Recent Economic Developments in Singapore

11 Jun 2013

	2012					2013
	Q1	Q2	Q3	Q4	Full Year	Q1
Real Sector						
Real GDP Growth, y-o-y %	1.5	2.3	0.0	1.5	1.3	0.2
Real GDP Growth, q-o-q saar %	7.8	0.1	-4.6	3.3	-	1.8
Index of Industrial Production, y-o-y %	-1.1	4.1	-1.4	-0.2	0.3	-6.7
Non-oil Domestic Exports, y-o-y %	6.0	3.7	-3.2	-4.2	0.5	-12.5
Labour Market and Prices						
Unemployment Rate, sa, % (Average)	2.0	2.0	1.9	1.8	2.0	1.9
CPI Inflation, y-o-y %	4.9	5.3	4.2	4.0	4.6	4.0
Wage Growth, y-o-y %	0.9	2.8	3.1	2.5	2.3	4.9

The Singapore economy continued on a modest recovery path in Q1 2013

GDP growth came in at 1.8% q-o-q saar (quarter-on-quarter seasonally-adjusted annualised rate) in Q1 2013, following an expansion of 3.3% in the preceding quarter. While activity remained firm in the domestic-facing industries, the external-oriented industries as a whole reverted to contraction mode in Q1 after an incipient upturn in the previous quarter.

The G3 economies rebounded while growth in Asia ex-Japan eased

In Q1 2013, the G3 recovered the output losses experienced in the previous quarter, even though conditions in the Eurozone remained challenging. However, weak external demand and a renewed slowdown in China's pace of expansion resulted in growth easing in Asia ex-Japan.

Singapore's GDP growth is forecast to come in at 1–3% this year

The Singapore economy is expected to further consolidate its recovery over the course of this year, with a more decisive pick-up towards the latter half. GDP growth for 2013 will be supported by continued resilience in domestic-oriented activities, as well as some turnaround in the sectors reliant on external demand. However, downside risks remain and the Singapore economy could continue to be confronted by intermittent bouts of volatility—a pattern that has characterised its growth profile over the past two years.

CPI-All Items inflation is projected at 3–4% for 2013

Accommodation and private road transport costs will account for more than half of CPI-All Items inflation in 2013. Excluding these two items, MAS Core Inflation will be lower at around 1.5-2.5%.

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 the EDB respectively. All other data in this document were obtained from the Building and Construction Authority, Department of Statistics, Singapore Tourism Board, Ministry of Trade and Industry, unless otherwise stated.

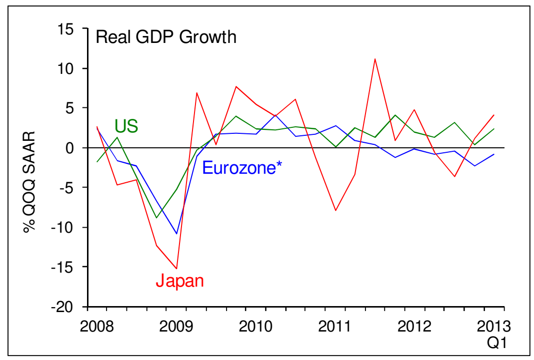
A. External Developments

Economic activity in the G3 recovered from the low base in Q4

The G3 economies recorded average growth of 1.5% q-o-q saar in Q1 2013, more than recovering the output lost in the previous quarter, when GDP contracted by 0.5%. The improvement was mainly attributable to resilient private consumption in the US and a surge in Japanese household spending. In comparison, the recession in the Eurozone persisted, albeit at a more moderate pace, as private consumption began to grow again. After a temporary lull in mid-2013, analysts expect growth in the G3 to pick up in the latter part of this year, as private demand gathers momentum.

Economic growth in the US recovered to 2.4% q-o-q saar in Q1 2013 from 0.4% the quarter before, supported by firm domestic demand. Household spending was robust, growing by 3.4%, despite a fall in real disposable income of 8.4% in Q1. As consumers tapped into savings and temporary income gains arising from dividend payments and lump-sum social security benefits in the previous quarter to finance their expenditure, the household saving rate plummeted to 2.3% from 5.3% in the preceding quarter.

A synchronised improvement in the G3 in Q1.



Source: Datastream
* Based on 17 countries

Growth in private capital formation also rebounded to 9.0% q-o-q saar in Q1 2013, following an increase of just 1.3% in the previous quarter. The uplift came mainly from inventory restocking, as non-residential fixed investment growth softened markedly to 2.2% from 13.2% in Q4 2012. However, residential investment continued to expand on the back of a housing recovery, rising at a double-digit rate for the third consecutive quarter. Net exports contributed negatively to GDP growth as a mild increase in exports was outweighed by more rapid import growth.

High-frequency indicators suggest that the US economy may pull back slightly in Q2 2013, compared to the pace in Q1. The ISM manufacturing PMI weakened for the third consecutive month, dipping into contractionary territory in May, largely due to a fall in new business orders. Nonetheless, the ISM non-manufacturing PMI picked up slightly to 53.7 in May from 53.1 the month before. Labour market indicators have also stabilised: 175,000 jobs were added in the month of May, although the unemployment rate ticked up to 7.6%. Together with the revival of the housing sector, the gradual recovery of the labour market will provide some support to private consumption and residential construction for the rest of the year, thus partially offsetting the negative impact of the budget sequester. On balance, US GDP growth is expected to come in at 1.9% in 2013 and 2.7% in 2014.

The Eurozone economies contracted for the sixth consecutive quarter in Q1 2013, by 0.8% q-o-q saar. Although this was somewhat milder than the 2.3% contraction in Q4 2012, only Germany managed to achieve modest growth of 0.3% q-o-q saar, while the other large economies continued to post sequential declines. Italy and Spain marked their seventh quarter in recession, with output shrinking by 2.1% each. The region's growth was primarily dragged down by private investment, which fell for the fifth straight quarter in both Germany and France. Notwithstanding some improvement in competitiveness arising from a fall in unit labour costs in the earlier quarter, export performance in Q1 2013 remained lacklustre in both the core and periphery economies.

