

Singapore Focus II

Singapore Economy: Easing Growth, Global Uncertainty Heightened

UOB Economic Projections	2009	2010	2011F	2012F
GDP	-0.8	14.5	4.8	4.5
CPI (average, y/y %)	0.6	2.8	4.6	3.2
Unemployment rate (%)	2.3	2.2	2.1	2.2
Current account (% of GDP)	17.8	22.2	20.5	19.5

- Although we think a technical recession in the 3Q for the domestic economy could be averted due to the strong August IP numbers, even in the event of one, we are not expecting the recession to be prolonged, with the 4Q swinging back to growth on a q/q saar basis, with full year growth at 4.8% and 2012 GDP expanding at 4.5%.
- The key manufacturing and export segment of electronics still looks soft, while recent lifts in data have been driven by the volatile pharmaceutical segment. But weak external demand will impact Singapore's economy adversely.
- Next year, we expect to see slower growth in the economy of around 4.0-4.5%, brought on by a drop in external demand as well as the restrictions in foreign labour, which would hit labour intensive sectors such as manufacturing, construction and some service sectors.
- The 3M SGD SIBOR looks likely to continue to hold steady at around a rate of 0.4% for an extended period of time, into 2013, mirroring the low Fed funds rate. The direction of the SIBOR historically moves in tandem with the US fed funds rate.

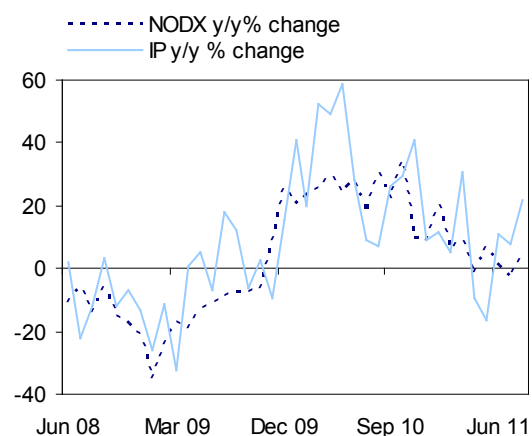
The outlook for the domestic economy has turned quickly in a few short months. GDP growth has been downgraded by the government amidst a weak global outlook, and all this attributable to the swift deterioration in the Europe and US. 2Q domestic GDP expanded only 0.9% y/y, -6.5% q/q saar. We had expected a technical recession in the 3Q, but given the surprise strength in the August IP numbers, a technical recession might be averted. Even in the event of one, we are not expecting the recession to be prolonged, with the 4Q swinging back to growth on a q/q saar basis, with full year growth at 4.8% and 2012 GDP expanding at 4.5%. Softer external demand emanating from the stalled recovery in the US and debt crisis in the Eurozone will impact Singapore's manufacturing sector and some segments in services.

Looking at recent monthly economic indicators, the data is mixed. Latest manufacturing and exports figures were very bullish, but the surge came from volatile segments such as pharma. In the case of Singapore's manufacturing output for Aug, manufacturing surged 21.7% y/y, +3.9% m/m s/adj, with the surprise rise coming from pharmaceutical manufacturing, while weakness in the electronics sector persisted, showing a deeper contraction. The strong Aug data could possibly see a technical recession averted in the 3Q, if Sep's IP figures continue on the same strong growth trajectory, with pharma output continuing to lift the manufacturing sector. The unevenness of the growth

profile among the different clusters is of concern, as the trend decline in electronics is masked by the exceptional pharma output surge. IP growth could quickly reverse should pharma output start to plunge.

