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# **Singapore Economic Forecasts: An Update**

Econometric Modelling and Forecasting Unit  
Economic Growth Centre  
Division of Economics  
School of Humanities and Social Sciences  
Nanyang Technological University

16 September 2008



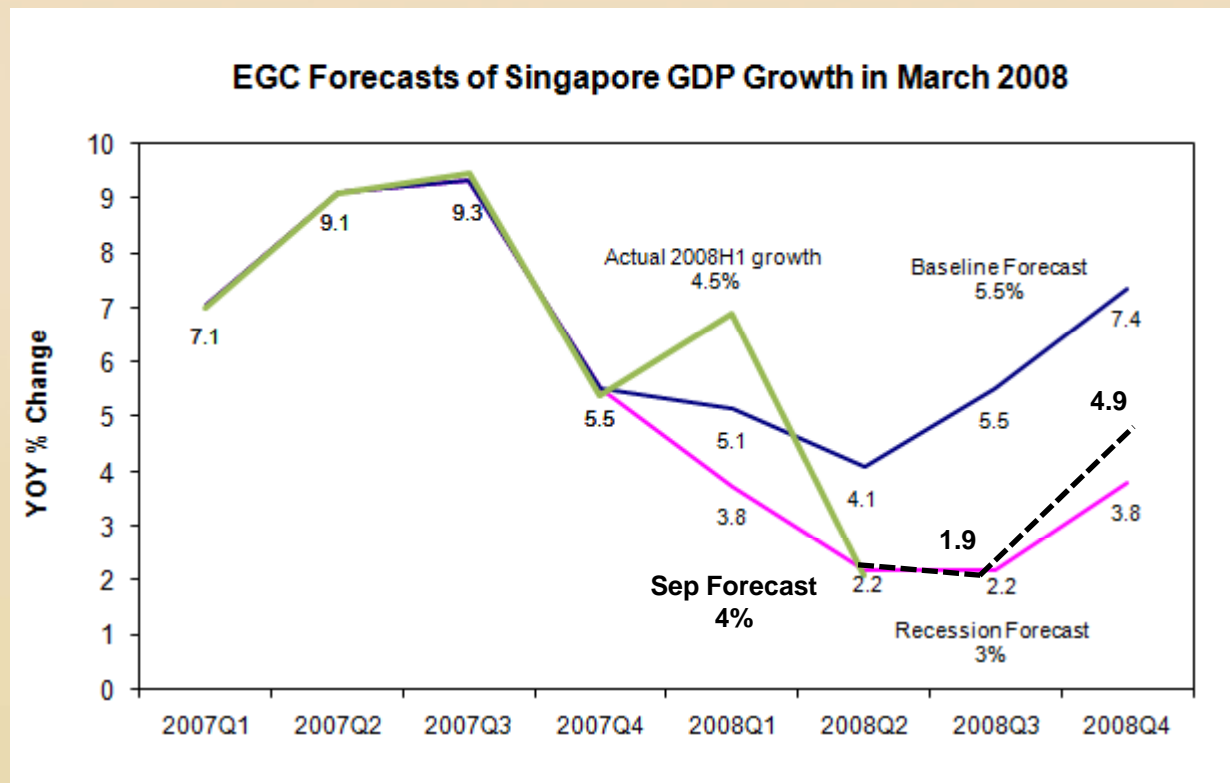
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## Flashback to EGC's March Forecasts





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## **A deteriorating external environment...**

- Economic prospects for the US have dimmed amidst a housing and investment slump
- Composite leading indexes in Europe have turned down in recent months
- Global credit conditions remain fragile as balance sheet losses continue to pile up
- Regional economies are still expanding but growth will be dampened by sluggish world demand



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## ... and weakening domestic demand

- Domestic retail sales have fallen since the last quarter due to bearish consumer sentiment and inflation-induced declines in real incomes
- A lack of special fiscal stimulus means that local government spending will remain subdued for the rest of the year
- As the property market cools, new construction contracts awarded and bank loans are expected to moderate



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## US Outlook

- No recession forecast but another round of cuts to short-term outlook in latest *US Survey of Professional Forecasters* (12 August)
- Forecasters also expect worsening labour market conditions to result in lower private consumption

US GDP Growth	Latest YOY (%)	Previous YOY (%)
2008Q1	2.5	2.5
Q2	2.2	1.9
Q3	1.3	1.4
Q4	1.5	1.9
2008	1.9	2.2
2009	1.5	n.a.



