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School of Humanities & Social Sciences

Outlook for the Singapore Economy: Macroeconomic Projections for 2009

A Presentation by

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Division of Economics
School of Humanities and Social Sciences
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Forecasting in uncertain times

- Should not try to predict too often and too far ahead in times of **low economic visibility**, so we only forecast for 2009
- Econometric models break down when the economy undergoes **structural breaks** (the Lucas critique)
- Our forecasts are based instead on detailed analysis of **leading economic indicators** — time series that give early warnings of downturns and recoveries — and **subjectively adjusted** to reflect non-quantifiable factors



The US economy is still in recession ...

- A consensus of sorts amongst American economists: growth in 2009H1 will be negative, followed by recovery in H2 (fiscal stimulus package of US\$787 billion taken into account).

US GDP Growth	Survey of Professional Forecasters		National Association for Business Economists	
	QOQ (%) (Annualised)	YOY (%)	QOQ (%) (Annualised)	YOY (%)
2009Q1	-5.2	-2.3	-5.0	-2.3
Q2	-1.8	-3.4	-1.7	-3.4
Q3	0.9	-3.1	1.0	-3.0
Q4	2.3	-1.0	2.1	-0.9
2009		-2.5		-2.4



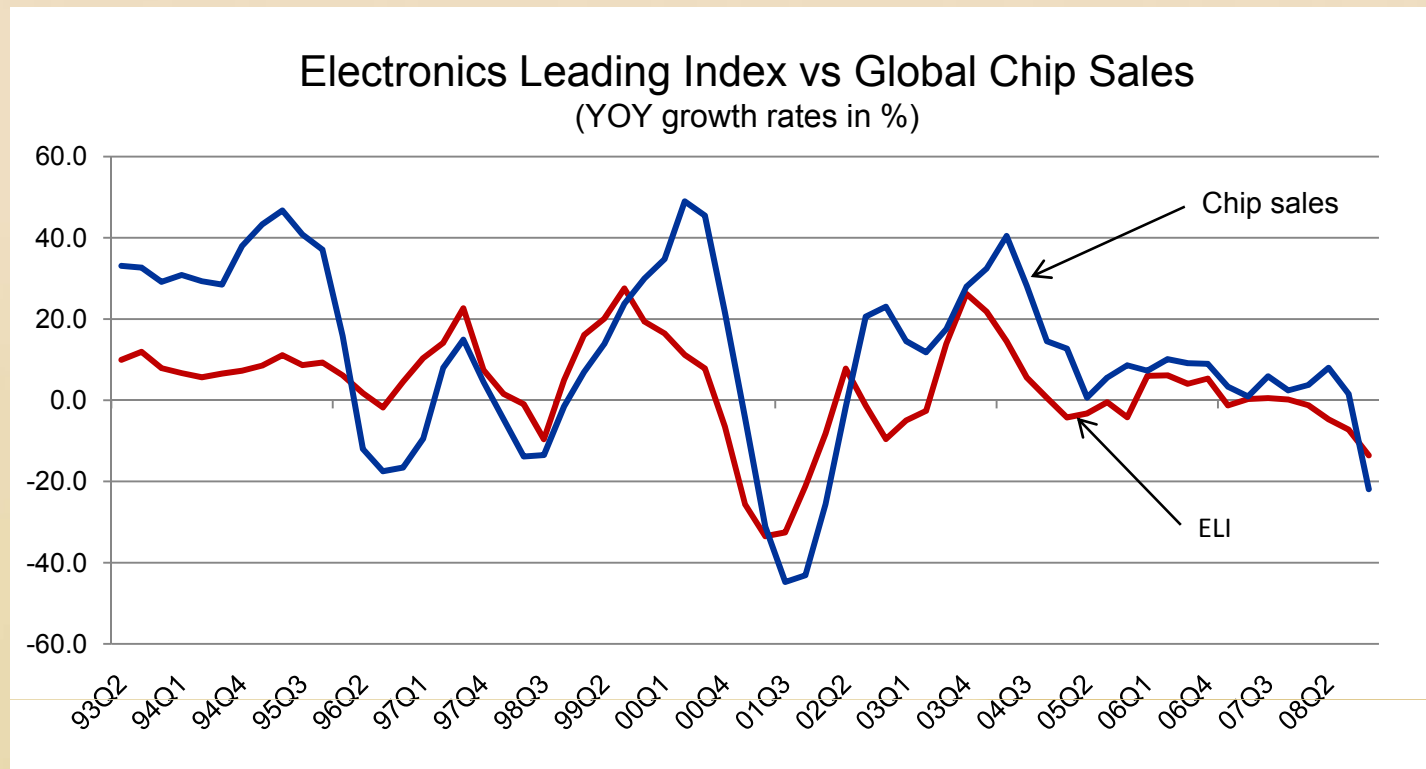
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... while our Electronics Leading Index portend further weakness ahead...