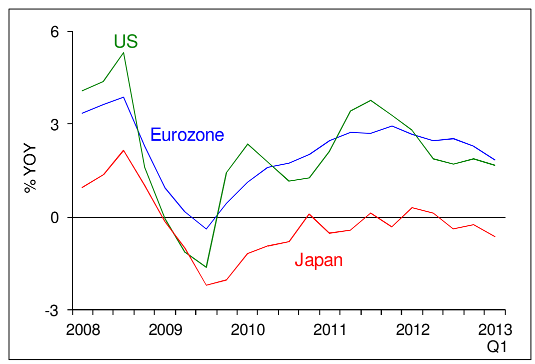
Latest survey indicators suggest that the contraction in the Eurozone economies may be slowly coming to an end. Although the Eurozone's overall PMI, at 47.7 in May, has yet to show a decisive turning point in the business cycle, tentative signs of a recovery can be seen from an uptick in the new orders component of the manufacturing PMI. This forward-looking indicator is near a two-year high, suggesting that final demand may begin to turn around in the coming months. Further, the European Commission has announced that several member states will be given more leeway to meet their deficit reduction targets, which will lessen the short-term drag that fiscal austerity exerts on growth. A slower pace of fiscal withdrawal, coupled with the steadfast implementation of structural reforms, will facilitate a more decisive recovery. As these reforms take time to bear fruit, however, the Eurozone economies are still anticipated to contract by 0.5% for the year as a whole.

Following an upward revision to 1.2% q-o-q saar in Q4 2012, Japan's GDP growth accelerated to 4.1% in Q1 2013. The impetus to the revival in growth came from both consumption spending and net exports. Private consumption grew robustly by 3.6%, aided by positive wealth effects from higher asset prices, and improved sentiment among consumers. Net exports contributed 1.5% points to GDP growth, stimulated both by an income effect from the US market and a substitution effect stemming from the weaker yen.

The fiscal stimulus package announced by the Abe government in January 2013 took effect from Q2, providing additional support to the fledgling recovery. Concomitantly, the undertaking by the Bank of Japan to double the monetary base in a concerted effort to exit deflation has boosted sentiment and is expected to encourage greater consumption and investment. With the improvements in the economy, the consensus GDP growth forecast for Japan in 2013 has been further upgraded to 1.4%, from 0.7% at the start of the year.

Headline inflation in the G3 continued to ease in Q1 as global commodity prices weakened, in part because supply shocks from natural disasters in the US have dissipated. Against a backdrop of still sluggish final demand, core inflation in the US and Eurozone also moderated. In Japan, deflationary pressures persisted, reflecting the continued decline in prices of durable goods and services.

G3 headline inflation remained subdued.



Source: Datastream

However, since the Bank of Japan's adoption of its 2% inflation target, import prices have crept up on the back of the weaker yen. This will help raise CPI inflation, although a lasting reversal of deflationary pressures will also depend on a sustained rise in domestic spending, given that imports account for only 14% of GDP. In the US and Eurozone, inflationary pressures will remain subdued, as excess labour and slack in production capacity limit factor price increases. Overall, average CPI inflation in the G3 economies is projected to moderate to 1.4% in 2013, from 1.9% last year.

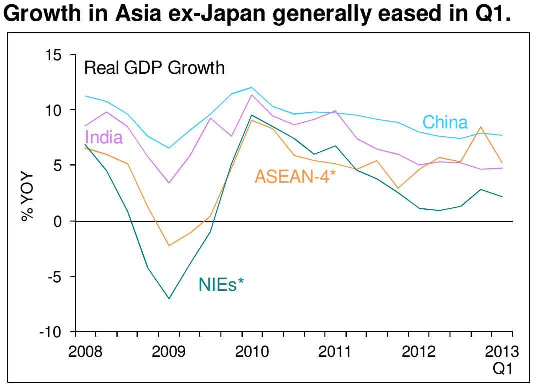
Growth in Asia ex-Japan moderated

Growth in the Asia ex-Japan economies eased in Q1 2013, alongside slowing activity in China, Taiwan and Hong Kong. The ASEAN region moderated as well, with the notable exception of the Philippines. Korea also bucked the trend by expanding at its fastest pace in two years. As the global economy begins to lift in the second half of this year, Asia ex-Japan is expected to benefit from stronger exports and the region as a whole is likely to expand at a slightly faster pace of 5.5% in 2013 compared to 5.1% last year.

China's growth slipped to 7.7% y-o-y in Q1 2013, from 7.9% in the previous quarter. The growth momentum also slowed on a sequential basis, from 2.0% q-o-q sa to 1.6%, weighed down by both external and internal factors. Domestically, the government's campaign to rein in extravagant official spending contributed to a cutback in retail sales growth to 12.4% y-o-y in Q1 2013, from 14.9% in the preceding quarter, with knock-on effects on consumption-related light industrial production. Nevertheless, fixed asset investment remained resilient, as robust infrastructure spending compensated for sluggish manufacturing investment.

High-frequency indicators in May point to a further moderation in domestic activity, although retail sales edged up slightly. Despite the pullback in economic momentum, the new Chinese leadership has not signalled any intention to introduce aggressive policy stimuli in the near term. The official GDP growth target of 7.5% for 2013 still looks likely to be achieved, given the expected improvement in global economic conditions in H2 2013. Robust credit growth, together with increased infrastructure spending due to the government's urbanisation drive, will also bolster investment in the coming quarters.

Growth in Asia ex-Japan generally eased in Q1.



Source: CEIC

* Regional groupings are weighted by Singapore's non-oil domestic exports (average 2009-2011)

Note: NIEs refer to Hong Kong, Korea and Taiwan. ASEAN-4 refer to Indonesia, Malaysia, the Philippines and Thailand

The Indian economy grew by 4.8% y-o-y in Q1 2013, nearly unchanged from 4.7% in the previous quarter. Growth in private consumption, public spending and fixed investment all slowed during the quarter. The headline GDP number was instead supported by a rise in inventories and a less severe contraction in net exports. In terms of sectoral performance, financial and business services growth accelerated, agriculture production expanded at a slower pace and mining output contracted. India's GDP growth is projected to come in at 6.1% for the fiscal year ending in March 2014—an improvement on the 5.0% growth in the last fiscal year.