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## Electronics Cycle

- Worldwide electronics growth has been encouraging, although recent signals from the Electronics Leading Index are worrying
- Asia-Pacific demand for chips in PC's and cell-phones will provide support to global semiconductor sales in 2008

	<b>Chip Sales Growth YOY (%)</b>	<b>ELI Growth YOY (%)</b>
<b>2008Q1</b>	5.3	-1.3
<b>Q2</b>	8.0	-4.9
<b>Q3</b>	10.5	1.5
<b>Q4</b>	12.4	2.1
<b>2008</b>	9.0	-0.7
<b>2009</b>	12.2	2.9



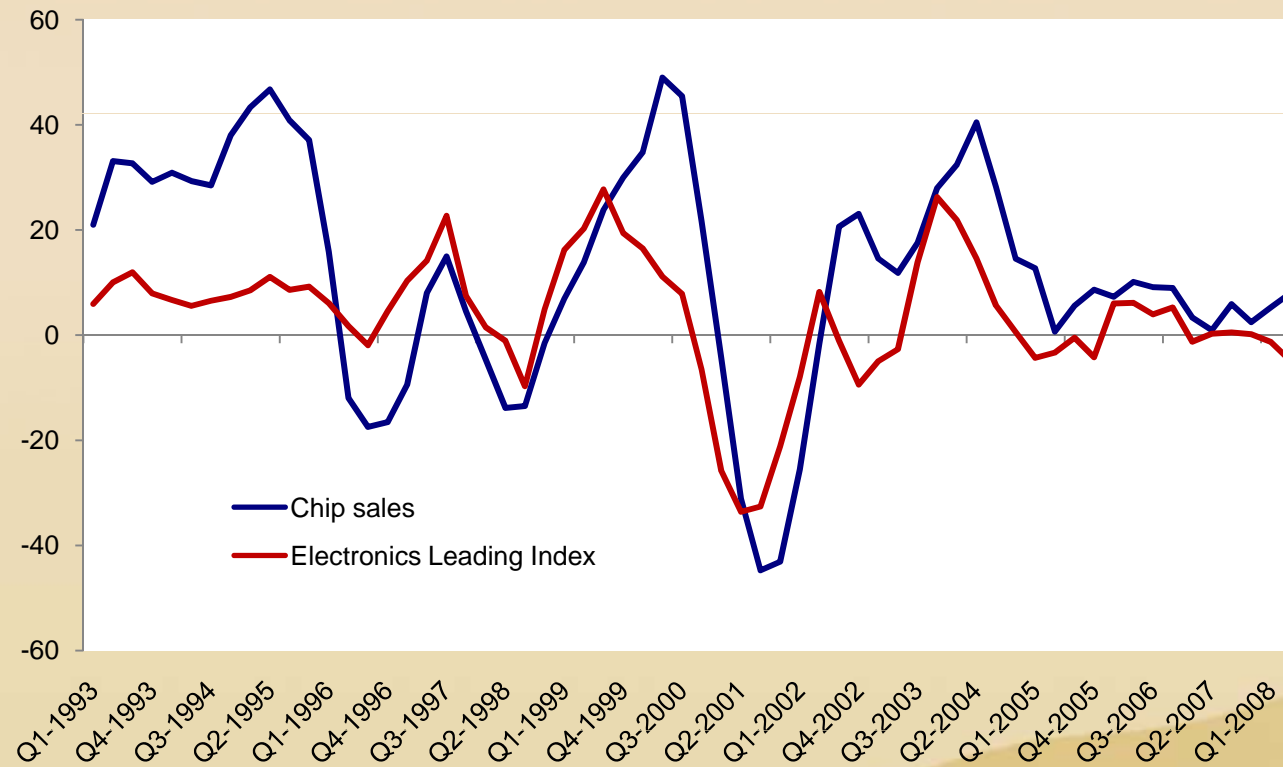
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## ELI and Chip Sales Growth