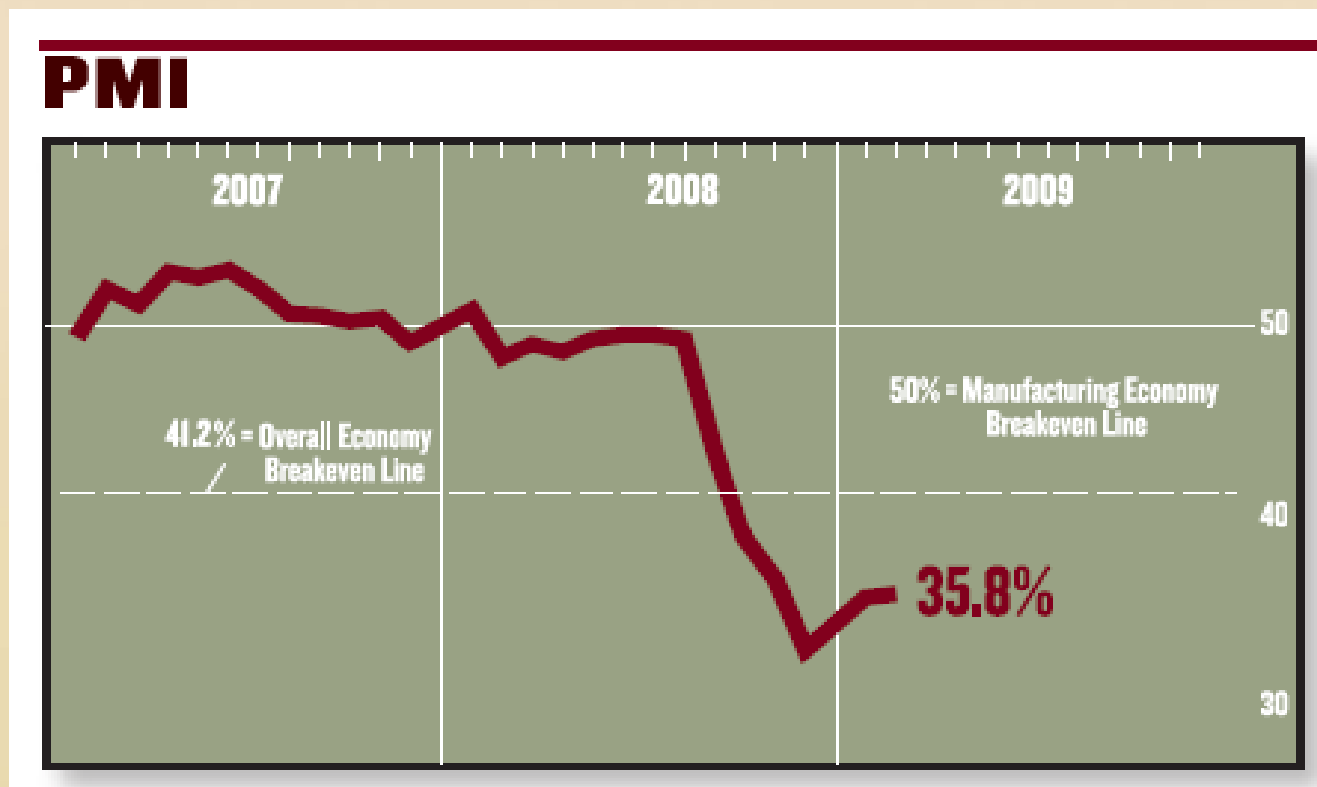
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But the US Purchasing Managers' Index has rebounded in Jan and Feb ...





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... and other leading indicators signal an inflection point

- **US leading index** rose slightly in January 2009 and fell again at a slower rate in February, although 6 out of the 10 components actually increased, including **new orders** and **money supply**
- **Euro leading index** increased by 0.5% in January after declining in Nov and Dec
- **Housing starts** in the US, a leading indicator of the construction industry, actually grew by 22% in February compared to January.



