

## SINGAPORE

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The Singapore economy continues to face challenges in its transition from an average of 7.5% growth over the past five decades to 2-4% growth over the near to medium term. Amid restructuring and a slowing economy, local employment in 2016 grew the least since 2003. The economy expanded 2% yoy in 2015 and 2016 with positive surprises coming from 4Q16's 2.9% growth. Advance estimates indicate a pullback in 1Q17 to 2.5% growth but this is largely statistical. There is an export-led recovery underway and if it can be sustained, 2017 growth should come in at the upper end of the official forecast range of 1-3%. Although growth and inflation are edging higher, they are still within the monetary authority's forecast range. Hence, there was no change to the neutral policy stance of the SGD NEER in the April policy meeting.

### **An uneven recovery in external demand underway ▶**

- 4Q16 GDP growth of 12.3% qoq annualized and the nearly 3% yoy rate surpassed market expectation, as manufacturing sector saw a sharp rebound. However, it wasn't a balanced rebound within the sector as stronger growth in technology and chemical (including biomedical) sub-sectors were offset by marine & offshore engineering sub-sectors.
- The services producing industries which account for 66% of the economy slowed to 1.0% growth in 2016, the weakest in seven years. Growth was weighed down primarily by the wholesale & retail trade sector, finance & insurance and business services while other services such as accommodation, information & communications as well as education, health & social services remained relatively resilient.
- The accommodation and food services cluster grew 1.7% in 2016 vs. 0.7% in 2015 helped by stronger visitor arrivals. Led by stronger China and a recovering ASEAN, total tourist arrivals rose 7.7% last year to a record 16.4m tourists (+0.9% to 15.2m in 2015). Importantly, the stronger arrivals finally translated into higher spending despite subdued business and consumer sentiments. Tourism receipts grew by nearly 14% to reach S\$24.8bn (-6.8% to S\$22.0bn in 2015).
- Singapore, being a small open economy depends on strong global demand for its goods and services if the economy is to show firmer growth. Fortunately, trade and manufacturing have started 2017 on an encouraging note. Moreover, soft data, meaning surveys of confidence or intent, have been strong. Despite geopolitical risks, and policy uncertainty, investment and employment confidence are at their highest in two years, suggesting firms are very much in expansion mode which bodes well for the sustainability of the upturn. However, the hard data have not been so encouraging, exemplified by the 0.7% growth of the US economy in 1Q17. Moreover, it should be noted that the past decade has been marred by false dawns, in which bouts of optimism, especially at the start of the year have been undone.
- It is believed that the Chinese economy will slow down but despite that global growth should pick up modestly in 2017 and into 2018. Based on that, GDP growth is projected to be at between 2.5-3.0% for 2018.

- A small technical issue. Given the jump in 4Q16 GDP growth, expect elevated levels of GDP for 2017. As such, even modest quarter-on-quarter increases will give a much larger year-on-year number.

### **Weaker labour market conditions not a surprise** ▶

- After two years of uneven below par growth of 2% and as the economy continues to restructure, the annual average resident unemployment rate rose from 2.8% in 2015 to 3.0% in 2016, the highest since 2010. The increase was broad-based across most age and education groups, with larger increases among those aged 30 to 39 and 50 & over, as well as those with secondary and degree qualifications. The annual average resident long-term unemployment rate, though still low, rose from 0.6% in 2015 to 0.8% in 2016, and was higher among those aged 50 & over, and among degree holders. Against the backdrop of the softer labour market conditions, the government enhanced existing and introduced new schemes to help jobseekers when it unveiled its budget proposals in February. These include higher wage and training support for Professionals, Managers, Executives and Technicians (PMETs) and rank-and-file workers to enter new jobs and careers, with a greater focus on those older and unemployed for longer periods.

### **Neutral monetary policy stance and weaker currency** ▶

- The higher inflation rates in Asia and Singapore are predominantly boosted by supply-side factors, rather than demand-side drivers as growth recovery is still at a nascent stage and it has not yet translated to greater private consumption demand given the uncertainties. Although core inflation edged higher to just over 1% at the start of the year, it is premature to make any changes to the neutral policy stance of the SGD NEER. As expected, the Monetary Authority of Singapore (MAS) maintained a neutral stance at the April policy meeting.
- For the foreseeable future, MAS is likely to keep the current stance unchanged given that the GDP growth and core inflation outcome are within their forecast range. The MAS expects core inflation, which excludes accommodation and private road transportation, to rise 1–2% this year, compared with 0.9% in 2016.
- In 2018, the SGD is likely to weaken against the USD given a neutral policy stance and the expectation that other regional currencies will weaken versus the USD. But that weakness is more likely to be later in the year. For the time being the USD/SGD pair is expected to be at 1.40 by the end of 2017, largely due to near term dollar weakness.

