

Singapore Economy

Headline Growth To Surge

UOB Economics Projections	2008	2009	2010F	2011F
GDP	1.4	-2.0	5.8	4.5
CPI (average, y/y)	6.6	0.6	3.0	3.5
Unemployment (%)	2.5	2.1	2.6	2.6
Current account (% of GDP)	14.8	11.5	17.0	16.5
Fiscal balance (% of GDP)	0.1	-1.1	0.8	1.3

- *We are expecting the economy to possibly expand 12% y/y in the 1Q, and 24.8% on a saar, q/q basis. The boost will come from the manufacturing sector, which might show a record 28.5% y/y growth rate in 1Q, the highest ever since Singapore's independence. But the headline growth rate is exaggerated by the low base from 2009. We are maintaining our full year forecast of 5.8% for 2010, with possibility of further upside.*
- *The electronics and pharmaceutical output have shown incremental growth. Services, particularly tourist-related segments such as retail, and hotels, should get an uplift from the 2 IRs. The financial services segment should also firm up as tourist arrivals rise, boosting growth at least for this year and next. The next quarter should see more of a positive impact from the IRs, with Marina Bay Sands expected to open in Apr.*
- *On the inflation front, we expect the CPI to come in slightly lower, at around 3% from our initial forecast of 3.5%, due to the rebasing of the CPI. Inflation looks likely to trend up, on higher crude oil price, which will result in rising costs of transport.*

Economy to be Boosted by IRs

A year on from the record 9.4% contraction in the 1Q09, the economy is slated to show a double-digit expansion in the beginning of this year. The low base of last year contributed to the robust growth rate seen in Jan and Feb. Singapore's recovery is on track, with the engines of manufacturing and services humming along. Industrial output should climb on the back of the recovery. Demand for Singapore's exports seems to be coming back slowly, although a decisive rebound in manufacturing still depends on the sustained growth in the US and EU. The services sector, on the other hand, look likely to benefit from the 2 IRs and we see a strong rebound in the retail, restaurants, and financial services segment. We are expecting the economy to possibly expand 12% y/y in the 1Q, and 24.8% on a saar, q/q basis. The boost will come from the manufacturing sector, which might show a record 28.5% y/y growth rate in 1Q, the highest ever since Singapore's independence. But again, the numbers are exaggerated by the low base from 2009. We forecast the services sector to register a 7.3% y/y growth rate, with all segments such as retail, hotels, financial services and transport and storage improving. We are maintaining our full year forecast of 5.8% for 2010, with possibility of further upside. MTI has revised its projection for 2010 GDP upwards, to 4.5-6.5% from 3.0-5.0% for this year, noting the pick up in trade flows, industrial production and financial markets.

In the manufacturing sector, the electronics and pharmaceutical output have shown incremental growth. The construction sector should also continue to benefit from government proposals to develop infrastructure as well as rejuvenating some housing estates, although we expect the sector to slow from 2009, with the absence of large-scale projects such as the IRs. Services, particularly tourist-related segments such as retail, and hotels, should get an uplift from the 2 IRs. The financial services segment should also firm up as tourist arrivals rise, boosting growth at least for this year and next. The next quarter should see more of a positive impact from the IRs, with Marina Bay Sands expected to open in Apr.

Monthly economic indicators are up, with recent exports and manufacturing showing improvement. But the rosy year-on-year numbers mask some softness. In Jan and Feb this year, non-oil domestic exports (NODX) were up 20.5% y/y and 23.4% y/y, respectively. Industrial production has risen 39.2% and 19.1% in Jan and Feb. A reading of the NODX nominal value however, rather than the y/y growth rates, shows recovery inching upwards, rather than a decisive upwards trajectory. NODX levels are still where they were in 2005, and nowhere near the higher levels in the pre-crisis years boom years of 2006, 2007 and 2008. The other indicator, industrial production is dependent on the volatile pharmaceutical sector, which can be prone

Singapore Economy

to gyrations. On month PMI is still in expansion mode, but very near the 50 threshold, separating contraction and expansion. The PMI reading for Jan was 53.3, but this dropped to 51.4 in Feb, and 51.9 in Mar. There should however continue to be expansion in manufacturing, given the recovery in the global economy, which should stoke demand for these exports. The extent of the expansion, however, is another matter. Another indicator pointing to the rebounding economy is the unemployment rate, which has dropped quite significantly to 2.1% at the end of the year, from 3.4% in the 3Q, largely on the back of hiring in the 2 IRs. 38,700 jobs were even created in the 4Q, bringing

the total job gains to 38,800 for the whole year, when initial forecasts were of severe job losses.

On the inflation front, we expect the CPI to pick up speed this year, although our estimates have been lowered to around 3% compared to our initial forecast of 3.5%, due to the rebasing of the CPI. Inflation looks likely to trend up, on higher crude oil price, resulting in rising costs of transport. Lower agricultural output induced by drought should also force food prices up, while accommodation costs should also climb northwards. The low unemployment rate would also indicate that demand-side inflation will come back.

But some risk factors for the economy still remain. NODX to key markets such as the US and EU have not come back strongly, as household demand there remains tepid and unemployment high. The extent of the recovery still depends heavily on external demand from US and UK returning. At least positive signs are emerging, from the US, which is showing a rise in consumer sentiment, and retail sales climbing up slowly. Sovereign debt especially in the Eurozone, remains a particular cause for concern as these would also impact trade with Singapore. The other point to note is that domestically, with the recent budget focused on raising productivity levels, some slowdown in certain labour-intensive sectors is expected, with the heavy focus on training as well as raising of levy rates on work permit holders. Manufacturing, constructing and some service sectors which rely heavily on foreign labour will bear the brunt of the initiatives.