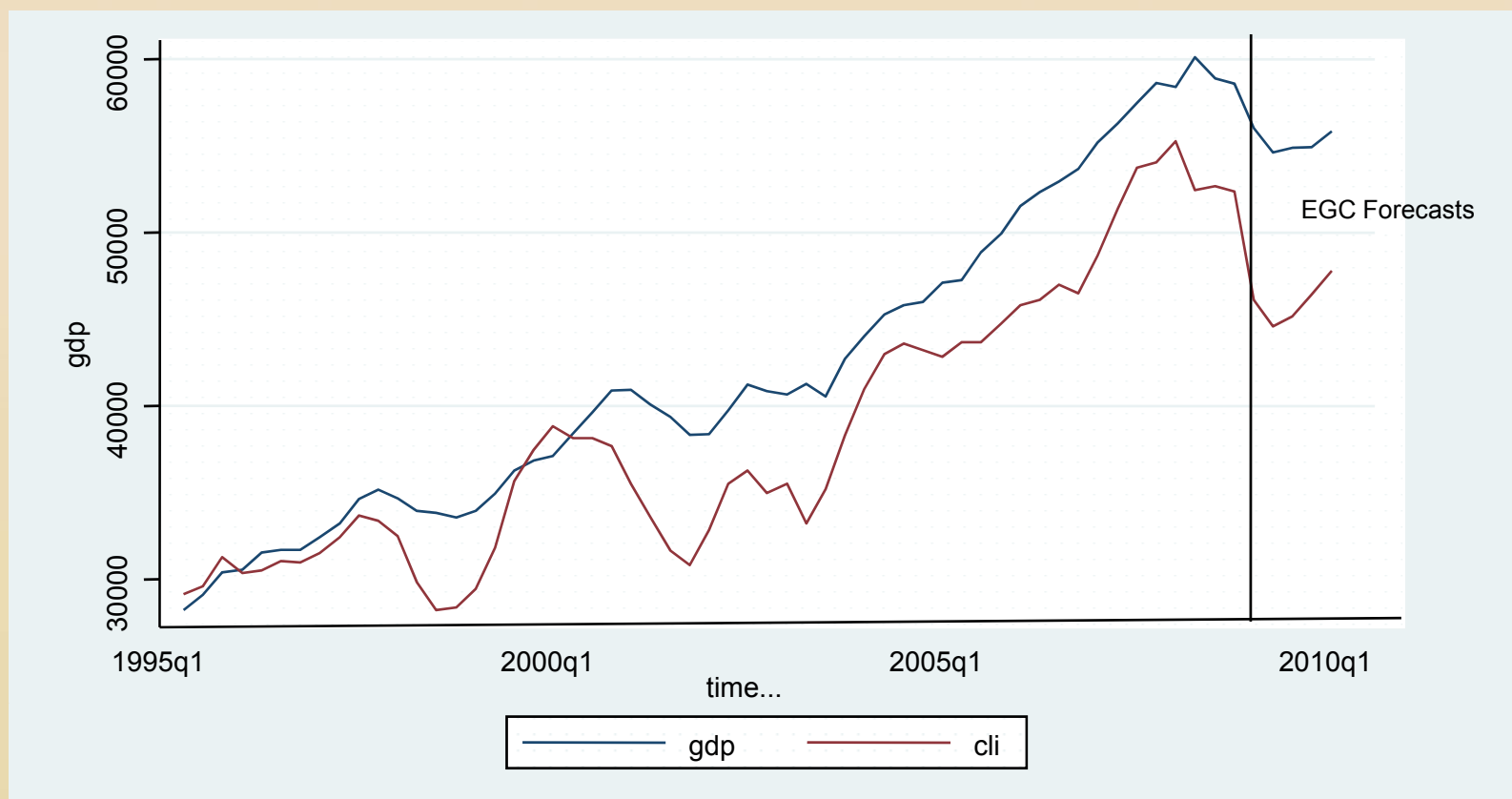
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Singapore's own leading series suggest that the worst may be over soon





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Singapore GDP Forecasts

- We predict the Singapore economy will shrink by about **4%** in 2009 and growth will only resume in **2010**
- A bottom is likely to be reached in Q1, followed by smaller contractions in Q2/Q3

Real GDP Growth	YOY (%)
2009Q1	-8.7
Q2	-5.2
Q3	-3.5
Q4	1.5
2008	1.1
2009	-4.0



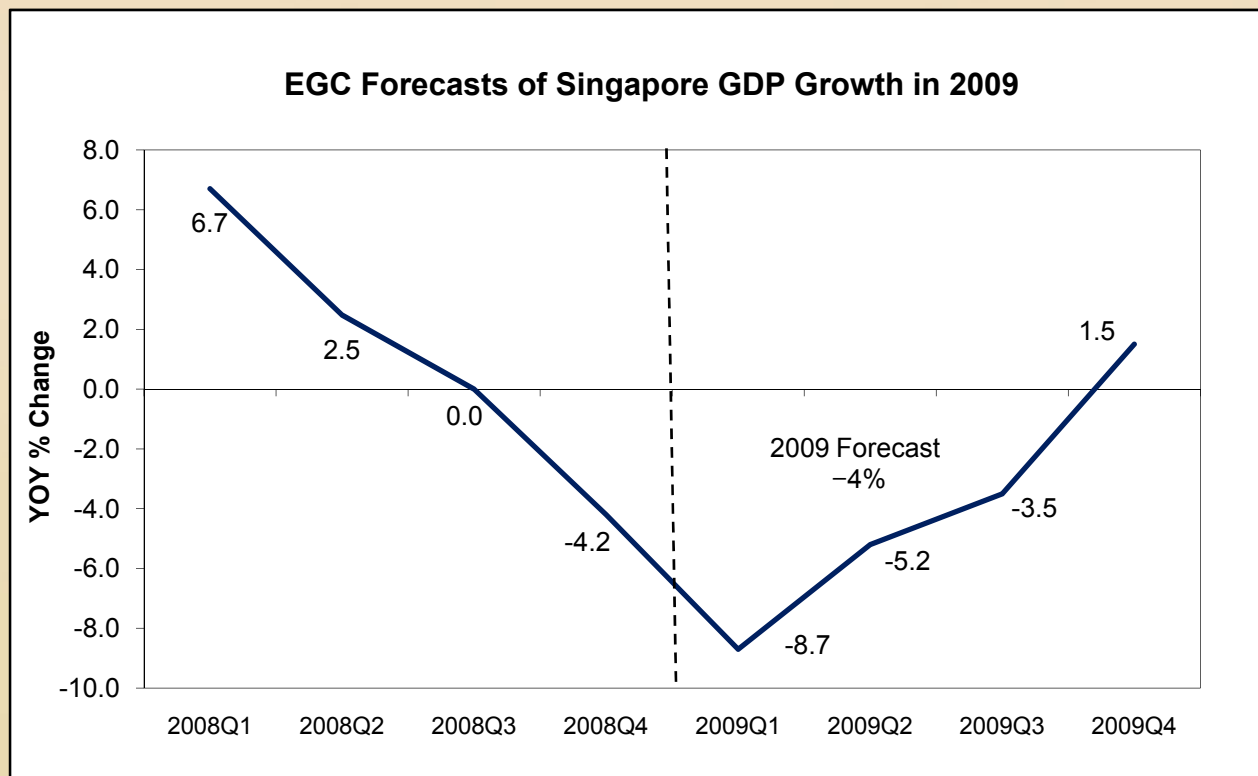
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The light at the end of the tunnel?