### **Risks and Other Issues** ▶

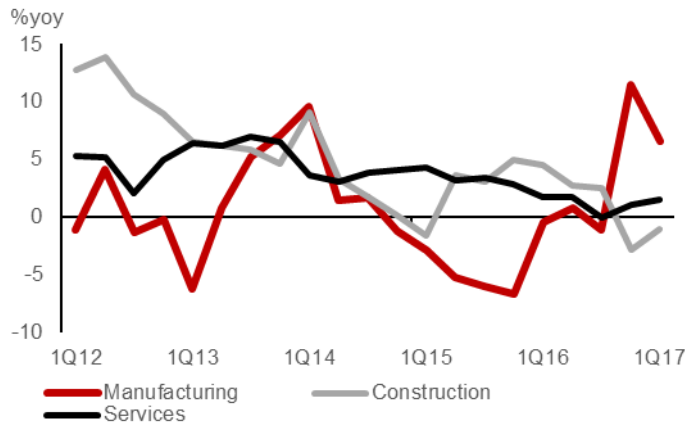
- Supported by improved economic fundamentals, the risk of capital flight from the region has seemingly receded as Asian currencies maintained strength amid policy uncertainties in the US. While there is a note of cautious optimism among regional central banks, the sustainability of the current upswing is dependent on (a) steady economic growth in US/developed economies, (b) stability in the European political



landscape during this elections-filled year, (c) no serious untoward events in global geopolitics, (d) a steady China on both the political and economic fronts, and (e) minimal protectionist policies from President Trump's administration. These are the known key risks, and if the VIX volatility index is any guide, investors seem to be less "fearful" of these risks now than any time before the 2008/09 global financial crisis although this complacency might well be misplaced.

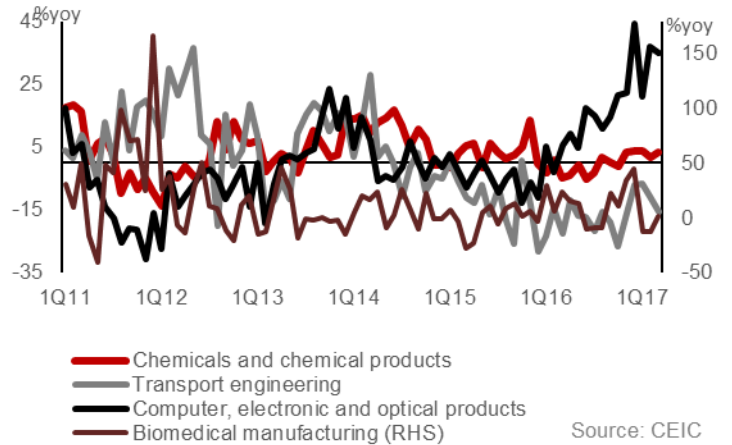
Despite a bounce in 4Q16, an improving-but-not-great global economy weighs on Singapore's growth prospects. The small open economy leaves little room for stimulus.

**Figure 1: GDP by components**



Source: CEIC

**Figure 2: Industrial output growth**



Source: CEIC

The pulse of Singapore's economy can be gauged from how busy the airports and seaports are

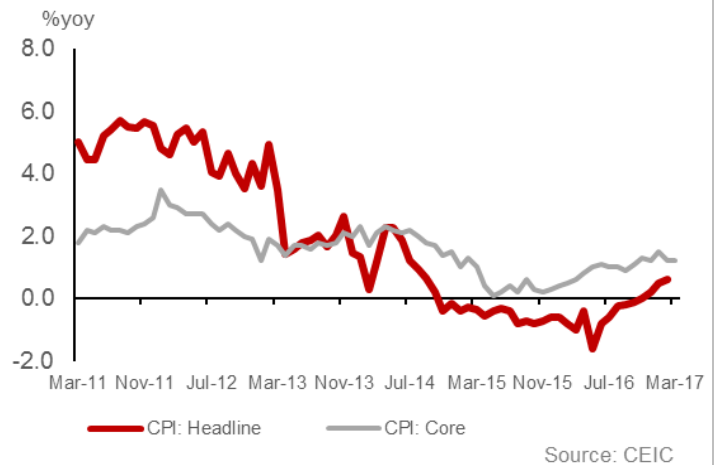
**Figure 3: Flights and cargo**



Source: CEIC

Despite a modest uptick, headline and core inflation remain a non-issue for the central bank

**Figure 4: Inflation**



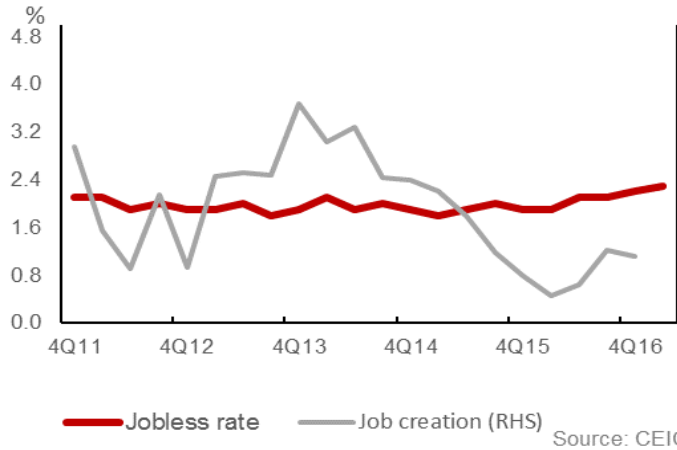
Source: CEIC

Labour market conditions have softened, but Singapore remains a full-employment economy