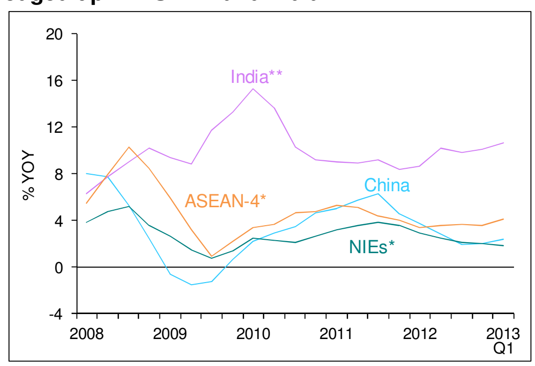
The small and open economies in Northeast Asia have exhibited rather volatile GDP growth in recent quarters. Hong Kong's economic expansion slowed sharply to 0.9% q-o-q saar in Q1 2013, from 5.7% in the preceding quarter, on account of a retraction in net exports and investments. Similarly, the Taiwanese economy gave up some of its gains after registering stellar growth of 7.1% q-o-q saar in Q4 2012, with a contraction of 2.7% in Q1. In contrast, Korea's GDP growth accelerated to 3.4%, buoyed by a strong rebound in capital expenditures as domestic political uncertainties faded. Looking ahead, expansionary fiscal policies and an anticipated modest pick-up in global electronics demand should lift growth in the NIEs to 3.2% in 2013 from 1.6% in 2012.

Growth in the ASEAN-4 economies moderated in Q1 2013, following the robust expansion of 2012. As in previous quarters, net exports made a negative contribution to GDP growth, while domestic demand softened slightly on country-specific factors. The Thai economy returned to more normal growth of 5.3% y-o-y in Q1 2013, compared to 19.1% in Q4 2012, as post-flood reconstruction spending tapered off and tax rebates for first-time car buyers expired. In Indonesia, subdued commodity prices and new mining regulations caused fixed investment growth to slow, even as rising food prices dented households' purchasing power. Nevertheless, GDP growth eased only marginally to 6.0% y-o-y in Q1 2013 from 6.1% in the preceding quarter. Meanwhile, Malaysia's growth slowed more significantly from 6.5% y-o-y to 4.1% in Q1, as stronger domestic spending was met by a sharp rise in imports, while exports were hampered by tepid external demand. Buoyed by a positive response to the government's reform programme, the Philippines economy saw growth pick up from 7.1% y-o-y in Q4 2012 to 7.8% in Q1 2013. Although base effects from sharp inventory destocking during the same period last year played a role in this outperformance, domestic demand was also boosted by fixed capital investment growth of 16.8% and robust government spending.

The ASEAN region is projected to register firm growth of 5.6% in 2013, slightly below the 6.1% recorded in 2012. Domestic demand is expected to drive growth, with household incomes remaining well-supported by minimum wage hikes, favourable labour market conditions and sustained fiscal transfers. Investment will continue to be buttressed by a strong pipeline of infrastructure projects. Notably, Thailand is preparing to embark on an ambitious Bt2 trillion infrastructure programme over the next seven years, while the outcome of Malaysia's elections bodes well for the continued rollout of major Economic Transformation Programme (ETP) projects, including the development of the Iskandar region. In the Philippines, the current investment upswing led by the construction sector will be further extended by the government's effort to accelerate Public-Private Partnership (PPP) projects, amid improvements in the business regulatory environment.

The regional inflation picture is mixed. China's headline inflation has been subdued due to both the slowdown in economic activity and benign food prices, and could come in below the official target of 3.5% in 2013. Similarly, headline inflation in the NIEs has been muted alongside lacklustre economic growth and softer commodity prices. In comparison, consumer prices in India rose by 10.7%, the second straight quarter of double-digit inflation. CPI inflation in ASEAN has been contained so far, but is expected to edge up as supply-side constraints become more binding and subsidies are rolled back. All in, inflation in Asia ex-Japan is projected to pick up to 4.2% this year, from 4.0% in 2012.

Inflation was subdued in China and the NIEs but edged up in ASEAN and India.



Source: CEIC, EPG estimates
* Regional groupings are weighted by nominal GDP 2011
** India's series uses CPI (Industrial Workers) prior to 2012
Note: NIEs refer to Hong Kong, Korea and Taiwan.
ASEAN-4 refer to Indonesia, Malaysia, the Philippines and Thailand

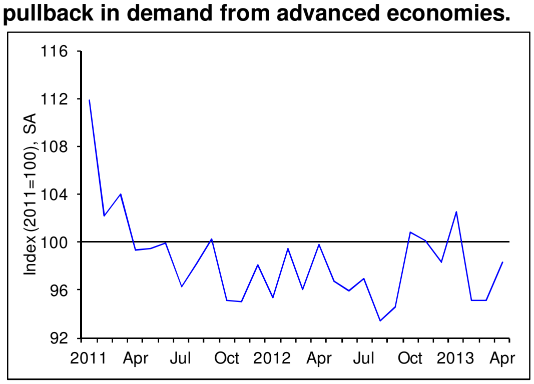
Table 1: Consensus Forecasts of GDP Growth

	2011	2012	Forecast	
			2013	2014
	Percent			
Industrial				
US	1.8	2.2	1.9	2.7
Japan	-0.6	1.9	1.4	1.5
Eurozone	1.5	-0.5	-0.5	0.9
UK	1.0	0.3	0.8	1.6
NIE				
Hong Kong	4.9	1.5	3.3	4.0
Korea	3.7	2.0	2.8	3.6
Taiwan	4.1	1.3	3.3	4.0
ASEAN				
Indonesia	6.5	6.2	6.2	6.3
Malaysia	5.1	5.6	5.2	5.3
Thailand	0.1	6.5	5.0	4.9
Philippines	3.6	6.8	6.1	5.9
China	9.3	7.8	7.9	7.9
India (FY)	6.2	5.0	6.1	6.8

Source: CEIC and Consensus Economics, May 2013
* Forecasts refer to fiscal year ending March

Growth momentum in the global IT industry waned in Q1 this year

Global chip sales slipped in Q1 alongside a pullback in demand from advanced economies.



