor economic sentiment and weak investment, alongside heightened geopolitical tensions, led to another quarter of sub-par growth. Meanwhile, the drag exerted by the consumption tax hike in April weighed further on Japan's household spending and residential investment. Nevertheless, G3 growth as a whole is expected to pick up modestly in 2015, led by a more decisive economic upswing in the US.

G3 growth remained uneven in Q3.



Source: Datastream and CEIC

The US economy continued to expand in Q3 2014, albeit at a more moderate pace. GDP grew by 3.9% q-o-q saar in Q3, building on the 4.6% surge in activity in the previous quarter. Private economic activity advanced at a relatively steady rate, while public expenditure rose, particularly on defence. In Q3, household consumption grew by 2.2% q-o-q saar, on the back of stronger consumer sentiment. Meanwhile, growth in fixed capital investment by firms dipped from 9.5% q-o-q saar in Q2 to 6.2% in Q3, which together with sluggish residential construction and lower inventory replenishment, made a joint contribution of only 0.9% point to overall growth, compared to 2.9% points in the quarter before. In contrast, government spending increased for the second straight quarter, accounting for 0.8% point of growth—the largest contribution since Q2 2009. Exports softened amid tepid external demand conditions, but import demand also weakened, which resulted in a small positive contribution from net trade.

US growth momentum is expected to be maintained for the rest of the year. Leading indicators such as the ISM manufacturing PMI increased to 59.0 in October from 56.6 in September, supported by stronger employment. While the October non-manufacturing PMI retreated to 57.1 from 58.6 the month before, it remained firmly in expansionary territory. Recent data also suggest that a more sustainable recovery is taking place in the labour market—employment growth averaged 751,000 over Q2 and Q3 2014, compared to 583,000 in 2013. While payroll increases slowed to 214,000 in October, this outcome is still consistent with a steady underlying improvement in labour demand, even as businesses' investment spending is expected to stay firm. Higher investment is in turn predicated on continued growth in household spending—the University of Michigan Consumer Sentiment Index rose for the fourth consecutive month to 89.4 in November. However, the Conference Board Consumer Confidence Index in November retreated to 88.7 from 94.1 the month before, as consumers moderated their optimism. Even so, income expectations were unchanged and lower oil prices should help to boost spending in the coming quarters. For 2014 as a whole, US GDP growth is expected to come in at 2.2%, before picking up to 3% in 2015.

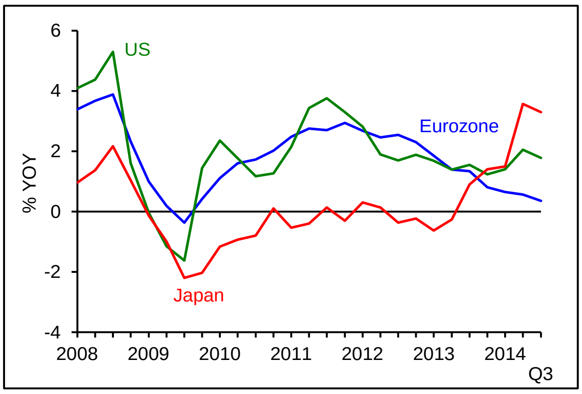
The Eurozone registered another quarter of mediocre growth in Q3. GDP growth was sub-par at 0.6% q-o-q saar, but this outcome constituted an improvement from the marginal 0.3% gain in Q2. The relatively better showing was mainly due to more favourable growth outturns in Germany and France, following contractions in the previous quarter. Supported by higher government spending and inventory restocking, GDP growth recovered to 1.1% q-o-q saar in France, the fastest pace in five quarters. The German economy saw a more feeble expansion of 0.3% in Q3, while Italy relapsed into recession with a GDP contraction of 0.6%. Spain maintained its position as the fastest growing major Eurozone economy by virtue of an output expansion of 2%.

The recent loss of growth momentum in the Eurozone has spurred monetary authorities to introduce further easing measures. High-frequency indicators have weakened discernibly since Q2, with the deterioration especially pronounced in the manufacturing sector. The Eurozone Manufacturing Output PMI stood at 51.2 in November, significantly lower than the 56.5 reading seven months ago. The fragility of Eurozone growth, which has become increasingly apparent, has compelled the ECB to take further policy actions. On top of the credit easing measures and private sector asset purchases announced in June and September respectively, the ECB indicated that it would initiate active management of its balance sheet, with a view towards inflating it to €3 trillion—the size that prevailed in early 2012. With the impact of policy easing set to filter through gradually to the real economy, the Eurozone region is envisaged to grow by 0.8% in 2014 and 1.1% in 2015.

In Japan, the economy contracted for a second consecutive quarter in Q3 following April's consumption tax hike. After a downwardly revised 7.3% plunge in Q2 2014, GDP shrank further by 1.6% q-o-q saar in Q3. However, the weakness in the headline GDP number was mostly attributable to a sharp decline in inventory investment, which subtracted 2.6% points from overall growth. Stripping out inventories and private investment, the other demand components all contributed positively to growth, in a sign that the economy could be recovering gradually from the effects of the consumption tax rise.

Near-term growth in Japan is likely to remain subdued. While the reduction in inventory in Q3 could pave the way for stronger production in the quarters ahead, durable goods consumption and residential investment are likely to take longer to fully recover. Business investment has also been sluggish, given the subdued demand outlook even with the significant depreciation of the yen. On balance, Japan's GDP growth is projected to dip to 1% in 2014 before recovering to 1.3% in 2015.

Inflation in the G3 economies eased in Q3.