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## **Singapore GDP Growth Forecasts**

- We predict that growth this year will settle at the lower end of the official 4-5% range, subject to further downside risks such as a US recession and a faltering of global chip sales
- The prognosis for 2009 has also grown less sanguine, with a quick economic rebound being unlikely

<b>Real GDP Growth</b>	<b>YOY (%)</b>
<b>2008Q1</b>	6.9
<b>Q2</b>	2.1
<b>Q3</b>	1.9
<b>Q4</b>	4.9
<b>2008</b>	<b>4.0</b>
<b>2009</b>	<b>4.2</b>



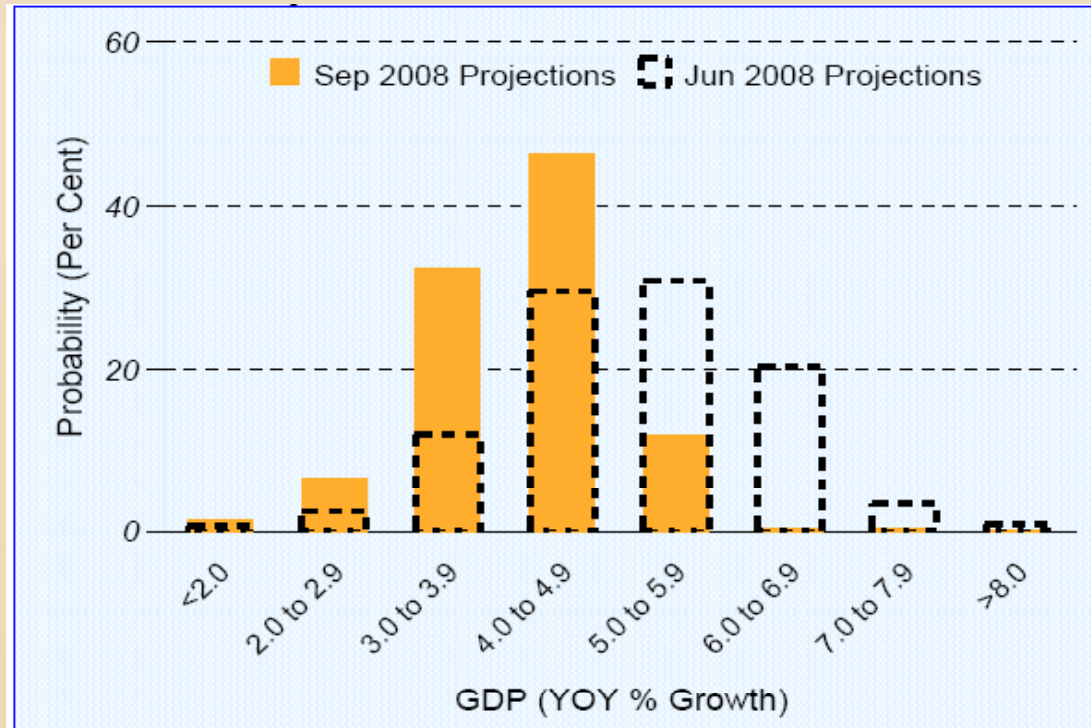
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## Probability Distribution of GDP Forecasts (MAS Survey of Professional Forecasters, Sep 08)





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## Sectoral Growth Forecasts

- Manufacturing output to recover only towards year-end
- Construction growth is forecast to plateau off at 13-15%, contributing a mere 0.6-0.7% point to GDP growth
- Service sector expansion will decelerate from its 2007 pace of 8.1% as domestic demand slackens and the tourism boom tapers off in tandem with lower global income growth

	Mfg	Construction	Services
2008 Q1	12.7	16.9	7.7
Q2	-5.2	17.4	7.0
Q3	-4.2	15.1	4.8
Q4	1.3	8.8	7.3
2008	1.1	14.6	6.7
2009	2.3	13.9	5.7



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## Sectoral Performances





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## **Inflation Forecasts**

- Increases in the CPI will be sustained in 2008H2 despite the recent stabilization of energy and food prices because of base effects
- The inflation rate will come down sharply next year as price pressures subside and economic growth slows down