Sectoral Projections

- Manufacturing output will be hard hit and is expected to contract by **12%** this year
- Construction activities will provide a boost of about **0.7%** point to GDP growth from public projects worth \$20 billion
- Service sectors will be pulled down by the manufacturing recession, shrinking visitor arrivals and lethargic financial activity

	Mfg	Construction	Services
2009 Q1	-27.4	29.0	-4.9
Q2	-11.8	15.9	-4.5
Q3	-7.8	9.4	-3.0
Q4	-1.5	10.7	2.2
2008	-3.7	20.3	4.8
2009	-12.1	16.2	-2.6



Disinflation Forecasts

- The inflation rate is expected to decline sharply this year as excess capacity builds up and world commodity prices remain subdued
- The overall price level will slide down through the year, leading to deflation in late 2009

CPI Inflation	YOY (%)
2009Q1	3.7
Q2	1.1
Q3	-1.5
Q4	-3.8
2008	6.5
2009	-0.1



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Caveats

- Our predictions assume resolution of **banking insolvency** problems and resumption of global credit lending
- **Fiscal stimulus** to be injected by Singapore government has been factored into forecasts, and estimated to add **1½** percentage points to real GDP
- Although **export competitiveness** is not currently an issue, it should be watched carefully as the economy recovers



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Forecasts for the Singapore Labour Market: 2009

- Scenario 1: If there are signs of recovery by June 2009, the labour market which has held out for so long, will not see its worst possible (assuming flexible wage adjustment takes effect).
- Scenario 2: If there no signs of recovery by then, the labour market will shrug off the stimulus package and all three forecast variables will descend a long way.
- The forecasts presented are for first scenario.



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Few Signs of Changing Jobs Situation

- 2008Q4 figures confirm that local job market reacting to global slowdown
- Weakening jobs situation widely anticipated
- Construction and Services continued to see net creation of jobs
- Weakness confined to a few areas



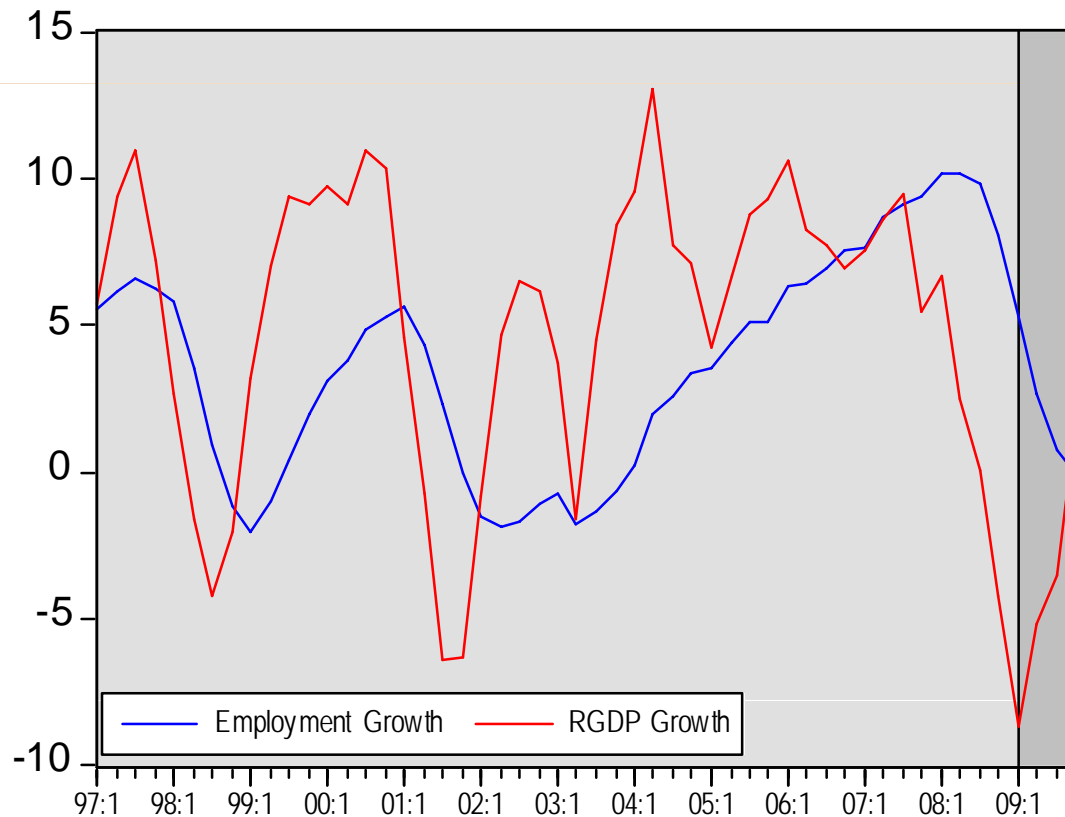
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Employment Lags RGDP Changes