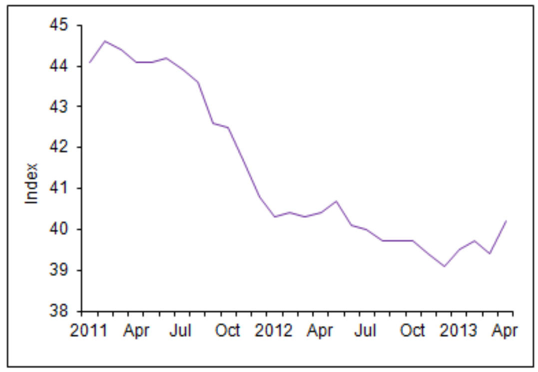
Source: Semiconductor Industry Association and EPG, MAS estimates

Global chip sales dipped by 2.3% q-o-q sa in Q1 2013, following an expansion of 4.7% in the previous quarter. The drag stemmed mainly from the US and Japan, where semiconductor revenues fell by 11.3% and 6.5% q-o-q sa respectively. However, chip sales in China, which account for around 20% of the global market, provided some support during the quarter. In early Q2, semiconductor revenues in China remained firm, contributing to a modest pick-up in global chip sales of 3.4% m-o-m sa in April 2013.

The retraction in global chip sales in Q1 took place against some renewed weakness in final IT demand from the advanced economies. Notably, growth in corporate IT spending by US firms slowed to 1.4% q-o-q sa, down from a stellar 14.8% in Q4 2012. There was also some pullback in Japanese corporate IT demand. According to a semi-annual business outlook survey conducted by the Cabinet Office, IT investment spending by firms in Japan fell by 29.3% in the October 2012 to March 2013 period compared to a year ago. In comparison, demand for electronics in emerging market economies was more resilient. For instance, corporate IT expenditure in China increased by 13.2% q-o-q sa in Q1.

Looking ahead, the global IT industry is expected to pick up only gradually through 2013. The inventory overhang is likely to dissipate this year. Indeed, the recent drawdown in semiconductor stockpiles led to some normalisation in inventory levels, which are now closer to their historical average prior to the Global Financial Crisis. Accordingly, chip prices—as proxied by the US Producer Price Index for semiconductors—have risen by nearly 3% since end-2012.

Semiconductor prices appeared to have levelled off.



Source: US Bureau of Labour Statistics

However, the road to recovery for the global semiconductor industry continues to be tentative, given the absence of strong global demand drivers. On balance, worldwide semiconductor sales should see some improvement in 2013 as a whole, but growth is likely to remain below trend for the third consecutive year.

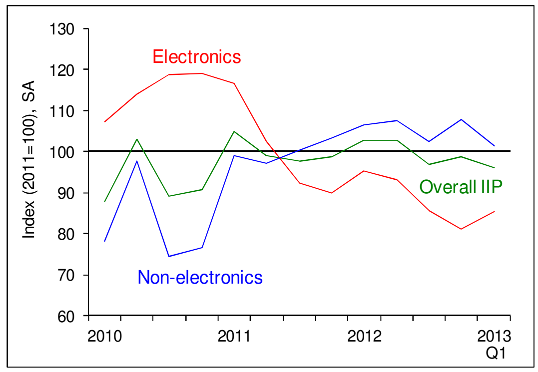
B. Domestic Developments

The Singapore economy continued on a modest recovery path in Q1 2013

After expanding by 3.3% q-o-q saar in Q4 2012, the Singapore economy grew at a slower pace of 1.8% in Q1 this year. Trade-related activities continued to display an uneven pattern, and retracted after a small uptick in the previous quarter. The financial services sector, however, saw a strong turnaround in Q1 2013, reflecting the sharp increase in both sentiment-sensitive and core financial intermediation activities. Meanwhile, the sectors dependent on domestic demand remained resilient, with construction and business services recording rapid growth.

The trade-related industries—which comprise manufacturing, wholesale trade and transport & storage—contracted by 10.5% q-o-q saar as a whole in Q1, following an expansion of 3.4% in Q4 last year. There were, however, mixed performances within this cluster. While non-IT activities registered broad-based declines, the IT sector appeared to be on an incipient recovery.

The IT and non-IT manufacturing clusters saw contrasting performances in Q1.



Non-electronics manufacturing output fell by 5.8% q-o-q sa in Q1, compared to an expansion of 5.2% in the previous quarter. Marked contractions were seen in the biomedical, transport engineering and chemicals clusters, though these were due in part to idiosyncratic factors. Notably, the drag in the biomedical industry stemmed from a steep decline in pharmaceuticals output on account of changes in the product mix, while maintenance shutdowns of petroleum plants contributed to a lower outturn in the chemicals sector. Meanwhile, the transport engineering cluster was weighed down by a 13.6% q-o-q sa contraction in the marine & offshore engineering segment, as a significant portion of revenues from offshore rig projects was booked in the preceding quarter. This downshift in non-IT manufacturing activities in turn weighed on some trade-related services segments. Specifically, sea cargo volumes handled by local port operators fell by 5.9% q-o-q sa in Q1, from a 1.0% expansion in Q4 2012.

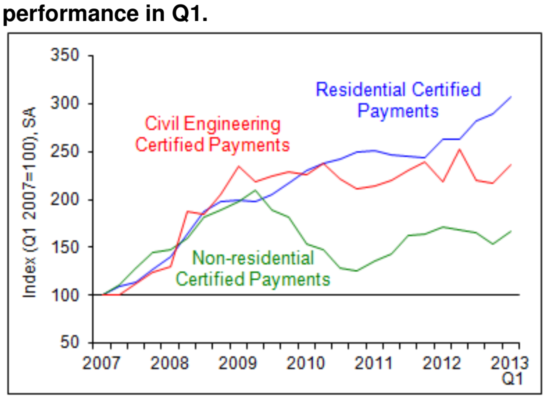
In contrast, IT production saw healthy gains of 5.3% q-o-q sa in Q1, reversing the decline of a similar magnitude a quarter ago. This pickup could in part reflect the restocking of inventories by domestic electronics firms in anticipation of strengthening demand conditions ahead. In particular, the semiconductor and computer peripherals segments posted robust expansions of 11.6% and 12.7% q-o-q sa respectively. This nascent upturn, which has occurred somewhat later than a few other countries in the region, was likewise evident in trade data, with domestic exports of electronics growing by 0.1% q-o-q sa, the first positive reading since Q1 last year. In turn, the fledgling recovery in the IT sector created some positive spillovers for the air transport industry, with air cargo volumes rising by 4.3% q-o-q sa in Q1, up from a 2.0% contraction in Q4 last year.