<b>CPI Inflation</b>	<b>YOY (%)</b>
<b>2008Q1</b>	6.7
<b>Q2</b>	7.4
<b>Q3</b>	<b>6.7</b>
<b>Q4</b>	<b>6.0</b>
<b>2008</b>	<b>6.7</b>
<b>2009</b>	<b>3.0</b>



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## **Forecasts for the Singapore Labour Market: 2008-2009**

- Despite increasing economic uncertainty, the labour market continues to be driven by strong demand.
- In 2008Q1, employment saw its largest ever quarterly increase, exceeding our expectations.
- The unemployment rate however has panned out according to our forecasts under the recession scenario.



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## **Continuing Strength in the Singapore Labour Market**

- Few outward signs of weakness.
- Weakness in Manufacturing more than made up for by the continuing strength of job creation in Construction and Services.
- Nominal wage growth has been strong until recently.



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## Unique Situation

- Sharp contrast to the condition of the U.S. labour market.
- Mounting U.S. job losses and the deteriorating outlook for the Eurozone – consequences for domestic labour.
- The 2008H1 figures suggest that the domestic labour market has so far been shielded from the deteriorating external environment but the outlook for H2 is expected to be less cheerful.



## Forecasts for the Singapore Labour Market: 2008-2009

	Employment Increase ('000)	Unemployment Rate, SA (%)	Growth in Monthly Wage, YOY (%)
2008 Q1	73.2	2.0	10.6
Q2	71.4	2.3	3.1
Q3	51	2.3	3.0
Q4	41	2.4	2.0
2008	241	2.3	4.7
2009	150	2.4	3.0



## Interpretation

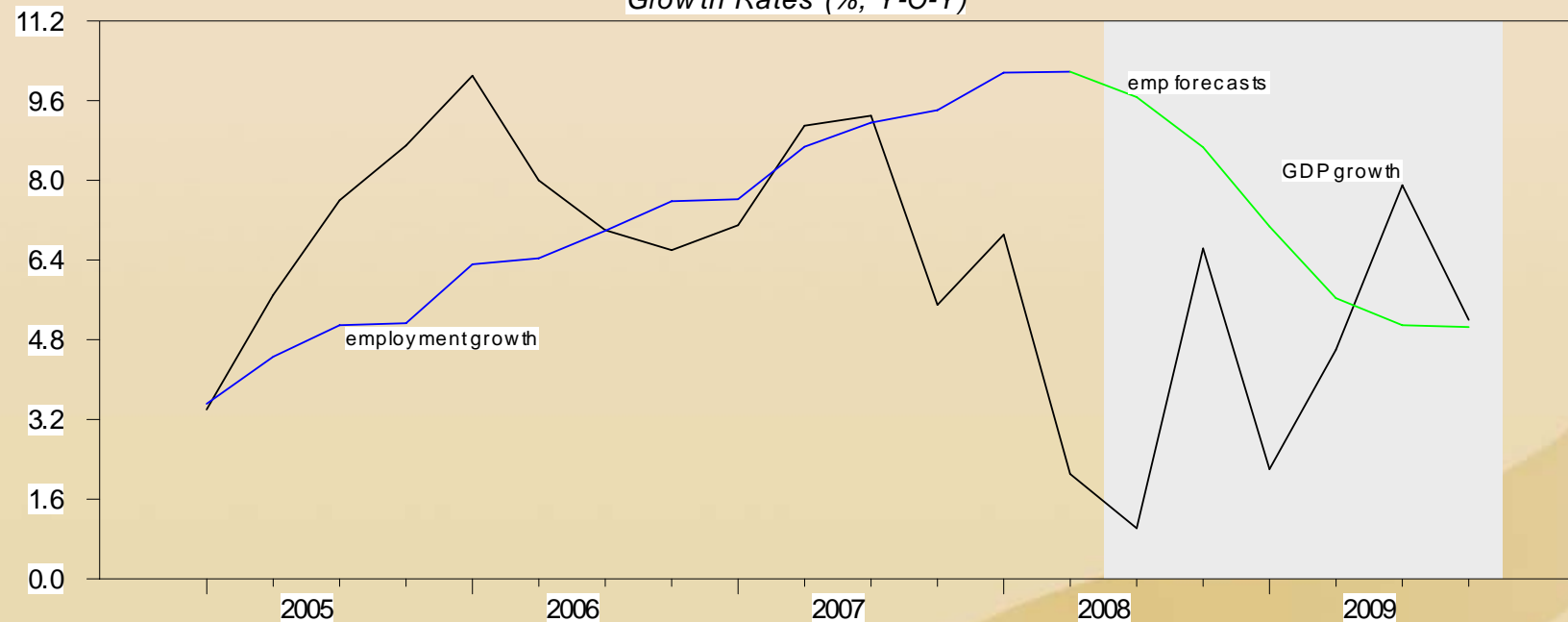
- Our new forecasts imply that the labour market is expected to come out of this current situation relatively unscathed.
- Part of the reason is that our model assumes the flexible labour market will provide the necessary adjustments.
- Given the nature of the domestic labour market, the unemployment rate is not expected to deteriorate significantly.