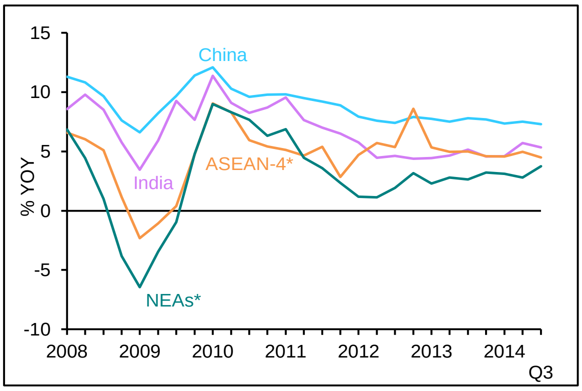


Source: Datastream and CEIC

CPI inflation in the G3 softened in tandem in Q3. US headline and core CPI inflation moderated to 1.8% y-o-y in Q3, from 2.1% and 1.9% respectively in Q2, as the pass-through of earlier increases in energy prices to transportation waned. Reflecting in part softer global oil prices, CPI inflation in Japan declined to 3.3% y-o-y in Q3 from 3.6% in the preceding quarter, while in the Eurozone, inflation fell to the exceptionally low level of 0.4% y-o-y, from 0.6% in Q2. Core inflation in the Eurozone was also muted, at 0.8% in Q3. Overall, the headline inflation rate in the G3 should average 1.4% in both 2014 and 2015 even as demand conditions firm up, given the still substantial slack in the Eurozone and Japanese economies.

Asia ex-Japan recorded stable growth in Q3, despite mild slowdowns in China and India

Asia ex-Japan growth held steady.



Source: CEIC and EPG, MAS estimates

* Regional groupings are weighted by Singapore's non-oil domestic exports (2009–11 average)

Note: NEAs refers to Hong Kong, Korea and Taiwan while ASEAN-4 refers to Indonesia, Malaysia, Thailand and the Philippines

GDP growth in Asia ex-Japan held steady in Q3 2014, as the region's two largest economies, China and India, decelerated slightly on account of weaker domestic demand. A pickup in external demand, however, provided some support, as exports of China, the NEA-3 economies and Malaysia benefitted from stronger US imports. However, commodity exports from the ASEAN-4 economies were dampened by weak demand and falling prices. Overall, growth in the Asia ex-Japan region is expected to pick up modestly in 2015, as a gradual and more even recovery across the G3 offsets weaker demand from China.

China's pace of economic expansion eased in Q3, amid an intensifying property downturn. Overall GDP rose by 7.3% y-o-y in Q3, down from 7.5% in the previous quarter. The confluence of headwinds produced by an ongoing anti-corruption campaign, excess industrial capacity and property market weakness resulted in Chinese industrial output, fixed asset investment and retail sales all slowing down in tandem. These headwinds were only partially mitigated by a rise in external demand for Chinese goods, with exports surging by 13% y-o-y in Q3 on the back of stronger shipments to the US and European Union.

October's data indicated further softness in economic activity, which led to an unexpected easing of monetary policy. Industrial production growth slipped to 7.7% y-o-y in October, the slowest pace since April 2009, amid accumulating inventories. Meanwhile, new home prices continued to slide, with 69 out of 70 cities registering m-o-m price declines, after housing floor space sold slumped by 14.2% y-o-y in Q3. In late November, China's central bank cut interest rates for the first time in more than two years, the latest and most significant move in a series of recent policy easing measures. These countercyclical initiatives should help to support domestic demand while the Chinese economy undergoes structural reforms. On balance, China's economy is projected to expand by 7.4% in 2014, before easing to 7.1% next year.

The NEA-3 economies registered faster growth in Q3 on the back of robust electronics exports. On average, GDP growth rebounded to 4.9% q-o-q saar, from 1.2% in Q2, as new IT product launches buttressed the region's electronics exports. Further, Korea's economy gained traction due to the pump-priming measures rolled out in July. Meanwhile, Taiwan's GDP grew at a slightly slower pace in Q3, as consumer spending pulled back, in part due to food safety concerns. In Hong Kong, GDP growth rebounded to 6.9% q-o-q saar in Q3, from −0.6% in Q2, fuelled by a bounce back in private consumption. Nonetheless, going into next year, growth in the region could be restrained by softer domestic demand in China, notwithstanding firmer G3 growth. Looking ahead, GDP growth is projected to come in at 2.9% this year, and rise further to 3.2% next year.

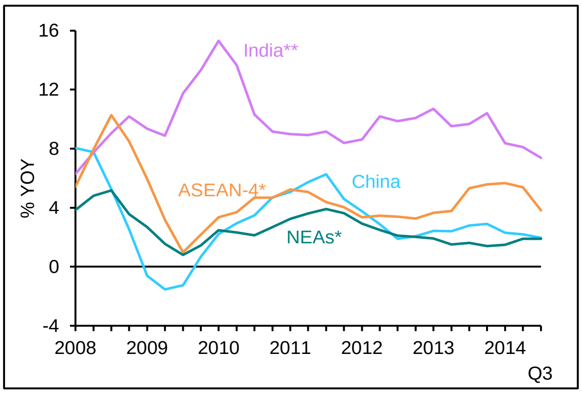
Growth in the ASEAN-4 economies stayed firm in Q3 on account of resilient domestic demand, which helped to offset a weaker export performance. In Indonesia, GDP growth was maintained at around 5% y-o-y, undergirded by sustained strength in consumption. While the effects of past rounds of monetary policy tightening continued to weigh on investment activity, this was partially offset by a normalisation of government expenditure after a delay in Q2 arising from budget revisions. Following an exceptional H1, when growth averaged 6.3%, the Malaysian economy slowed to 5.6% y-o-y in Q3. Being the most open economy among the ASEAN-4 countries and a key commodity producer, Malaysia was most affected by weaker-than-expected G3 growth, the slowdown in the Chinese economy, and the slump in global commodity prices. Meanwhile in Thailand, private consumption improved further in line with a revival of consumer sentiment, while investment has started to turn around as well. The pickup in domestic demand more than compensated for a continued contraction in exports, lifting Thailand's GDP growth slightly to 0.6% y-o-y in Q3. However, the Philippines saw weaker-than-expected growth of 5.3% y-o-y in Q3, owing to slower government spending and a continued correction in inventories.