Time-series Plots:
Employment Growth
and Real GDP Growth,
1997:1-2009:4 (Units:
percentage points
YOY).



Forecasts for the Singapore Labour Market: 2009

	Employment Change ('000)	Unemployment Rate, SA (%)	Growth in Monthly Wage, YOY (%)
All Year	-70	3.6	- 1.1
2009 Q1	- 10	3.1	2.5
Q2	- 20	3.3	- 0.5
Q3	- 20	3.8	- 1.5
Q4	- 20	4.2	- 5.0



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Unemployment To Increase

- Unemployment rate to creep upwards.
- 2.5% in 2008Q4: effectively full employment.
- Can be attributed to tripartite approach to wage negotiations: retrenchments have been held off in deference to wage flexibility.
- Although deteriorating, unemployment forecast may be considered fairly benign.



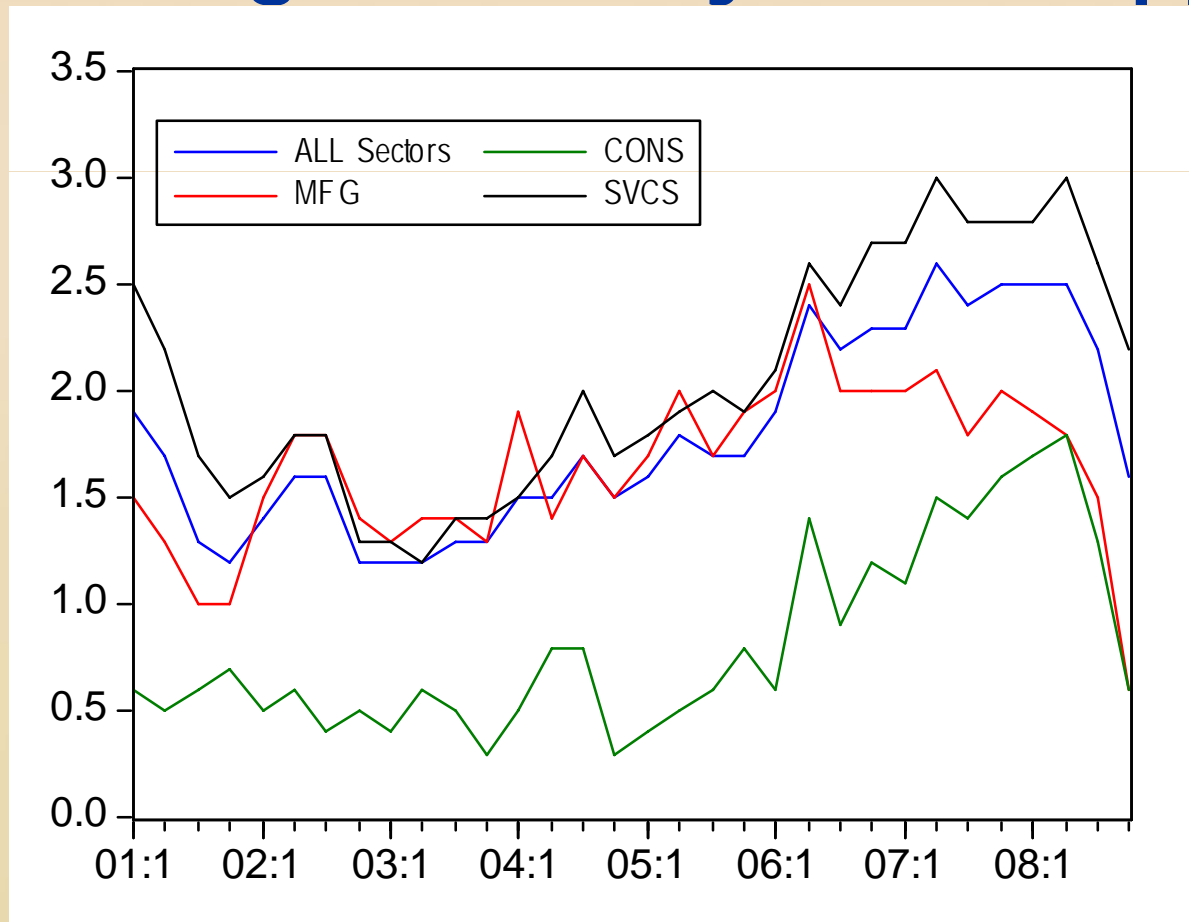
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Visible Sign: Vacancy Rates Dipping