- Instead, the main adjustment is expected to be made by employment growth.

### GDP and Employment

*Growth Rates (% , Y-O-Y)*





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## Factors Fuelling Jobs Growth

- Jobs growth in each of the major sectors has been driven strongly by demand.
- This has been seen in the upward movement of both the job vacancy rates and wage increases.
- However, there are signs both may be weakening.



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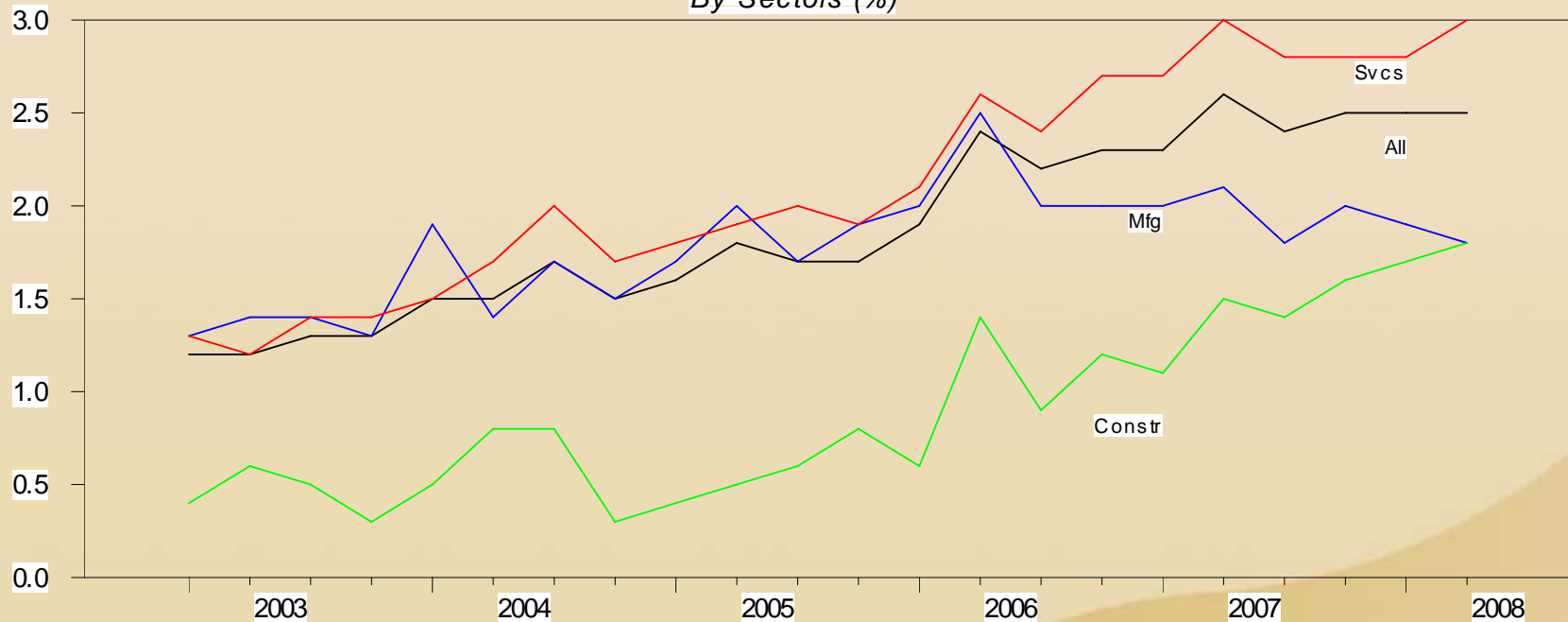
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# Vacancy Rates Levelling Off