Growth in the ASEAN-4 economies is projected to rise from 4.7% y-o-y this year to 5.2% in 2015, mostly reflecting a rebound in Thailand. The Philippines is expected to see strong growth of around 6% in 2014 and 2015. Economic activity should improve in the quarters ahead following the easing of critical transport and supply bottlenecks, while longer-term growth will be supported by ongoing infrastructure projects and rising private investment adding to production capacity. GDP growth in Indonesia and Malaysia is also expected to stay firm at 5–6% in 2014 and 2015. Although private consumption growth in these countries will be dampened by fuel price hikes in Indonesia and the introduction of a

6% GST in Malaysia next April, investments are projected to rise at a solid pace on increased government development spending, rising business confidence in Indonesia, and a strong pipeline of Economic Transformation Programme (ETP) projects in Malaysia. The Thai economy is projected to see growth bounce back from 1.1% this year to 4.1% in 2015, although this is predicated on a stronger recovery in domestic demand, as well as the return of international tourists.

Headline inflation in Asia ex-Japan eased to 3.1% y-o-y in Q3. Inflation has been mild and falling in China, amid significant industrial slack. In India, headline inflation eased further due to lower food and oil prices. Meanwhile, CPI inflation in ASEAN trended downwards over the past two quarters, from 5.7% in Q1 to 3.8% in Q3, reflecting the waning effects of last year's subsidy rationalisation in Indonesia and Malaysia, and more recently, a slower increase in food prices in the Philippines. In comparison, headline inflation in the NEA-3 was stable, as subdued commodity prices offset price pressures arising from stronger growth. Inflation in Asia ex-Japan as a whole is expected to recede to 3.3% in 2014, before rising slightly to 3.4% next year.

CPI inflation softened in Asia ex-Japan.



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

Table 1: Consensus Forecasts of GDP Growth

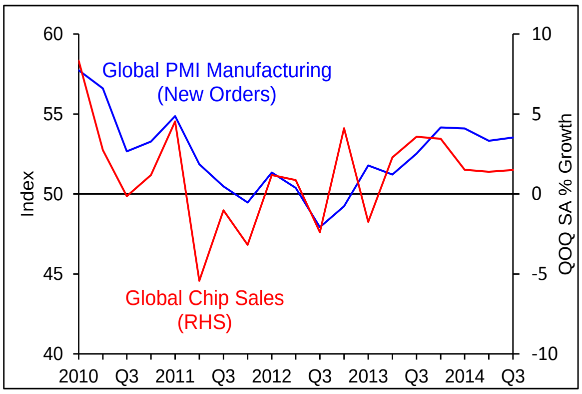
	2012	2013	Forecast 2014	Forecast 2015
	Percent			
Industrial				
US	2.3	2.2	2.2	3.0
Japan	1.5	1.5	1.0	1.3
Eurozone	−0.7	−0.4	0.8	1.1
UK	0.7	1.7	3.0	2.6
NEA-3				
Hong Kong	1.5	2.9	2.2	2.8
Korea	2.3	3.0	3.5	3.7
Taiwan	2.1	2.2	3.6	3.6
ASEAN				
Indonesia	6.3	5.8	5.1	5.4
Malaysia	5.6	4.7	5.7	5.2
Thailand	6.5	2.9	1.1	4.1
Philippines	6.8	7.2	6.2	6.2
China	7.7	7.7	7.4	7.1
India*	4.5	4.7	5.6	6.3

Source: CEIC and Consensus Economics, November 2014
*Refers to fiscal year ending March

The global IT industry continued to expand in Q3 2014 and is set for above-trend growth in 2014, followed by some moderation into 2015

Amid broadly steady global manufacturing activity and firm new orders, global chip sales clocked its sixth straight quarter of expansion and rose by 1.5% q-o-q sa in Q3 2014. In level terms, worldwide semiconductor sales exceeded its most recent peak in early 2011 (before the onset of the Eurozone crisis) by almost 6%. Notably, robust demand for consumer electronics—such as Apple's iPhone 6 and iPhone 6 Plus as well as mobile computing devices such as ultramobiles[1] and tablets—lent support to chip sales growth.

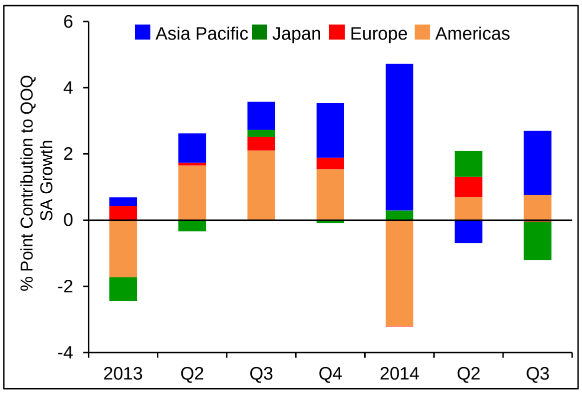
Global chip sales growth remained firm in Q3 2014, in the run-up to the holiday season.



Source: Semiconductor Industry Association and EPG, MAS estimates

The increase in semiconductor sales was underpinned by a turnaround in the Asian market, alongside solid revenue streams in the US. Following the brief contraction in Q2 2014, chip sales in Asia recovered by 3.4% q-o-q sa in Q3 2014, in part due to an improvement in Chinese demand. Indeed, semiconductor sales in China grew modestly on the back of a pickup in consumer appetite for electronics, as evident from the 5.2% sequential expansion in China retail sales for electronics during the quarter. In addition to stronger sales of high-end smartphones, demand for low-cost mobile devices also soared in China. In particular, shipment volumes of handsets produced by Xiaomi trebled in Q3 2014 compared to a year ago. As these lower-end phones are largely manufactured and assembled in China, this could have imparted positive spillovers to their domestic semiconductor segment. Meanwhile, strengthening consumer and corporate demand in the US also contributed to the firm growth in semiconductor sales there. In tandem with the broader recovery in US fixed investments in equipment and machinery, corporate IT spending gained further traction, with IT private fixed asset investments recording its second straight quarter of growth in Q3 (1.7% q-o-q sa).

