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LIST OF ABBREVIATIONS

ACU	Asian Currency Unit
ASEAN	Association of Southeast Asian Nations
capex	capital expenditures
COE	Certificate of Entitlement
CPF	Central Provident Fund
CPI	consumer price index
CSP	community, social & personal
DLI	Domestic Liquidity Indicator
EIA	Energy Information Administration
EPG	Economic Policy Group
FAO	Food and Agriculture Organisation of the United Nations
FI	Fiscal Impulse
GST	goods and services tax
HDB	Housing Development Board
HNWIs	high net worth individuals
IATA	International Air Transport Association
IDC	International Data Corporation
IMF	International Monetary Fund
IPI	import price index
IPO	Initial Public Offering
IRs	Integrated Resorts
ISM	Institute of Supply Management
LFPR	labour force participation rate
m-o-m	month-on-month
MENA	Middle East/North Africa
MEQ	machinery and equipment
MMS	Monetary Model of Singapore
NIEs	newly-industrialised economies
NEER	nominal effective exchange rate
OECD	Organisation of Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries
PIC	Productivity and Innovation Credit
PMETs	professionals, managers, executives and technicians
PMI	Purchasing Managers' Index
q-o-q	quarter-on-quarter
REER	real effective exchange rate
S&CC	Service & Conservancy Charges
SAAR	seasonally-adjusted annualised rate
SIBOR	Singapore interbank offered rate
SITC	Standard International Trade Classification
SOR	swap offered rate
SME	small and medium enterprise
WTO	World Trade Organisation
WTI	West Texas Intermediate
y-o-y	year-on-year

Preface

The *Macroeconomic Review* is published twice a year in conjunction with the release of the MAS Monetary Policy Statement. The *Review* documents the **Economic Policy Group's (EPG)** analysis and assessment of macroeconomic developments in the Singapore economy, and shares with market participants, analysts and the wider public, the basis for the policy decisions conveyed in the Monetary Policy Statement. It also features in-depth studies undertaken by EPG on important economic issues facing Singapore.

The *Review* was edited by Associate Professor Peter Wilson, and continues to feature our collaborations with various academics. We are pleased to have Professor Ilian Mihov of INSEAD Singapore write about the link between export diversification and economic development in Special Feature B. We are also grateful to Dr Sanjay Kalra of the Asia and Pacific Department, IMF for contributing Box A which examines shifting global trade patterns.

The data used in the *Review* were drawn from the following government agencies, unless otherwise stated: BCA, CPF Board, DOS, EDB, HDB, IE Singapore, LTA, MOF, MOM, MTI, STB and URA.

The *Review* may be accessed in PDF format on the MAS website: http://www.mas.gov.sg/publications/macro_review/index.html.

The *Review* may also be purchased at major bookstores, online (<http://asp.marketasia.com.sg/Spore/sporeindex.asp>), or on an annual subscription basis (details can be found on the last page).

Highlights

Since the last *Review*, global economic growth has regained some momentum, underpinned by stronger private demand in the advanced economies. Asia has remained resilient, despite the gradual unwinding of fiscal and monetary stimulus measures put in place during the Great Recession. With this more supportive external backdrop, the Singapore economy witnessed a broad-based expansion in Q1 2011. Nonetheless, the immediate economic outlook remains clouded by external uncertainties that could potentially weigh on growth prospects should these incipient risks escalate. With rising commodity prices, inflation has emerged as a potential risk in Asia. The geopolitical tensions in the MENA region and the still-unfolding Japanese tragedy further underscore the vulnerabilities in the global economic landscape. Fiscal sustainability issues in the G3 and persistent banking sector weaknesses in parts of the Eurozone continue to provide some cause for concern.

Chapter 1 begins with an overview of recent developments in the external environment and in the domestic economy. It also traces the phases of growth of the Singapore economy since its rebound from the trough in Q1 2009 – from the powerful, but transient, boost of the global inventory restocking cycle in the earlier half of 2010, to a lull in the latter half of the year, followed by a progression to a more advanced stage of recovery in Q1 2011. Notably, Singapore's growth profile has tended to mirror developments in the global economy, with services leading the recovery on the back of strong regional support, before broadening to include a pickup in manufacturing as demand in the US strengthened.

Chapter 2 turns to recent trends in the labour market and prices, highlighting the robust job creation in the services sector and rising inflation seen in recent quarters. Strong employment growth has resulted in a further tightening of the labour market and higher wage growth, though the pass-through from wages to price inflation has been relatively contained thus far. Instead, the rise in inflation can largely be attributed to sharp increases in the costs of cars and accommodation. Excluding these two items, which are heavily influenced by changes in administrative policies, MAS Core Inflation increased at a more moderate pace. In Box B, we take a closer look at this measure of inflation as a gauge of underlying price developments in the Singapore economy.

Chapter 3 focuses on the outlook for both the external and domestic economies, and details the potential fallout from Japan, which is likely to be limited at this stage. While some pullback in domestic economic activity in Q2 2011 could occur, the underlying drivers of growth remain broadly intact. Anchored by the strong performance in Q1, Singapore's GDP growth is expected to come in at the higher end of the forecast range of 4-6% in 2011, supported by a moderate but broad-based expansion across a range of industries. Nevertheless, this assessment is dependent on a relatively sanguine macroeconomic environment in the key industrialised countries as well as an effective containment of the nuclear risks in Japan and the political unrest in the MENA countries. The chapter ends with an assessment of the macroeconomic policy mix in Singapore, highlighting MAS' third successive tightening of monetary policy in April 2011, which was complemented by a more neutral FY2011 Budget. In Box C, we summarise the macroeconomic impact of the FY2011 Budget on Singapore's GDP growth and CPI inflation this year using the Monetary Model of Singapore.

To complete this *Review*, we highlight three issues that have had implications for ongoing structural changes in the Singapore economy. First, Box A by Dr Sanjay Kalra of the IMF, provides evidence on the steady shift in the centre of gravity of global trade from the US and Japan to China and the rest of Asia over the past one and a half decades. Asia has evolved from being merely a region of producers of consumer goods to becoming a significant exporter of capital goods, attesting to the rising sophistication of the region's export mix. In Special Feature A, EPG uncovers the key factors driving private machinery investment in Singapore and shows how these factors have changed in importance over the last three decades in response to the changing needs of the economy. Finally, this *Review* concludes with a Special

Feature by Professor Ilian Mihov of INSEAD titled, “On the Links between Trade Diversification and Economic Development”. This feature identifies the factors driving the diversification of a country’s export base and the effect this has on economic development. His findings suggest that countries are more likely to achieve higher income growth if they succeed in diversifying their export base over time, by allocating resources towards the production of new goods which embody new technologies.

The next issue of the *Review* will be released in October 2011.

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