## Vacancy Rates

*By Sectors (%)*





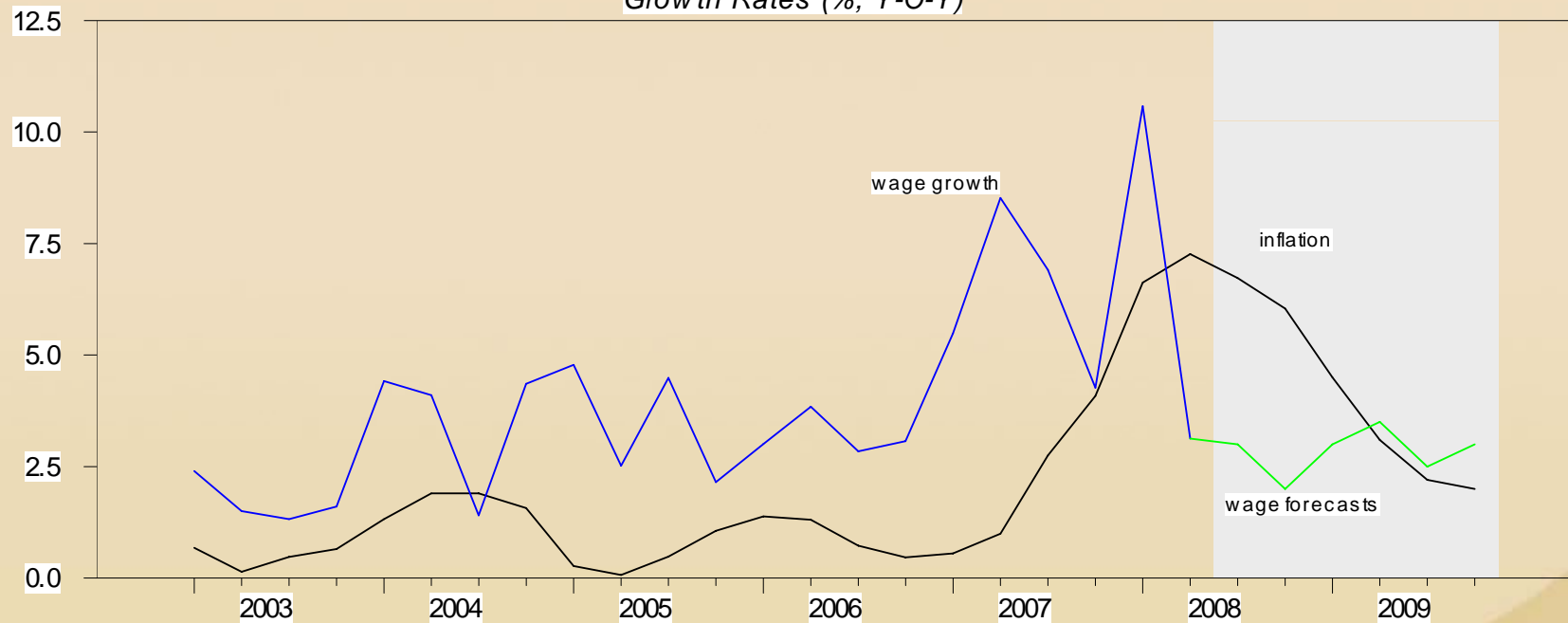
## Moderating Labour Demand

- Of the three major sectors, Construction is still displaying strong demand, but with moderating wage increases.
- Driven mainly by movement in Services, the overall job vacancy rate is starting to level off.
- When taken together with slowing economic growth, the continuing high rate of jobs growth suggests that labour productivity is continuing to deteriorate.