Semiconductor demand was underpinned by sales in the US and Asia.

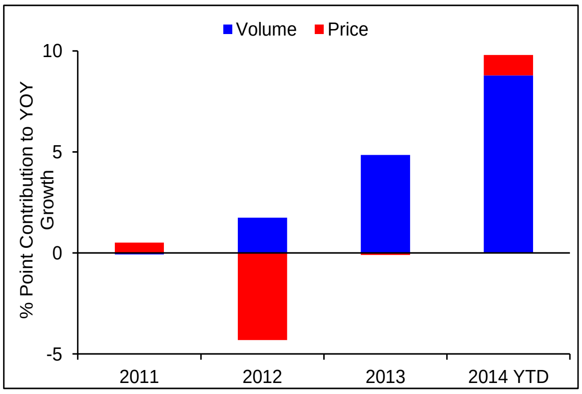


Source: Semiconductor Industry Association and EPG, MAS estimates

[1] Ultramobiles are compact and light-weight devices that function like a PC, yet affording users the mobility of a tablet. Apple's MacBook Air is a prime example of these ultra-light notebooks.

More broadly, the semiconductor industry has benefitted from favourable demand and supply conditions this year. On a year-to-date basis, global chip sales recorded strong gains over the first nine months of the year. While growth was driven mainly by higher volumes across the key geographical regions, a consolidation of major memory players also facilitated improvements in overall capacity and inventory planning, which in turn supported modest increases in chip prices. Indeed, DRAM pricing has inched up in the latter half of this year. In Q3 2014, the average selling price of semiconductors rose appreciably, buoyed by healthy demand in the run-up to the year-end holiday season.

Global chip sales rose due to strong gains in volumes, alongside a mild increase in prices.



Source: WSTS and EPG, MAS estimates

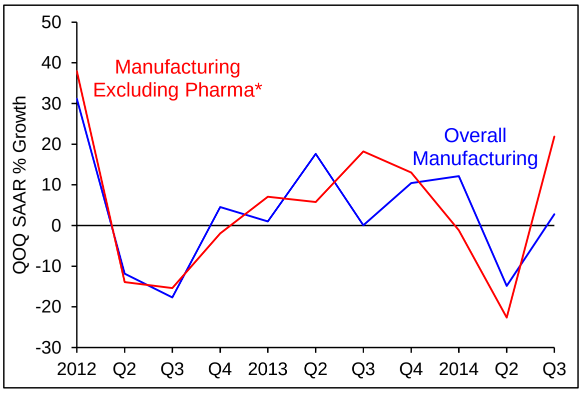
The global IT industry should see stronger growth this year, before some reversion to its medium term growth rate next year. Consumer spending will remain the key locomotive of growth, with expansions in the smartphone segment increasingly driven by demand for lower-cost gadgets in emerging economies. Against the backdrop of a US-led recovery in the global economy, the attendant rise in business confidence and tightening capacity utilisation should lend support to corporate expenditure as well. Notably, the Empire State Manufacturing Future Technology Spending index—a forward-looking indicator for IT expenditure among firms in the US—has remained on a moderate upward trajectory since the middle of this year. Nonetheless, these expenditures will not be confined to the hardware segment. Corporates will continue to invest in IT services, particularly in cloud computing technologies, to cater to fast-growing needs in this segment. On balance, worldwide chip sales are expected to grow by around 7% this year and slow to slightly over 5% in 2015, reflecting some softening in China's demand and a gradual build-up of inventories.

B. Domestic Developments

The domestic economy saw a pickup in activity in Q3 2014 supported by the improvement in manufacturing

The Singapore economy grew by 3.1% q-o-q saar in Q3 2014, reversing the contraction of 0.3% in the preceding quarter. The stronger outturn largely reflected a rebound in the manufacturing sector on the back of firm demand in the US, and a cessation of the firm-specific effect in the electronics cluster—which had weighed on performance in the last quarter. In comparison, softer regional demand dampened activity in the external-oriented services, with the commerce and financial services sectors registering a slowdown from Q2 2014.

Manufacturing value-added recorded modest gains in Q3, following a steep contraction in the preceding quarter.



*EPG, MAS estimates

Overall manufacturing activity rose by 2.8% q-o-q saar in Q3 2014, after the sharp fall last quarter. Abstracting from the volatile biomedical cluster, improvements in the manufacturing sector were mainly attributable to solid gains in electronics output. The surge in locally-based electronics production mirrored the upturn in Singapore's domestic IT exports, which recorded positive sequential growth for the first time in five quarters amid strengthening demand in the advanced economies. Output in the data storage and PC-related segments rebounded significantly in Q3, underpinned by the uptick in corporate demand in the US economy. The turnaround in electronics has in turn spilled over to some pockets within the precision engineering cluster, which saw a turnaround following negative sequential growth for both quarters in the first half of 2014. Meanwhile, activities in the transport engineering cluster gathered pace, in part due to a step-up in revenue recognition[2] in the marine & offshore segment ahead of strong deliveries due in early 2015. In contrast, biomedical production—especially in active pharmaceutical ingredients and biologics products—saw a pullback in Q3 2014, following two quarters of robust growth.

Growth in the trade-related services industries was subdued in Q3 2014, alongside general moderation in regional trade flows and a downshift in global commodity prices. Notably, oil re-exports declined sharply due to sluggish demand from neighbouring countries such as Malaysia, Indonesia and China while electronics re-exports growth recorded a deep concession in momentum. In fact, IT re-export volumes registered its most significant contraction since the Global Financial Crisis as final demand from the regional

[2] 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.