Meanwhile, tourism-related activities were robust. Air passenger arrivals rose by 4.0% q-o-q sa in Q1, buoyed by a recovery in tourist traffic from the advanced economies. This translated into higher demand for accommodation services. Despite an increase in hotel room supply, the occupancy rate rose to 87.5% sa, higher than the average of 86.2% recorded over the last three years.

The receding of external tail risks and resultant turnaround in investor confidence lifted activity in the finance & insurance sector. Some sentiment-sensitive clusters, such as stock broking and fund management, recorded solid gains in Q1 this year. Trading volumes in the local bourse grew by a robust 145.4% q-o-q, up from 25.3% in Q4 last year. The financial intermediation segment also saw healthy growth. Loans to domestic and regional firms expanded by 7.6% and 5.2% q-o-q respectively in Q1, twice the pace in the previous quarter.

Activities reliant on domestic demand stayed resilient. The construction sector grew by an impressive 16.5% q-o-q saar in Q1, boosted by the residential and civil engineering segments. Several projects contributed to the strong outturn, including private condominium developments as well as the Sports Hub and Marina Coastal Expressway. This created downstream benefits for ancillary professional services that are closely tied to the construction cycle, such as architectural and engineering services.

The construction sector turned in a robust performance in Q1.



The domestic economy is expected to expand by 1–3% in 2013

External tail risks have receded and there are signs that real activity in advanced economies such as the US and Japan is gradually picking up. The Asian economies are also expected to continue on a steady expansion path on the back of strengthening household incomes and a healthy pipeline of infrastructure investments. All in, the global economy is on course for a modest recovery through 2013, barring significant negative shocks.

The expected improvement in the global environment should impart some upside to the Singapore economy, especially the external-oriented sectors. Already, the domestic electronics industry has witnessed a nascent turnaround. In addition, prospects for the transport engineering segment should improve in light of scheduled rig deliveries and the expected completion of Sembcorp Marine's Integrated New Yard facility in the latter half of this year. The coming onstream of production at ExxonMobil's new steam cracker bodes well for the petrochemicals industry. Meanwhile, domestic-oriented activities would remain a key pillar of GDP growth, underpinned by ongoing infrastructural and residential construction. The community, social and personal services cluster would also continue to benefit from supply-side expansions in healthcare and education facilities.

Nonetheless, several headwinds could impinge on this outlook. The external environment remains vulnerable to fresh setbacks. On the domestic front, supply-side constraints could translate into temporarily higher business costs and limit the pace of the cyclical turnaround. As Singapore orientates itself towards higher value-added activities, the accompanying reallocation of resources would need time to run its course as firms adjust production settings and workers acquire new skills.

On balance, GDP growth is forecast to come in at 1–3% in 2013. Given the lingering risks in the global macro environment, the Singapore economy could continue to be confronted by intermittent bouts of volatility even as it embarks on a mild cyclical uptrend.

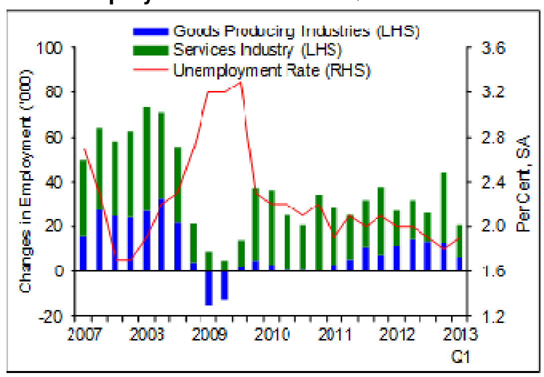
C. Labour Market and Consumer Prices

Job growth slowed in Q1 2013

Total employment expanded by 44,000 in Q4 2012, the largest increase since 2008, on the back of strong labour demand in domestic-oriented services and construction. However, preliminary estimates show that job creation eased across all sectors in Q1 2013, with overall employment gains of 20,800. Headcount increases in the construction sector slowed considerably to 7,800 in Q1 2013 from 11,100 in Q4 2012, while manufacturing shed 1,800 workers following modest gains of 900 a quarter earlier. The services sector raised employment by 14,600 in Q1 2013, less than half the seasonal high of 31,200 in Q4 2012.

Nonetheless, the labour market remained tight, with the seasonally-adjusted overall unemployment rate at 1.9% in Q1 2013. Resident wage growth picked up to 4.9% y-o-y in Q1 2013 from 2.5% in Q4 2012, reflecting stronger wage increases in the domestic-oriented sectors.

The unemployment rate rose in Q1.



CPI-All Items inflation fell sharply in April, while MAS Core Inflation moderated further

CPI-All Items inflation was unchanged at 4.0% in Q1 2013 compared to that a quarter earlier, as the stronger rise in car prices owing to higher COE premiums was offset by more moderate price increases in the other major categories. Price pressures in the global commodity markets were benign against generally sluggish demand and broadly stable geopolitical climate and weather conditions. Notably, lower global oil prices led to the first y-o-y decline in prices of domestic oil-related items since Q4 2009. Likewise, stable global food commodity prices kept domestic food inflation subdued. At the same time, accommodation cost inflation edged down due to a smaller increase in residential property rentals, while services costs such as public transport fares and healthcare fees rose more modestly.[1]

Excluding the costs of accommodation and private road transport, MAS Core Inflation fell from 2.0% in Q4 2012 to 1.6% in Q1 2013, mainly on account of the decline in prices of oil-related items and lower services inflation.