## CPI and Nominal Average Monthly Earnings

Growth Rates (% , Y-O-Y)





## **Focus: Sectors with Large Employment Growth**

- 2008H1 saw large increases in *Community, Personal and Social Services*, with volatile wage changes.
- This particular sub-sector under **Services** is made up of a various components, including *Recreational, Cultural and Sporting Activities*, as well as education and medical, and household services.
- The increasing importance of this sector is a commonly-observed phenomenon in developed economies and is not unique to Singapore.



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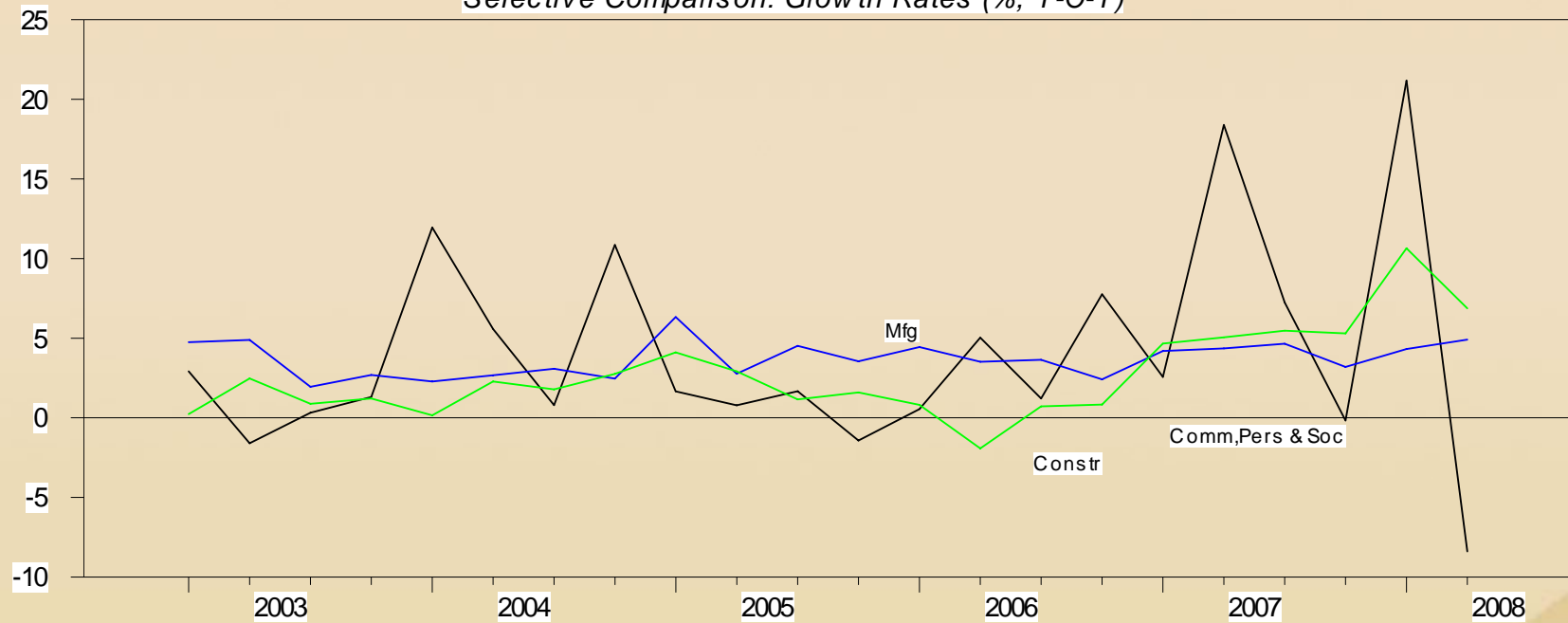


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## Nominal Average Monthly Earnings

*Selective Comparison: Growth Rates (% , Y-O-Y)*





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## **Focus: Productivity in Service Sub-sectors**

- Within Services, *Community, Personal and Social Services* has been very volatile.
- It is made up of components which perform very differently in terms of labour productivity in past assessments.
- Examples: *Medical Services* often outperforms *Education Services*, while within the latter, nurseries and kindergartens have outperformed commercial and language schools.



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