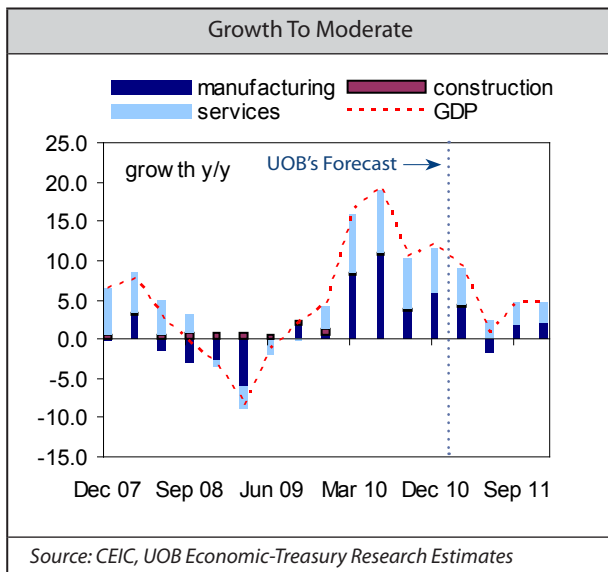
And Aug's NODX also posted a surprise rebound but it was largely on the back of exports of ships, more a one-off surge. Electronics—a key export, continue to show persisting declines, and hoped-for Christmas orders do not seem

NODX And Industrial Production Showed Surprise Rise, But External Weakness Should Weigh



Source: CEIC, UOB Economic-Treasury Research Estimates

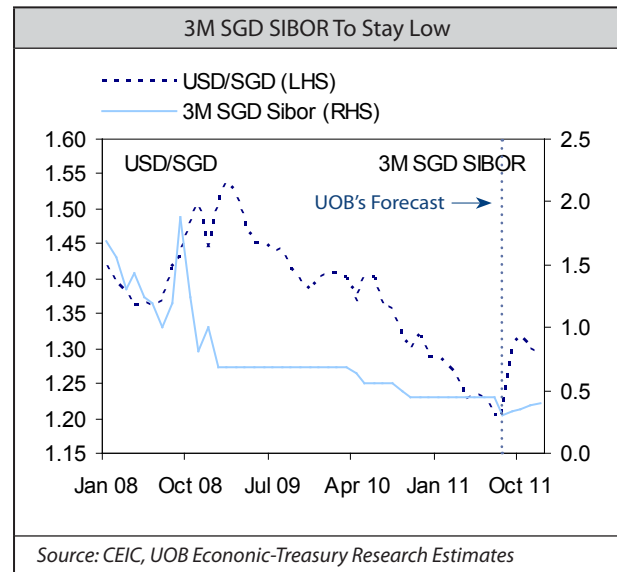
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to have come in as yet, while pharmaceutical shipments contracted. The outlook for global semiconductors is also likely to remain weak on slowing demand, which could spell softness ahead for Singapore's electronics exports. The US semi book to bill ratio in Jul fell markedly, to 0.86 from 0.94, signaling less orders received. The stalled US recovery, and a possible Greek default are weighing on sentiment and external demand for Singapore's exports, which will impact the manufacturing sector and some trade-related service sectors. Next year, we expect to see slower growth in the economy of around 4.0-4.5%, brought on by weak external demand as well as the restrictions in foreign labour, which would hit labour intensive sectors such as manufacturing, construction and some service sectors.

Inflation Remains Elevated, But Should Moderate Slightly

CPI inflation continued to trend upwards in Aug, up 5.7% y/y, 0.7% m/m, on higher housing and transport costs, which are components impacted more by government policy. Looking ahead, headline inflation should moderate slightly, although



it could still hover around the 5.0-5.5% y/y range over the next few months, on higher accommodation costs. The slowdown in economic growth seems to have dampened consumer sentiment, with the latest COE prices already dipping, and lower commodity prices possibly lowering the costs of food and fuel. All this should help ease inflationary pressure. For the full year, we are maintaining our forecast for CPI inflation at 4.6%, within MAS' headline inflation forecast of 4.0-5.0%.

3M SGD SIBOR To Stay Flat

The 3M SGD SIBOR looks likely to continue to hold steady at around a rate of 0.4% for an extended period of time, into 2013, mirroring the low Fed funds rate. The direction of the SIBOR historically moves in tandem with the US fed funds rate. MAS' current policy of modest and gradual appreciation which sets SGD on a strengthening path should also continue to draw liquidity and keep the interest rate low. However, the risk of SIBOR rising has increased due to greater expectation that the MAS could ease the slope of the SGD NEER policy band to one of gradual appreciation.