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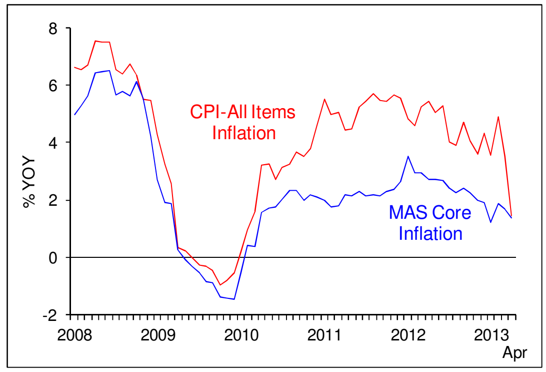
[1] For example, the increase in taxi fares slowed considerably from 9.0% y-o-y in December 2012 to 0.4% in January 2013 due to base effects associated with the upward adjustment in taxi fares in January 2012.

In April 2013, CPI-All Items inflation eased significantly to 1.5%, largely reflecting the continued effects of the motor vehicle-related policy measures introduced since late February[2], as well as the temporary impact from the disbursement of government rebates for HDB service & conservancy charges (S&CC)[3]. Prices of oil-related items also fell more steeply during the month. Meanwhile, the rise in services fees moderated slightly, on account of a decline in holiday travel cost and a smaller increase in school tuition fees. As a result, MAS Core Inflation slowed further to 1.4% in April.

MAS Core Inflation moderated further, while CPI-All Items inflation eased significantly in April.



Imported inflation will likely remain subdued this year, given ample supply buffers in the commodity markets. However, domestic cost pressures are expected to persist amid continuing tightness in the labour market, and cost pass-through to prices of consumer services could pick up slightly. Taking these factors into account, MAS Core Inflation is expected to rise moderately in the second half of the year and average 1.5–2.5% in 2013.

Imputed rentals on owner-occupied accommodation will continue to add significantly to CPI-All Items inflation, although the pace of increase will likely be slower than in 2012 due to the impending completion of a large number of private housing units. While COE premiums could fluctuate as the market continues to adjust to the motor vehicle-related policy measures, its contribution to CPI-All Items inflation is also likely to be lower. For 2013, CPI-All Items inflation is expected to be 3–4%.

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2 A tiered Additional Registration Fee (ARF) structure is now applied to cars, taxis and goods-cum-passenger vehicles, replacing the previous flat rate of 100% of the Open Market Value of the vehicle. In addition, financing restrictions on motor vehicle loans granted by financial institutions were introduced from end-February. Car loans are now limited to no more than 60% of the vehicle's purchase price and the repayment period to no more than five years. While this adds to overall car prices directly, it also likely dampens the demand for cars and hence prices. In early April, MAS lifted loan curbs on used cars for 60 days which could have temporarily shifted demand away from the new car market.

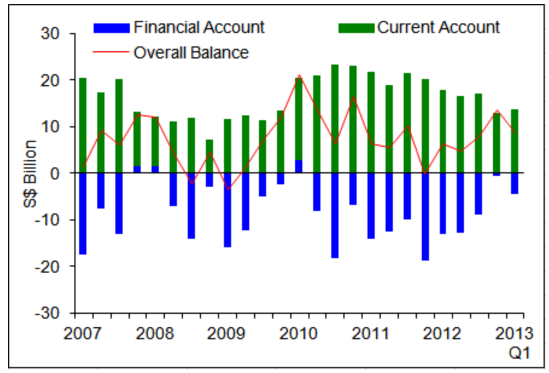
3 The government announced the disbursement of S&CC rebates for HDB households in Budget 2013. In April 2013, 1-, 2-, 3- and 4-room HDB households received 1-month S&CC rebates, while 5-room and Executive/ Multi-generation HDB households received a 0.5-month rebate.

D. Balance of Payments

A smaller surplus was recorded in the overall balance of payments

The overall balance of payments recorded a smaller surplus of $8.7 billion in Q1 2013, compared to $14 billion in Q4 2012. This primarily reflected an increase in net outflows in the capital and financial account, largely because of a pullback in capital inflows ("other investment") to the non-bank private sector.

Larger net capital outflows offset a slight increase in the current account surplus in the balance of payments.



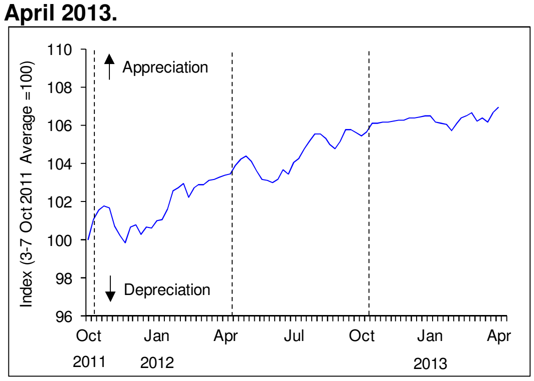
E. Macroeconomic Policies

In April 2013, MAS reaffirmed the prevailing monetary policy stance

i) Monetary Policy

Despite lingering uncertainties, stimulative monetary policies in the G3 have provided some support to global GDP growth. Against this backdrop, the Singapore economy is projected to grow at a modest pace in 2013, notwithstanding the consolidation in Q1. The labour market is expected to stay at full employment, due in part to supply-side constraints arising from tighter policy on foreign workers. As a result, wages should continue to rise, and the pace at which these costs are passed through to consumer prices could pick up in the second half of this year.

MAS maintained the monetary policy stance in April 2013.



----- indicates release of Monetary Policy Statement

Thus, MAS kept the S$NEER policy band on a modest and gradual appreciation path in April 2013, with no change to its slope, level or width. This policy stance is assessed to be appropriate for containing inflationary pressures, anchoring inflation expectations, and facilitating the restructuring of the economy towards sustainable growth.

The FY2013 Budget focused on supporting the economy's restructuring process and achieving more equitable growth over the longer term

ii) Fiscal Policy

The overall budget for FY2012 is estimated to have recorded a surplus position of $3.9 billion (1.1% of GDP), higher than the $1.3 billion projected in last year's Budget. This was largely due to higher revenue from stamp duties and vehicle quota premiums, as the housing market remained firm while COE prices reached record highs during the year.