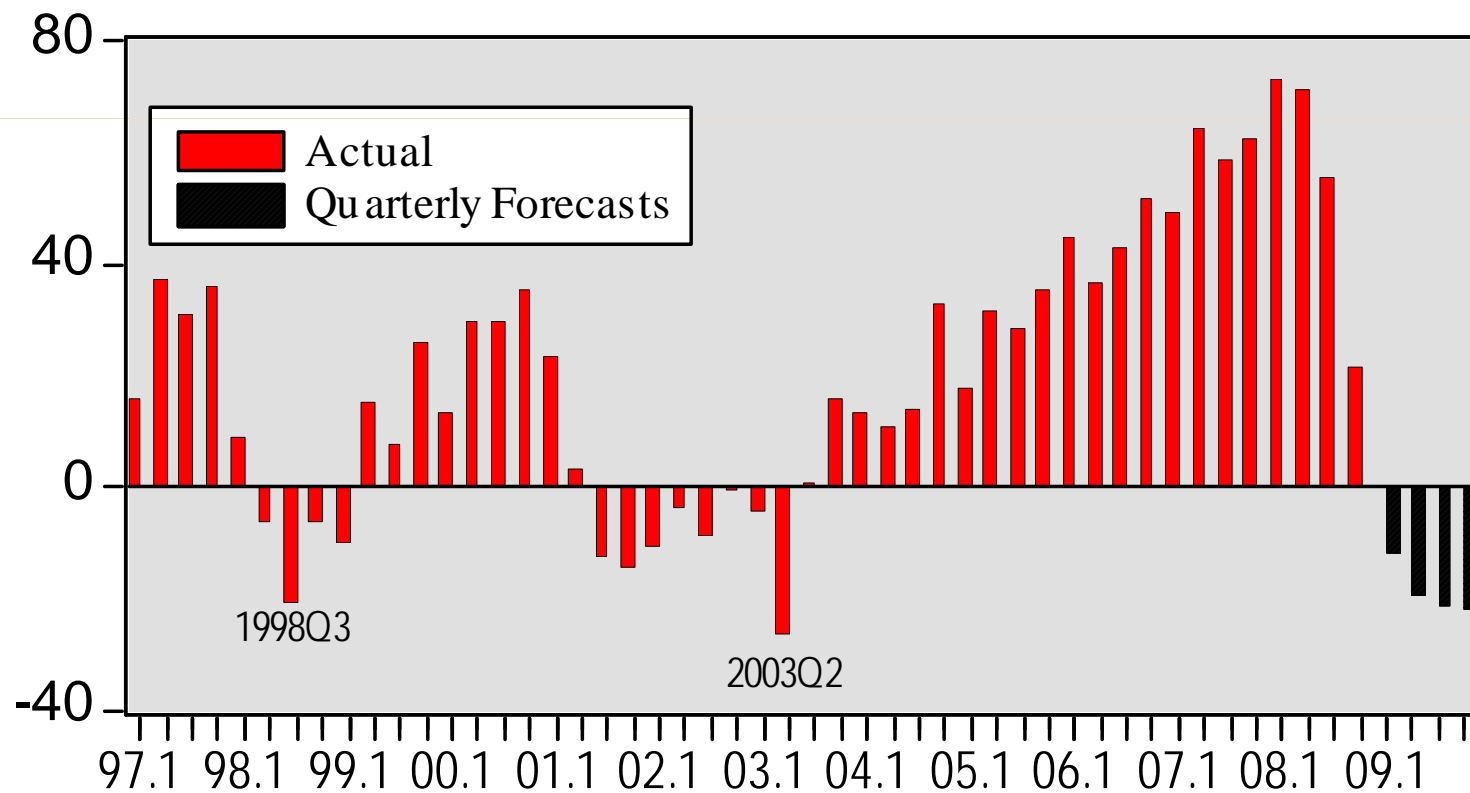
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Employment Growth Forecast