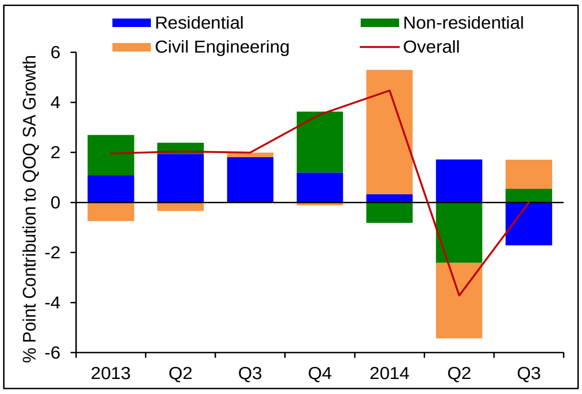
economies retracted. Similarly, within the transport & storage industry, air transport activity slowed appreciably in Q3 reflecting largely the continued decline in air cargo volumes.

The financial services sector also turned in a lacklustre performance, with growth easing to 1.2% q-o-q saar in Q3 2014 from 11.6% the quarter before, as activities in the core financial intermediation and insurance segments moderated. In particular, offshore non-bank loan volumes contracted by 1.4% q-o-q, a reversal of the 4.4% expansion last quarter, mainly as a result of a drop in credit demand from East Asia amid weaker economic conditions in China. In contrast, the sentiment-sensitive cluster—which largely underperformed in H1 2014—turned around on account of robust activity in the fund management industry. Over the quarter, capital markets in the region, such as Thailand and India have generally performed well, supported by investor confidence in the countries' medium term growth prospects. In turn, local fund managers recorded higher fees and commission due to the increase in fund inflows and volume of assets under management (AUM).

Tourism-related activities however saw a slight upturn in Q3 2014, as sentiments in the regional tourism industry were gradually restored following the airline incidents and political uncertainties in the first half of this year. Notably, total air passenger arrivals posted a cyclical pickup on the back of a rebound in Chinese passengers, which in turn provided a modest uplift to accommodation & food services. The sector posted growth of 3.9% q-o-q saar in Q3, a step-up from the 1.9% contraction in the preceding quarter.

Meanwhile, sectors reliant on domestic demand moderated in Q3 2014, weighed down by a slowdown in building activities. The construction sector posted its second quarter of decline of 0.3% q-o-q saar in Q3, following the 4.2% contraction in the quarter earlier. While certified payments in the private segment continued to taper alongside the cooling residential property market, recent delays in public sector projects, such as the Ng Teng Fong Hospital, compounded the downturn. Moreover, upward revisions to foreign worker levies in July this year could have compressed margins in the sector.

Construction activities remained muted in Q3.



Source: EPG, MAS estimates

While growth in the consumer services was subdued, this was cushioned by supportive demand for corporate services. Following a mild contraction in Q2 2014, overall retail sales volume recorded a modest recovery of 4.5% q-o-q sa in the recent quarter. The uptick largely reflected buoyant motor vehicle sales on the back of new model launches and a dip in COE prices. Non-vehicle domestic retail expenditure however remained flat, weighed down by lacklustre spending in discretionary items. On a brighter note, growth of the corporate-facing services accelerated in Q3 2014, following a surge in demand for rental & leasing services, as well as professional services such as consultancy, research & development and design. The latter reflects, in part, Singapore's comparative advantage in modern services. Indeed, Singapore ranked favourably among regional competitors in services exports in recent years.

The domestic economy is expected to expand modestly in 2014 and 2015

The Singapore economy is anticipated to be on a moderate growth trajectory over the next few quarters, with GDP growth forecasted to come in at around 3% for 2014 as a whole, and 2–4% in 2015. Gradual improvements in the global economy should provide support to Singapore's external-oriented industries, particularly in segments that are more closely tied to US final demand, such as modern services.[3] Investments from the US into Singapore's modern services sectors have grown at an average pace of 22% over 2011–13. 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. The upturn in the global electronics sector would benefit certain pockets of the domestic electronics cluster. Nonetheless, the full extent of such positive spillovers will be capped as structural shifts in Singapore's IT landscape towards higher margin activities continue to unfold. A more muted outlook for China and Europe could cap prospects for global commodities, which in turn could weigh on merchanting trade and transport & storage activities. Concomitantly, the domestic-oriented sector will be supported by a pipeline of public sector-driven infrastructure expansions including the construction of the Thomson-East Coast MRT lines and healthcare facilities. Nonetheless, weakness in the private housing market will continue to weigh on growth in the residential segment.

There are potential external and domestic headwinds to growth. Short-term growth prospects in the Euro bloc remain weak, which in turn would translate into sluggish trade activity. Financial market volatility in response to uncertainty about the timing and extent of the Fed's interest rate hike, as well as ongoing political instability in various parts of the world—such as the Ukraine and the Middle East—could dampen investor and business sentiments in the near term. Reforms being undertaken in China and the risk of unexpected negative effects on the property and banking sectors would also have spillover consequences on growth in the region.

[3] Modern services include financial services, information services and professional, scientific and technical services.

[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.

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. Over the medium term however, the restructuring exercise would enable the economy to move towards more capital and technology intensive productivity-led growth. This is in line with Singapore’s evolving comparative advantage and would set the stage for a new era of sustainable growth for a mature economy with an ageing population.

