

ECONOMIC SURVEY OF SINGAPORE (2Q11)

(10 August 2011)

Key Messages

- 1 Good morning and welcome to MTI.
- 2 Today, we will discuss the growth outlook for 2011.
- 3 The key announcements have already been made by the Prime Minister in his National Day Message on Monday.
 - a. The Singapore economy grew by **4.9 per cent** in the **first half** of this year, a slight improvement from the advance estimates.
 - b. Growth is now expected to come in at **5 to 6 per cent for the year as a whole**. This is at the lower half of our earlier forecast range of 5 to 7 per cent.

Economic Performance in 2Q11

4 We had earlier factored a weaker second quarter, following the strong growth in the first quarter. However, the global economy experienced a sharper-than-expected decline. Let me elaborate.

- a. Growth in the **US economy** came in at a weak 1.3 per cent in the second quarter. Notably, private consumption was flat as households were constrained by higher energy prices and weak labour market conditions. Growth in the first quarter was also revised downwards sharply in the US.
- b. In the **European Union**, household spending has also declined as higher energy prices cut into real disposable incomes, while the on-going sovereign debt crisis weighed on consumer sentiments.
- c. The weakness in final demand in the advanced economies affected **Asia's** exports and industrial production. Supply chain disruptions in the aftermath of Japan's Tohoku earthquake also weighed down on regional trade and manufacturing activities.

The slowdown was further exacerbated by monetary tightening and inventory adjustments in key economies such as China.

5 Against this macroeconomic backdrop, growth in the Singapore economy eased considerably in the second quarter.

- a. On a year-on-year basis, the economy grew by **0.9 per cent**, down from 9.3 per cent in the first quarter.
- b. Growth momentum took a sharp turn. On a seasonally adjusted quarter-on-quarter annualised basis, the economy contracted by 6.5 per cent, following the 27 per cent expansion in the first quarter.
- c. Externally-oriented sectors, including **manufacturing and wholesale trade**, bore the brunt of the slowdown, particularly as global demand for electronics softened.
- d. Within the manufacturing sector, the **biomedical manufacturing (BMS) cluster** saw a sharper-than-expected

decline in output, as companies switched to producing a different value mix of pharmaceutical products.

Outlook for 2H11

6 Notwithstanding the sharper-than-expected moderation in the second quarter, our central expectation is that the Singapore economy will experience a modest pick-up, in year on year terms, in the second half of the year.

7 Globally, the effects of some of the temporary factors that dampened growth in the second quarter appear to have eased.

- a. Industrial activity in Japan has recovered strongly in the past few months. This indicates that the supply chain disruptions from the Tohoku earthquake have started to subside.
- b. Global oil prices have also come off their recent peaks, as concerns over oil supply disruptions in the Middle East and North Africa region have retreated. This will provide some support for global final demand.

8 In Asia, growth is expected to remain firm, reflecting continued strength in domestic demand. Notably, in China, household spending has continued to increase alongside healthy wage growth.

9 These developments are expected to support growth in our externally-oriented sectors in the second half of the year.

Industry-specific factors

10 In addition, the Singapore economy will benefit from several industry-specific factors in the near term.

- a. The manufacturing sector is expected to be bolstered by a recovery in the biomedical manufacturing cluster, as companies step up production in anticipation of stronger demand.
- b. In the financial services sector, while the activities that are sensitive to sentiment will be dampened by the heightened uncertainties in the external environment, the core financial

intermediation and insurance clusters should provide some support to growth.

- c. Finally, the tourism-related sectors are likely to remain healthy, with strong inflows of visitors sustained by the Integrated Resorts and key events such as the upcoming Formula One Grand Prix.

11 Given these factors, we could achieve growth of 5 to 6 per cent for the whole year. The upper end of this range reflects a scenario where the external economy shows a modest upturn in the second half of the year. The lower end of the range reflects a scenario where weaknesses in the external economy continue to persist.

Downside risks

12 At the same time, I would like to caution that the downside risks to the forecast have increased.

- a. First, although the US government recently concluded a deal to avert default and allow for continued federal borrowing, market

observers have expressed doubts about its effectiveness in addressing long-term fiscal sustainability. Market observers are still assessing the impact of the recent downgrade of the long term US sovereign debt rating on areas such as borrowing costs, financial market confidence and the pricing of risk. In the worst case scenario, a sharp decline in market sentiment or disorderly re-pricing of asset risk could cause dislocations in global financial markets and affect growth.

- b. Second, the US economy, which is already growing sluggishly, may weaken further. Notably, consumer and business sentiments are deteriorating, affected by the upcoming plans for fiscal consolidation and the still-depressed labour and housing markets.

- c. Third, market sentiments in the EU remain fragile, despite the announcement of a new set of emergency measures last month to address fiscal sustainability for Greece. Should markets remain unconvinced of the efficacy of the latest bailout measures, risks of contagion to the wider EU region could still

occur. This would result in significant impact for the global economy.

13 The recent market volatilities underscore these concerns. We are watching the external developments very closely. While we expect Singapore's near-term growth prospects to hold up at this point, for the reasons mentioned earlier, a severe turn of events could negatively affect the economy. Should these external risks materialise, the Singapore economy could stall or even see a sequential decline in the second half of the year, which would bring full-year growth below our forecast range.

14 Together with my panel members, I would now take your questions.