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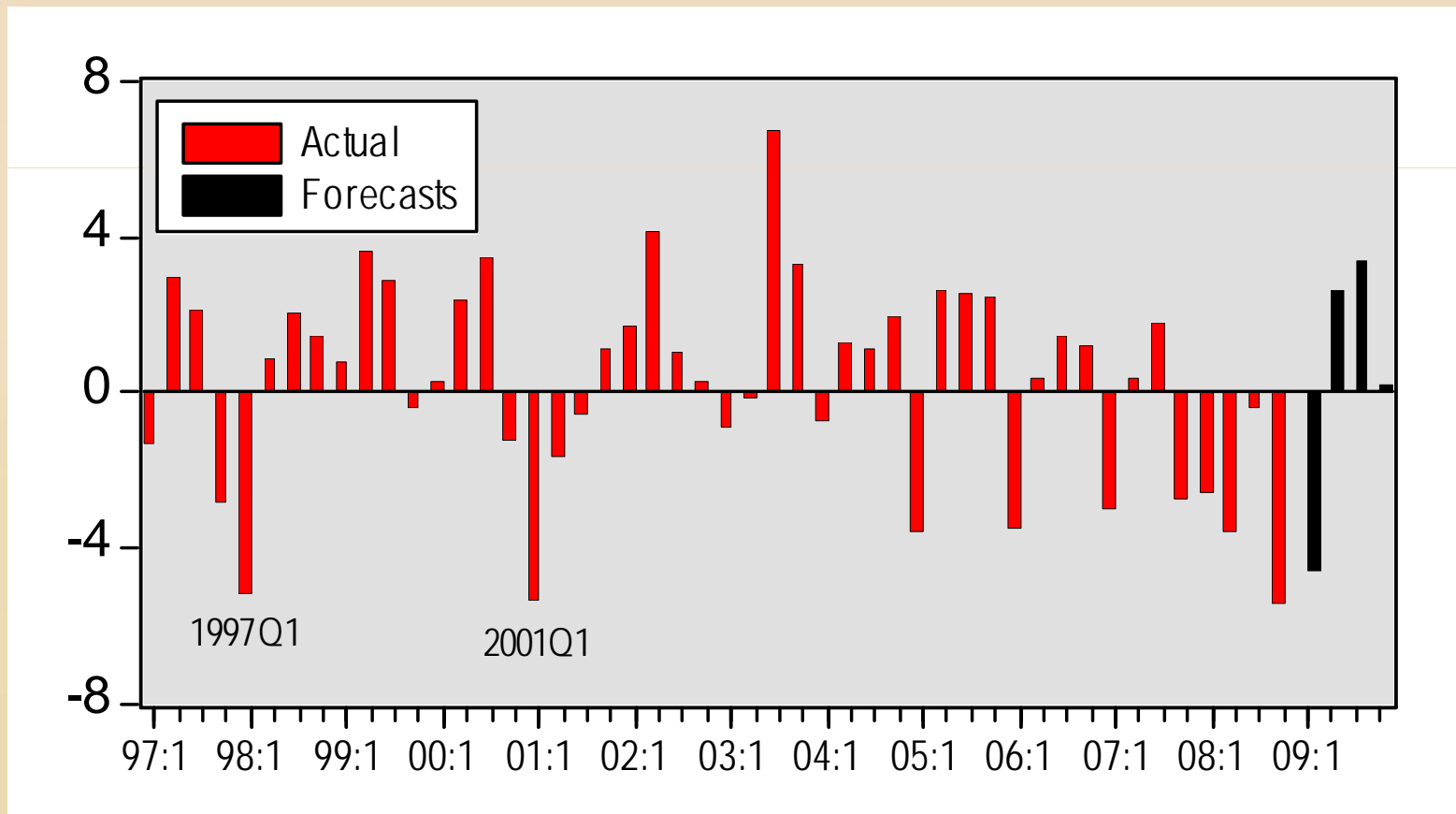
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Concerns Over Export Competitiveness

- Problem not with our labour market, but with export competitiveness
- The U.S.: more than 4 million jobs lost since Dec 2007, and unemployment at quarter-century highs.
- All other major trading partners report major jobs losses: e.g. Malaysia, EU, Australia, Japan.
- As their wage rates adjust to deal with excess labour, there will be long term consequences if our productivity is not improved.
- This has to be handled carefully to prevent exacerbating the problems facing our exports now.