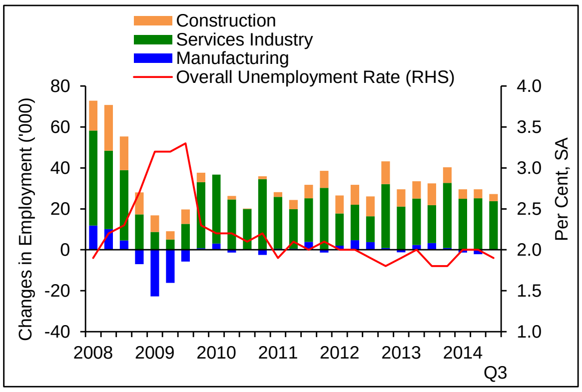
C. Labour Market and Consumer Prices

Overall employment gains edged down to 27,100 in Q3 2014

Preliminary estimates showed that overall employment gains stood at 27,100 in Q3 2014, slightly lower than the 27,700 in the previous quarter.

The manufacturing sector reversed the job losses seen in the previous quarter, while employment growth slowed in the construction and services sectors in Q3 2014. After shedding 2,100 workers in Q2, the manufacturing sector saw a mild upturn, adding 300 jobs in Q3. The construction sector expanded headcount significantly by 3,400 during the quarter, albeit lower than the 4,400 increase in Q2. Amid the tight labour market, employment gains also moderated in the services sector to 23,500, from 25,200 in Q2.

Overall unemployment rate remained low in Q3.



Given the sustained pace of job creation, overall unemployment rate remained low in Q3 2014. The seasonally-adjusted overall unemployment rate dipped slightly to 1.9% in September 2014 from 2% three months ago, while the resident unemployment rate stayed steady at 2.8%. Notwithstanding the tight labour market, y-o-y wage growth eased to 2.4% in Q3 2014 from 2.7% in the previous quarter, due mainly to weaker pay increments in the financial & insurance, accommodation & food services and wholesale trade sectors. Nonetheless, wage growth in some sectors such as manufacturing, construction and information & communications remained firm.

Going forward, labour demand is expected to hold firm as more companies in the services and manufacturing sectors expect to increase their headcount, according to DOS' and EDB's latest Business Expectations Survey for Q4 2014. **Nonetheless, overall employment gains will continue to be constrained by the tight labour supply, in part due to the foreign labour tightening measures, thereby sustaining upward pressure on wages.**

Domestic cost pressures continued to build up, even as CPI-All Items inflation fell owing to base effects from car prices and lower housing rentals

Rising domestic costs, largely on account of tightness in the labour market, continued to be passed through to prices. As a result, MAS Core Inflation, which excludes the cost of accommodation and private road transport, was firm at 2.1% in Q3 2014 after coming in at 2.2% in Q2. However, it moderated to 1.7% in October, owing to the recent weakness in global oil prices and enhancement in government healthcare subsidies. Meanwhile, CPI-All Items inflation eased from 2.4% in Q2 2014 to 0.9% in Q3 and 0.1% in October, mainly due to base effects associated with car prices and lower housing rentals.

Food inflation was elevated while oil-related items were a drag on consumer prices more recently. Non-cooked food inflation was strong at 3.1% in Q3 and October 2014, unchanged from Q2, on account of regional supply disruptions. At the same time, the increase in cooked food prices moderated slightly to 2.6% in October from 3.1% in Q2, led by more modest price adjustments in restaurant meals. Prices of oil-related items fell by 2.1% in October, after rising in the preceding two quarters, given the recent weakness in global oil markets.

Services inflation slowed to 2.1% and 1.7% in Q3 and October respectively, from 2.4% in Q2. Notably, the introduction of enhanced healthcare subsidies, including those under the Pioneer Generation Package (PGP), moderated the increase in healthcare cost from 3.3% in Q2 to 2.9% and 1.9% in Q3 and October respectively.[6] Costs of holiday travel and recreation & entertainment also rose at a more modest pace over the same period. These, together with the lower healthcare inflation, more than offset the sharper pickup in preschool fees, commuting fares[7], and postage charges.

Private road transport cost has been volatile, while accommodation cost declined. The cost of private road transport rose by 5.5% in Q2 before falling by 2.4% in Q3 and a further 5.6% in October. The volatility was mainly due to base effects associated with the fluctuations in COE premiums.[8] Meanwhile, accommodation cost inflation declined from 0.8% in Q2 to −0.2% in Q3 and −1% in October, given the soft housing rental market.

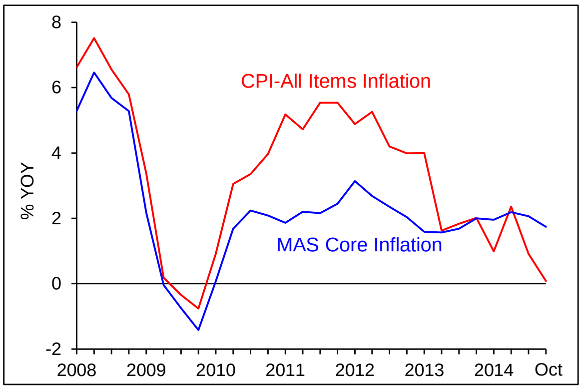
[6] Starting from 1 September 2014, Singaporeans who qualify for the PGP enjoy an additional 50% off subsidised services fees at the polyclinics and specialist outpatient clinics. Pioneers also receive special subsidies at private General Practitioners and dental clinics participating in the Community Health Assist Scheme (CHAS).

[7] The "commuting fares" sub-group includes school bus fares and fares for dedicated bus services to and from offices.

[8] Car COE premiums corrected sharply from approximately $90,000 in Dec 2012–Feb 2013 to slightly above $65,000 in Mar-May 2013, following the implementation of the financing restrictions on motor vehicle loans. They subsequently surged to exceed $80,000 in September 2013. Given that COE premiums in a particular month are reflected in the CPI in the subsequent month, the CPI for private road transport fell significantly in Q2 2013 before increasing substantially in Q3 and October 2013.