Budget 2013 builds on the restructuring efforts put in place since Budget 2010, with additional initiatives for businesses to upgrade, create better jobs, and raise wages under the "Quality Growth Programme". Foreign worker policies were tightened further via higher foreign worker levies, lower dependency ratio ceilings, and tighter eligibility requirements for S Pass, with the least productive sectors that relied most heavily on low-skilled foreign workers being hit the hardest. To ease the burden of restructuring for businesses, a three-year Transition Support Package was put in place. A key feature of this package is the Wage Credit Scheme, whereby firms are encouraged to share the benefits of productivity gains with workers in the form of wage increases co-funded by the government. Firms were also given rebates on corporate income taxes and road taxes on commercial vehicles. More generally, the Productivity and Innovation Credit scheme was expanded to include more small and medium enterprises, and programmes to help match the needs of firms and trade associations with productivity solution providers were introduced.

In order to promote more inclusive growth, the 2013 Budget contained measures to enhance social mobility and reduce income inequality. It provided for comprehensive reforms to the pre-school sector, such that interventions to level the playing field for all school-going children can be made as early as possible. The Workfare Income Supplement Scheme was enhanced, with wider coverage and larger payouts, to offer targeted assistance to the elderly and low-income workers. The property tax structure was also made more progressive, while a tiered Additional Registration Fee (ARF) system was put in place such that purchasers of more expensive cars pay higher rates. Finally, the Budget had measures to ease the cost of living for households, with one-off special increases in GST Voucher payments, S&CC rebates, Medisave top-ups, and personal income tax rebates.

For FY2013, the government has projected a small basic surplus of $0.3 billion (0.1% of GDP), and an overall budget surplus (which include top-ups to trust and endowment funds and net investment returns contribution) of $2.4 billion (0.7% of GDP).

Summary of Fiscal Position

	FY 2011		FY 2012 Revised		FY 2013 Budgeted	
	$billion	**% of GDP**	**$billion**	**% of GDP**	**$billion**	**% of GDP**
Operating Revenue	51.1	15.2	55.2	15.9	55.0	14.9
Total Expenditure	46.6	13.8	50.1	14.5	53.4	14.5
Operating Expenditure	35.2	10.4	37.2	10.7	40.6	11.0
Development Expenditure	11.4	3.4	12.9	3.7	12.8	3.5
Primary Surplus/Deficit (-)	**4.5**	**1.3**	**5.1**	**1.5**	**1.6**	**0.4**
Less: Special Transfers Excluding Top-ups to Endowment and Trust Funds	2.9	0.9	1.5	0.4	1.3	0.4
Basic Surplus/Deficit (-)	**1.6**	**0.5**	**3.6**	**1.0**	**0.3**	**0.1**
Less: Top-ups to Endowment and Trust Funds	5.5	1.6	7.4	2.1	5.6	1.5
Add: NIR Contribution	7.9	2.4	7.7	2.2	7.7	2.1
Budget Surplus/Deficit (-)	**4.0**	**1.2**	**3.9**	**1.1**	**2.4**	**0.7**

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

Selected Indicators

GENERAL INDICATORS, 2012			
Land Area (Sq km)	715.8	Literacy Rate* (%)	96.4
Total Population ('000)	5,312.4	Real Per Capita GDP (US$)	45,973
Labour Force ('000)	3,361.8	Gross National Savings (% of GNI)	46.1
Resident Labour Force Participation Rate (%)	66.6		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2012		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2012	
Manufacturing	20.7	Private Consumption	39.2
Finance & Insurance	11.9	Public Consumption	9.7
Business Services	14.6	Private Gross Fixed Capital Formation	20.0
Construction	4.4	Public Gross Fixed Capital Formation	4.1
Transportation & Storage	7.7	Increase in Stocks	2.9
Information & Communications	3.8	Net Exports of Goods & Services	22.2
Wholesale & Retail Trade	17.0	Statistical Discrepancy	1.9
Accommodation & Food Services	2.5		

MAJOR EXPORT DESTINATIONS (% SHARE), 2012		MAJOR ORIGINS OF IMPORTS (% SHARE), 2012	
Total Exports (S$ Billion)	510.3	Total Imports (S$ Billion)	474.6
Malaysia	12.3	Malaysia	10.6
Hong Kong	11.0	China	10.3
China	10.8	US	10.2
Indonesia	10.6	South Korea	6.7
US	5.4	Taiwan	6.7
ASEAN	31.8	ASEAN	21.0
NIEs	18.6	NIEs	14.2
EU	8.9	EU	12.5

Source: IE Singapore

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2012		MAJOR IMPORTS BY COMMODITY (% SHARE), 2012	
Domestic Exports (S$ Billion)	285.1	Total Imports (S$ Billion)	474.6
Mineral Fuels	37.5	Mineral Fuels	32.6
Electronics	21.0	Electronics	24.8
Chemicals	17.8	Machinery & Transport Equipment (ex. Electronics)	16.6
Machinery & Transport Equipment (ex. Electronics)	9.7	Manufactured Articles	7.2
Manufactured Articles	8.2	Chemicals	6.8
Manufactured Goods	2.1	Manufactured Goods	6.2