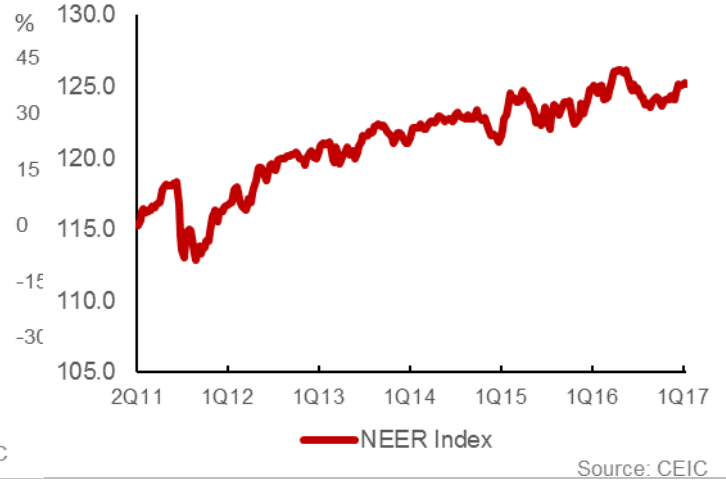
Full employment and mild core CPI resulted in the central bank not changing its exchange rate policy



**Figure 5: Labour market conditions**



**Figure 6: NEER index**



<b>Annual Data</b>	<b>2016</b>					
Nominal GDP (USD bn)	297.1					
GDP per capita (USD)	52,962					
Population (mn)	5.6					
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>
Real GDP growth (%yoy)	4.7	3.3	2.0	2.0	2.2	2.5
Real consumption growth (%yoy)	4.7	1.7	4.9	1.8	3.3	4.1
- Public consumption (%yoy)	11.1	-0.1	6.6	6.3	2.2	5.0
- Private consumption (%yoy)	3.1	2.2	4.5	0.6	3.6	3.8
Real gross fixed capital formation (%yoy)	5.7	-2.6	-1.0	-2.5	3.2	2.0
Real export growth (%yoy)	4.8	4.3	2.5	1.6	-	-
Real import growth (%yoy)	4.5	3.9	2.1	-	-	-
Nominal export growth (%yoy)	2.3	3.2	-4.7	-2.7	8.2	3.5
Nominal import growth (%yoy)	2.4	2.3	-7.5	-3.3	9.9	2.5
Trade balance (USD bn)	33.9	39.0	49.8	46.1	-	-
- % of GDP (%)	11.3	12.7	17.0	15.5	-	-
Current account balance (USD bn)	53.8	53.5	57.9	56.5	58.8	60.2
- % of GDP (%)	17.9	17.5	19.8	19.1	19.7	20.5
Reserves, end of period (USD bn)	18.2	6.8	1.1	-1.8	-	-
- foreign reserves to months of imports	5.7	5.3	5.9	-	6.6	6.6
Fiscal balance (% GDP)	1.9	1.4	1.1	-0.6	3.5	5.0
Retail Sales Index growth, average (%yoy)	-5.1	0.4	4.4	2.2	3.0	3.0
Industrial production growth, average (%yoy)	1.7	2.7	-5.1	3.7	2.5	3.0
Narrow money (M1) growth, average (%yoy)	14.8	4.2	1.2	2.6	-	-
Broad money (M2) growth, average (%yoy)	7.8	1.8	3.2	4.5	-	-
Consumer Price Index (CPI), end of period (%yoy)	1.5	-0.1	-0.6	0.2	-	-
Consumer Price Index (CPI), average (%yoy)	2.4	1.0	-0.5	0.2	1.5	1.5
Wholesale Price Index, average (%yoy)	-2.7	-3.3	-15.3	-0.5	-	-
10Y government bond yield, yearly average (%)	2.06	2.36	2.44	2.01	2.10	2.20
Exchange rate vs USD, end period	1.30	1.30	1.40	1.45	1.40	1.43
<b>Quarterly data</b>	<b>4Q15</b>	<b>1Q16</b>	<b>2Q16</b>	<b>3Q16</b>	<b>4Q16</b>	<b>1Q17</b>
GDP (%yoy)	1.8	2.1	2.1	1.2	2.90	2.50
CPI, average (%yoy)	-0.7	-0.8	-0.9	-0.39	0.03	0.63
10Y government bond yield, quarterly average (%)	2.52	2.13	2.05	1.80	2.22	2.29
Exchange rate vs USD, end period	1.41	1.35	1.35	1.36	1.41	1.42

SOURCE : CEIC, CIMB Research



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