MAS Core Inflation is likely to remain firm, averaging 2–2.5% in 2014 and 2–3% in 2015. External price developments are expected to stay generally benign, given ample supply buffers in the major commodity markets. While there remains significant uncertainty over global oil prices going forward, the sharp correction recently would dampen domestic inflation over the short-term. However, domestic food inflation could remain elevated in the near term given the higher prices of regional food supplies. At the same time, with the economy at full employment, wage pressures would continue to persist and filter through to the prices of various services items, particularly those for which demand conditions are strong.

Both CPI-All Items inflation and MAS Core Inflation eased in October 2014.



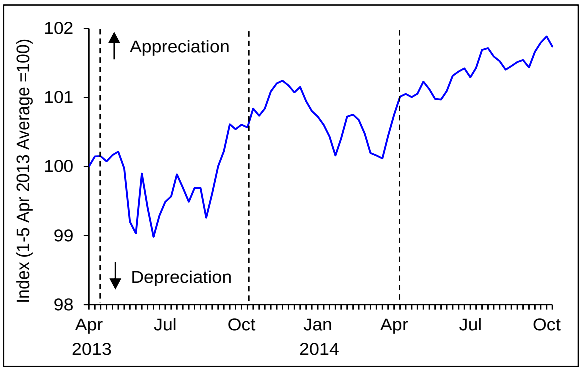
CPI-All Items inflation is projected to come in at 1–1.5% in 2014 and 0.5–1.5% in 2015. It is expected to stay subdued amid the anticipated increases in the supply of car COEs and newly-completed housing units.

D. Macroeconomic Policies

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

The Singapore economy is projected to grow at a moderate pace in 2014 and 2015. The global economy is expected to expand in the quarters ahead, led by stronger growth in the US economy. This should benefit Singapore's external-oriented sectors, although domestic structural transitions will limit the extent of expansion. Within the domestic-oriented sectors, growth performance is likely to vary across industries. Firm underlying demand will support growth in the healthcare and education sectors, while other services industries confronted with rising competition and strong wage increases will continue to experience compressed profit margins. On balance, Singapore's GDP growth is expected to be around 3% in 2014 and 2–4% in 2015.

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



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Domestic core inflationary pressures are projected to remain relatively firm. The tight labour market will continue to support wage increases, particularly in the domestic-oriented sectors where labour constraints are relatively more binding and demand is strong. Meanwhile, domestic food prices could creep up further alongside the higher cost of food imports from the region. Businesses in food-related and labour-intensive services sectors are thus likely to pass on the higher costs to consumers. As a result, MAS Core Inflation is expected to remain firm. It is projected to average 2–2.5% in 2014 and 2–3% in 2015.

MAS kept the S$NEER policy band on a modest and gradual appreciation path in October 2014, with no change to its slope, level or width. This policy stance, which has been in place since April 2012, was assessed to be appropriate for containing domestic and imported sources of inflation, and ensuring medium-term price stability.

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

The overall budget for FY2013 is estimated to record 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. 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. Generous subsidies were also introduced for SMEs adopting ICT-based productivity solutions and for firms pioneering emerging technology solutions. 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 go beyond mere capital-deepening towards improving total factor productivity. To this end, the Budget introduced measures to encourage firms to innovate and transform processes and develop new markets. For example, government financing schemes were enhanced to improve lending to young SMEs and internationalising firms, to help them overcome the financing challenges that they face in expanding. 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.

Budget 2014 also made key strides in strengthening social safety nets for the lower-income, elderly, and disabled. For example, lower- and middle-income Singaporean families were provided with higher subsidies at specialist outpatient clinics, as well as enhanced financial assistance for pre-school and tertiary education with the objective of improving social mobility. The Pioneer Generation Package was the centrepiece of this year's budget, aiming to make healthcare more affordable for Singapore's pioneers[9], by providing them with significant subsidies for outpatient care and MediShield premiums, as well as additional annual top-ups to their Medisave accounts.

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).

[9] Defined as those 65 years or older in 2014 and who had obtained their citizenship on or before 31 Dec 1986.

