

ECONOMIC SURVEY OF SINGAPORE (1Q11)

(19 May 2011)

Key Messages

- 1 Good morning and welcome to MTI.
- 2 Today, we will discuss the growth outlook for 2011, in the context of recent global and domestic economic developments.
- 3 MTI now expects GDP growth for 2011 to be around **5 to 7 per cent**. This is higher than the 4 to 6 per cent forecast we had previously announced.
- 4 Our latest forecast reflects three key considerations:
 - a. First, economic performance in the first quarter of this year has come in stronger than expected.
 - b. Second, while there are continuing uncertainties, the external environment remains supportive of growth in the near term.
 - c. Third, a number of industry-specific factors are expected to bolster growth in the domestic economy.
- 5 Let me bring you through each of these factors.

Economic Performance in 1Q11

- 6 First, economic performance in the first quarter of 2011. We have started the year with a solid economic performance.
 - a. On a year-on-year basis, the economy grew by 8.3 per cent in the first quarter of 2011. Coming from a high base in 2010, this represents a very healthy pace of growth for the economy.

- b. Growth momentum has picked up strongly. Compared to the preceding quarter, the economy grew by 22.5 per cent on a seasonally adjusted annualised basis.
- c. Notably, the manufacturing sector rebounded by 75 per cent on a sequential basis. This was due to a strong boost from the biomedical manufacturing (BMS) cluster, resulting from a higher value added mix of active pharmaceutical ingredients being produced.
- d. The services-producing industries also performed well. In particular, the financial services sector delivered a stronger-than-expected performance on a sequential basis, despite recent turbulence in global financial markets. This was mainly due to the robust recovery in the domestic economy, which led to strong growth in domestic business lending.

7 With this firm start in 2011, the economy is on track to deliver higher growth this year compared to what we had earlier anticipated.

External Outlook

8 Second, the external economic environment continues to be conducive for Singapore's growth. In the latest World Economic Outlook released in April, the International Monetary Fund has maintained its 2011 growth forecast for the global economy at 4.4 per cent.

9 The **US** economy is expected to continue to grow for the rest of the year, although at a modest pace.

- a. There have been gradual improvements in the US labour market, although the pace has been slower compared to past recoveries. Coupled with rising wages and loosening credit conditions, this will underpin growth in household consumption.
- b. Business investment in the US is robust, as healthy balance sheets and improving sales contribute to rising business confidence.

10 In **Europe**, the economic recovery continues, notwithstanding sovereign debt concerns in certain European economies. In fact, on an annualised basis, growth accelerated to 3.1 per cent in the first quarter of 2011, from 0.9 per cent in the preceding quarter.

- a. Domestic demand is expected to improve, although the pace of growth may be weighed down by the effects of fiscal austerity measures, coupled with high unemployment and tight credit.
- b. Growth will also be supported by strong external demand. For example, Germany's exports rose to record levels in March this year, with extra-EU trade rising by 26 per cent in February on a year-on-year basis.

11 Finally, **Asia** remains a bright spot and will continue to lead global growth.

- a. Despite monetary tightening measures, domestic demand is expected to remain firm in the region. In **China**, business investment is expected to continue growing on the back of strong corporate profitability. Physical infrastructure investment is also expected to receive a boost from new social housing programmes.
- b. Other regional economies, such as **Indonesia** and **Malaysia**, will also likely continue to see healthy growth in domestic demand. This comes on the back of robust household consumption and investment spending. In Malaysia for example, investment should be boosted by the roll out of government-led initiatives and overall positive business confidence.

12 Overall, forward looking indicators point to a steady recovery in external economic conditions. Global economic indicators such as the OECD's Composite Leading Indicator continue to increase in recent months. Regional manufacturing activities are also expected to keep up at a robust pace, as evidenced by the most recent Purchasing Managers' Index (PMI).

Industry-specific factors

13 Besides the conducive macroeconomic environment, industry-specific factors will lend support to domestic growth momentum and bolster Singapore's full year growth for 2011.

- a. In the manufacturing sector, two sectors will provide a boost:
 - (i) The chemicals cluster will see production ramp-up by new plant operations as well as a step-up of petroleum production. This will be accompanied by improving refining margins.
 - (ii) The Biomedical Sciences (BMS) cluster will also be boosted by inventory building activities which are done in anticipation of stronger global demand for pharmaceutical products.
- b. In the financial sector, lending and insurance activities will be boosted by the continued recovery in the domestic and regional economies. The sentiment-sensitive industries within the sector could see some improvement, as fund managers have started rebalancing their portfolios towards Asia, following outflows in the first quarter of 2011.

Downside risks

- 14 However, there are three downside risks that we are particularly watchful.
- a. First, oil price volatility. It has increased significantly in recent months. Concerns of oil supply disruptions due to political turmoil in the Middle East and North Africa (MENA) region have led to an escalation of global oil prices. Should a severe disruption in oil supply occur and cause prices to escalate, global growth will be negatively affected. Nevertheless, our view is that the likelihood of this materialising is low at this juncture, as the worst-affected countries such as Libya and Bahrain are not key exporters of oil. Some members of the Organisation of the Petroleum Exporting Countries (OPEC) have also made commitments to increase oil production to cope with any supply disruptions in the region.

- b. Second, in the European Union, concerns of a sovereign debt default have grown. Marginal borrowing costs are at all-time highs for the peripheral European economies, and market volatility has risen considerably. Some form of restructuring may have to occur in the medium term. If and when that materialises, there could be significant negative spillovers on the rest of the world via the impact on cross border bank and trade flows.

- c. Third, the Tohoku earthquake and the ensuing tsunami and nuclear plant damage have resulted in power outages and production disruptions in Japan. The duration of these disruptions remains uncertain but company feedback suggests that the present inventory level is sufficient to meet domestic production demands for a number of months, and the local manufacturers could be affected should the disruption in supply from Japan persist into the second half of 2011.

15 The escalation of risks do not form part of our baseline assumptions. Nevertheless, we will continue to monitor them closely, given the significant impact they may have on the global economy.

16 Finally, aside from these external risks, there are also challenges on the domestic front. Cost pressures remain a concern, given the increase in economic activity and the current tight labour market conditions. As supply-side constraints become binding, cost pressures could continue to build up further and this would have some impact on business activities. We will continue to watch this closely over the next few quarters.

17 We are happy to take your questions now.