Source: IE Singapore

OVERALL ECONOMY	2011	2012	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Mar-13	Apr-13
GDP at current prices (S$ bil)	334.1	345.6	85.5	85.8	86.2	85.2	88.3	86.9	na	na
GDP (US$ bil)	265.6	276.5	66.4	67.9	68.2	68.3	72.2	70.2	na	na
Real GDP Growth (YOY % change)	5.2	1.3	3.6	1.5	2.3	0.0	1.5	0.2	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	-2.3	7.8	0.1	-4.6	3.3	1.8	na	na
By Sector (YOY % change):										
Manufacturing [1/]	7.8	0.1	9.3	-1.2	4.1	-1.4	-1.1	-6.8	-3.8	4.7
Electronics [2/]	-12.8	-11.3	-23.9	-17.2	-8.4	-8.3	-10.6	-9.9	-7.4	1.1
Non-electronics [2/]	22.3	6.2	35.5	8.3	10.5	1.8	4.4	-5.3	-2.1	6.4
Finance & Insurance	8.9	0.5	-0.1	0.9	0.7	-2.9	3.3	10.5	na	na
Business Services	3.0	3.9	2.6	3.6	4.8	4.0	3.3	4.3	na	na
Construction	6.3	8.2	9.2	9.4	11.4	6.7	5.8	7.3	na	na
Transportation & Storage	3.8	2.7	1.7	4.3	1.7	1.7	3.2	-0.5	na	na
Information & Communications	3.6	2.6	1.8	3.8	1.8	1.1	3.8	2.9	na	na
Wholesale & Retail Trade	1.6	-0.7	2.5	-0.3	-0.7	-0.2	-1.5	-1.1	na	na
Accommodation & Food Services	8.2	2.8	3.7	4.2	2.7	2.1	2.2	2.1	na	na
By Expenditure Component (YOY % change):										
Consumption	3.7	0.9	0.6	2.1	1.1	-0.1	0.7	5.0	na	na
Private	4.6	2.2	2.7	4.7	1.6	0.5	2.0	1.6	na	na
Public	0.5	-3.6	-6.4	-4.4	-2.0	-2.4	-4.6	14.5	na	na
Gross Fixed Capital Formation	6.3	6.6	4.3	23.7	3.7	-3.8	5.8	-4.7	na	na
Private	5.2	6.9	3.4	30.2	3.0	-5.5	5.2	-7.0	na	na
Public	12.3	5.3	9.6	-0.7	7.8	5.9	9.2	6.6	na	na
External Demand	3.5	0.3	1.6	2.6	2.7	-2.1	-1.9	-4.2	na	na
TRADE										
Total Exports, fob (YOY % change)	7.5	-0.9	5.8	4.8	1.4	-4.2	-5.1	-8.7	-7.6	1.6
Non-Oil Domestic Exports	2.2	0.5	-2.7	6.0	3.7	-3.2	-4.2	-12.5	-4.8	-1.0
Re-Exports	1.4	-3.5	2.2	-1.3	-4.1	-0.2	-8.1	-6.1	-7.6	8.9
Total Imports, cif (YOY % change)	8.6	3.2	9.9	10.5	4.6	-1.3	-0.4	-9.3	-13.4	2.5
WAGE-PRICE INDICATORS										
Unemployment Rate (SA,%)	2.0	2.0	2.1	2.0	2.0	1.9	1.8	1.9	na	na
Average Nominal Wages (S$ per month)	4,334	4,433	4,655	4,717	4,162	4,078	4,773	4,948	na	na
Consumer Price Index Inflation (YOY % change)	5.2	4.6	5.5	4.9	5.3	4.2	4.0	4.0	3.5	1.5
MAS Core Inflation (YOY % change)	2.2	2.5	2.4	3.1	2.7	2.4	2.0	1.6	1.7	1.4
FINANCIAL INDICATORS [3/]										
S$ Exchange Rate Against: (end-period)										
US Dollar	1.3007	1.2221	1.3007	1.2572	1.2737	1.2254	1.2221	1.2436	1.2436	1.2342
100 Japanese Yen	1.6777	1.4214	1.6777	1.5321	1.6056	1.5799	1.4214	1.3205	1.3205	1.2603
Euro	1.6835	1.6151	1.6835	1.6782	1.6023	1.5844	1.6151	1.5892	1.5892	1.6163
Interest Rates (end-period, % p.a.)										
3-month Fixed Deposit Rate	0.14	0.14	0.14	0.13	0.14	0.14	0.14	0.14	0.14	0.14
3-month Domestic Interbank Rate	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38
Prime Lending Rate	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38	5.38
Money Supply (end-period)										
Broad Money, M2 (YOY % change)	10.0	7.2	10.0	9.7	6.5	6.1	7.2	8.5	8.5	9.6
Straits Times Index (end-period)	2,646.4	3,167.1	2,646.4	3,010.5	2,878.5	3,060.3	3,167.1	3,308.1	3,308.1	3,368.2
YOY % change	-17.0	19.7	-17.0	-3.1	-7.8	14.4	19.7	9.9	9.9	13.1
GOVERNMENT BUDGET [4/]										
Operating Revenue (S$ mil)	50,986	54,284	11,391	12,001	14,700	14,554	13,030	13,517	na	na
Total Expenditure (S$ mil)	46,771	47,271	11,221	15,590	9,149	10,745	11,787	17,322	na	na
Operating Expenditure	35,011	34,810	8,415	12,087	6,055	8,113	8,555	13,698	na	na
Development Expenditure	11,761	12,461	2,806	3,502	3,094	2,632	3,232	3,624	na	na
Primary Surplus/Deficit (S$ mil)	4,214	7,013	171	-3,589	5,551	3,809	1,243	-3,805	na	na
% of GDP	1.3	2.0	0.2	-4.2	6.4	4.5	1.4	-4.4	na	na
BALANCE OF PAYMENTS										
Current Account Balance (% of GDP)	24.6	18.6	23.7	20.8	19.3	19.9	14.5	15.6	na	na
Goods Balance	27.4	22.0	28.3	22.4	23.3	24.2	18.4	19.2	na	na
Services Balance	0.3	0.1	-0.3	1.1	-0.5	0.1	-0.1	0.8	na	na
Primary Income Balance	-0.8	-1.1	-2.0	-0.2	-1.3	-1.9	-1.1	-1.7	na	na
Secondary Income Balance	-2.2	-2.4	-2.3	-2.4	-2.2	-2.5	-2.6	-2.6	na	na
Capital & Fin Account Balance (% of GDP)	-16.6	-10.3	-22.1	-15.4	-15.0	-10.4	-0.6	-5.3	na	na
Direct Investment	11.2	12.1	11.6	12.5	10.7	13.5	11.9	13.7	na	na
Portfolio Investment	-4.8	-17.8	7.1	-14.0	-10.3	-20.4	-26.3	-15.9	na	na
Financial Derivatives	-4.5	-5.8	-3.6	-4.9	-5.0	-6.2	-6.9	-8.7	na	na
Other Investment	-18.5	1.1	-37.4	-8.9	-10.4	2.7	20.6	5.6	na	na
Overall Balance (% of GDP)	6.4	9.4	-0.4	7.4	5.6	9.2	15.3	10.0	na	na
Official Foreign Reserves (US$ mil) [5/]	237,737	259,307	237,737	243,583	243,383	252,148	259,307	258,186	258,186	261,678
Months of Imports	7.8	8.2	7.8	7.8	7.7	8.1	8.2	8.3	8.3	8.4

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