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), 2014	718.3	Literacy Rate* (%)	96.5
Total Population ('000), 2014	5,469.7	Real Per Capita GDP (US$)	53,870
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
NEA-3	19.0	NEA-3	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 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	Sep-14	Oct-14
GDP at current prices (S$ bil)	358.5	372.8	92.5	93.2	96.2	95.5	93.9	95.1	na	na
GDP (US$ bil)	286.9	297.9	74.0	73.5	77.0	75.2	74.9	76.0	na	na
Real GDP Growth (YOY % change)	2.5	3.9	4.0	5.0	4.9	4.8	2.3	2.8	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	10.2	0.7	6.9	1.9	-0.3	3.1	na	na
By Sector (YOY % change):										
Manufacturing [1/]	0.3	1.7	0.8	5.3	7.0	9.9	1.5	1.9	-1.0	0.2
Electronics [2/]	-11.3	3.5	0.3	7.4	19.4	9.1	-5.8	0.1	-2.3	-6.1
Non-electronics [2/]	6.2	0.9	1.0	4.3	2.5	9.8	4.3	2.5	-0.4	3.3
Finance & Insurance	1.8	10.8	11.1	8.3	10.5	5.7	5.5	10.5	na	na
Business Services	5.5	4.3	4.5	4.3	4.3	3.3	2.4	3.4	na	na
Construction	8.6	6.1	6.1	5.6	7.3	6.9	3.7	1.7	na	na
Transportation & Storage	5.2	3.2	2.6	5.8	5.1	5.5	2.1	0.1	na	na
Information & Communications	6.0	4.3	4.4	4.6	3.6	2.5	2.3	2.3	na	na
Wholesale & Retail Trade	-0.1	6.1	6.8	6.4	6.4	3.8	1.8	2.0	na	na
Accommodation & Food Services	2.3	4.5	5.4	5.0	3.4	2.1	0.4	0.9	na	na
By Expenditure Component (YOY % change):										
Consumption	3.1	4.1	3.8	3.3	4.2	-1.3	4.2	1.2	na	na
Private	3.9	2.6	2.8	2.6	2.1	1.8	2.2	1.2	na	na
Public	-0.1	9.9	9.2	5.9	12.9	-9.3	14.1	1.1	na	na
Gross Fixed Capital Formation	8.9	-1.9	-1.8	3.4	-4.6	-0.3	-2.1	-3.3	na	na
Private	8.9	-2.4	-1.7	4.4	-6.1	-3.8	-5.3	-5.9	na	na
Public	8.6	0.3	-2.0	-1.1	2.0	14.0	14.2	9.9	na	na
External Demand	1.5	3.6	4.3	6.8	6.0	7.2	2.5	0.9	na	na
TRADE										
Total Exports, fob (YOY % change)	-0.9	0.6	-0.2	5.8	6.0	7.4	2.7	-1.4	-1.6	-7.0
Non-Oil Domestic Exports	0.5	-6.0	-5.2	-3.6	-2.1	-1.0	-3.4	1.1	0.9	-1.5
Re-Exports	-3.5	6.2	9.1	7.9	14.2	12.5	2.3	-2.3	1.8	-7.3
Total Imports, cif (YOY % change)	3.2	-1.6	-4.0	5.9	1.4	6.8	3.0	-5.7	-5.1	-5.3
WAGE-PRICE INDICATORS										
Unemployment Rate (SA,%)	2.0	1.9	2.0	1.8	1.8	2.0	2.0	1.9	na	na
Average Nominal Wages (S$ per month)	4,433	4,622	4,329	4,212	4,998	5,108	4,445	4,314	na	na
Consumer Price Index Inflation (YOY % change)	4.6	2.4	1.6	1.8	2.0	1.0	2.4	0.9	0.6	0.1
MAS Core Inflation (YOY % change)	2.5	1.7	1.6	1.7	2.0	2.0	2.2	2.1	1.9	1.7
FINANCIAL INDICATORS [3/]										
S$ Exchange Rate Against: (end-period)										
US Dollar	1.2221	1.2653	1.2652	1.2572	1.2653	1.2605	1.2490	1.2728	1.2728	1.2779
100 Japanese Yen	1.4214	1.2061	1.2797	1.2834	1.2061	1.2252	1.2326	1.1643	1.1643	1.1685
Euro	1.6151	1.7452	1.6535	1.6975	1.7452	1.7328	1.7041	1.6157	1.6157	1.6105
Interest Rates (end-period, % p.a.)										
3-month Fixed Deposit Rate	0.14	0.14	0.14	0.14	0.14	0.15	0.14	0.14	0.14	0.14
3-month S$ SIBOR	0.38	0.40	0.37	0.37	0.40	0.41	0.40	0.41	0.41	0.41
Prime Lending Rate	5.38	5.38	5.38	5.38	5.38	5.35	5.35	5.35	5.35	5.35
Money Supply (end-period)										
Broad Money, M2 (YOY % change)	7.2	4.3	9.1	7.5	4.3	2.0	0.6	1.9	1.9	2.0
Straits Times Index (end-period)	3,167.1	3,167.4	3,150.4	3,167.9	3,167.4	3,188.6	3,255.7	3,276.7	3,276.7	3,274.3
YOY % change	19.7	0.0	9.4	3.5	0.0	-3.6	3.3	3.4	3.4	2.0
GOVERNMENT BUDGET [4/]										
Operating Revenue (S$ mil)	54,284	57,054	15,522	15,475	12,525	13,498	15,868	16,595	na	na
Total Expenditure (S$ mil)	47,271	52,329	9,738	11,645	13,624	16,722	10,920	12,950	na	na
Operating Expenditure	34,810	40,390	6,788	9,240	10,664	13,033	7,698	9,702	na	na
Development Expenditure	12,461	11,939	2,949	2,405	2,960	3,689	3,222	3,248	na	na
Primary Surplus/Deficit (S$ mil)	7,013	4,725	5,785	3,831	-1,099	-3,224	4,948	3,645	na	na
% of GDP	2.0	1.3	6.3	4.1	-1.1	-3.4	5.3	3.8	na	na
BALANCE OF PAYMENTS										
Current Account Balance (% of GDP)	17.5	18.3	20.6	20.1	17.5	17.7	19.2	23.3	na	na
Goods Balance	22.1	22.8	24.1	24.0	24.0	21.7	25.3	27.7	na	na
Services Balance	0.3	0.3	0.2	0.8	-0.7	0.2	-0.6	0.7	na	na
Primary Income Balance	-2.4	-2.4	-1.5	-2.4	-3.5	-1.9	-3.1	-2.7	na	na
Secondary Income Balance	-2.6	-2.3	-2.3	-2.3	-2.3	-2.4	-2.4	-2.4	na	na
Capital & Fin Account Balance (% of GDP)	-8.1	-12.6	-14.6	-20.4	-10.5	-16.5	-13.5	-20.9	na	na
Direct Investment	16.6	12.4	12.6	10.6	11.4	15.8	9.5	6.8	na	na
Portfolio Investment	-22.7	-15.8	-4.2	-4.5	-32.0	-23.2	-36.2	0.7	na	na
Financial Derivatives	5.4	-0.4	-0.9	-0.4	-0.8	0.2	0.0	-0.1	na	na
Other Investment	-7.5	-8.7	-22.1	-26.1	10.9	-9.4	13.3	-28.3	na	na
Overall Balance (% of GDP)	9.1	6.1	5.8	1.0	8.0	0.5	5.0	3.6	na	na
Official Foreign Reserves (US$ mil) [5/]	259,307	273,065	259,816	268,103	273,065	272,941	277,967	266,142	266,142	264,379
Months of Imports	8.2	8.8	8.4	8.6	8.8	8.7	8.8	8.5	8.5	8.5

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