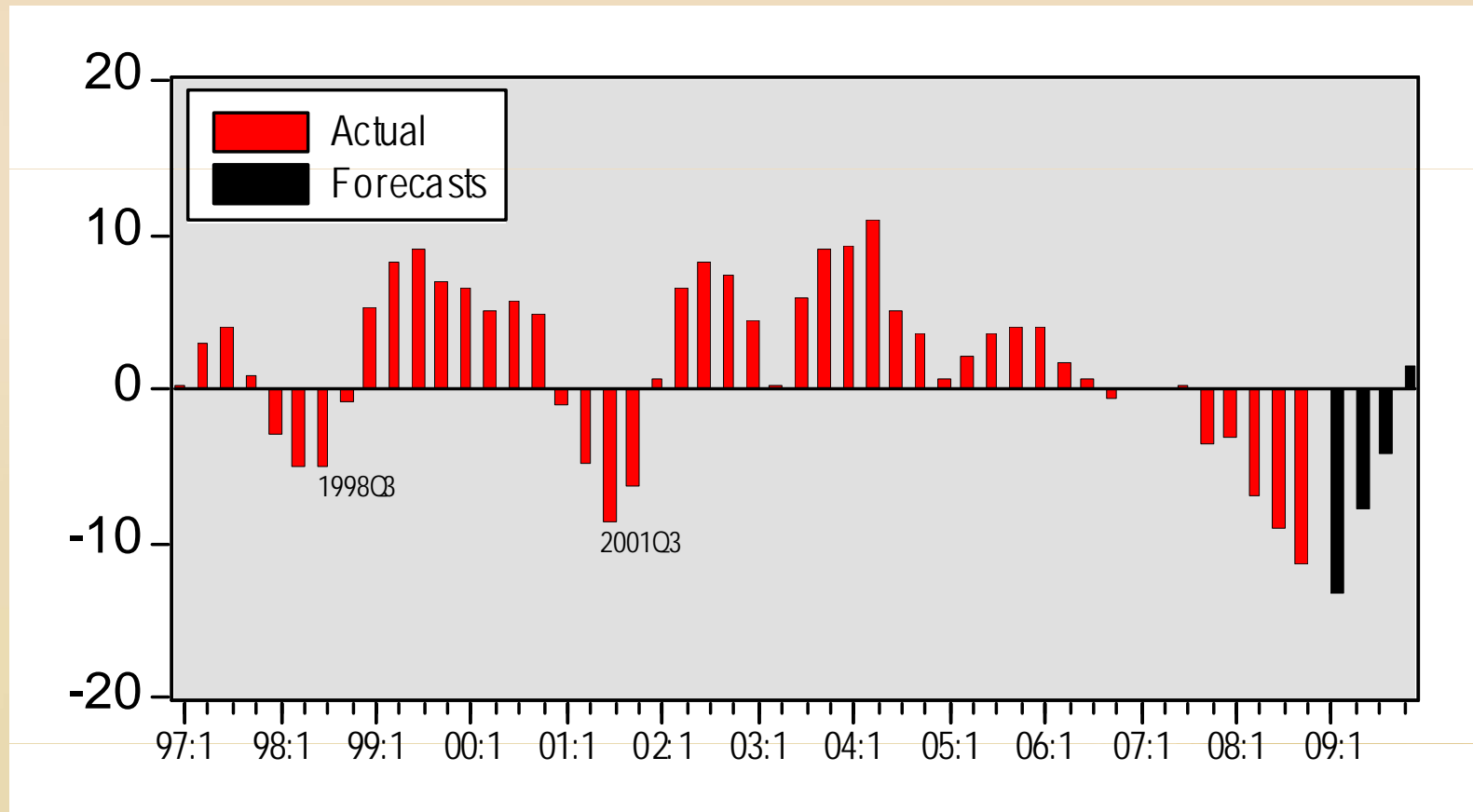
Improved Labour Productivity Soon



Note: Labour Productivity Changes (Measured as QOQ per-capita Real GDP Growth, in %)



Labour Productivity: Alternative Picture



Note: Per-capita Real GDP Growth (YOY, %)



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Jobs Credit Scheme

- Includes estimated impacts of Jobs Credit Scheme (JCS)
- JCS estimated to have largest impact in Q2.
- So, our forecasts is for jobs losses to hold steady after an initial jump.
- JCS expected to work in Q2 by encouraging some new employment and in Q3 and Q4 by encouraging firms to hold on to workers.



Domestic Factors Changed Since 2003

- Forecasts show net jobs loss, first since 2003
 - the first serious signs of weakness for jobs more than a year after onset of US recession.
- Domestic factors responsible for extended lag.
- Jobs situation requires a policy response because increased size of labour force has significantly larger impact on domestic economic outlook.



Estimating Impact of JCS

- Holding business conditions fixed, actual impact depends on:
 - proportion of residents in each sector who fall within the qualifying wage level
 - substitutability between resident and non-resident labour
 - (to a lesser degree) substitutability between labour and non-labour factors of production



Impact of JCS in 2009

- Ignoring differences in the proportion of residents (at qualifying wage levels), our estimates show Construction is likely to benefit least (in relative terms) from the JCS, while Services likely to benefit the most.
- Overall, an estimated 40000 jobs will be saved as a result in 2009.



Longer Term Impact of JCS

- Spillover effects depend on length of downturn.
- The shorter the downturn, the greater the overall impact
 - Reason: Productivity will suffer with longer downturn



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JCS Within Policy Stimulus

- Help for resident workers can take different forms:
 - helping those who lose jobs to gain re-employment (WIS),
 - helping them keep their jobs (JCS), and
 - moving more workers into higher skill levels (SPUR).



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Caveat

- SPUR is the best means of enhancing growth potential, but its benefits would only be seen in the longer term.
- WIS and JCS: more immediate impact
- If enacted alone, JCS would provide least long-term benefits