

**SCHOOL OF HUMANITIES, ARTS  
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**ECONOMIC GROWTH CENTRE**

**Highlights of Econometric Forecasts for Singapore: March 2008**

The Singapore economy is expected to grow by 5.5% in 2008, barring a recession in the United States. Growth is anticipated to be 5.1% in Q1, 4.1% in Q2, 5.5 % in Q3 and 7.4% in Q4. These outcomes assume US real GDP growth of 1.9% for 2008. However, the current credit crisis in the United States could worsen and reduce US growth to 1.3% for the year. In this event, the Singapore economy could still grow by 3%.

The uncertainties in the economic prospects for 2008 are due to the problems in the sub-prime mortgage market in the US. Aggressive policies of the Federal Reserve Bank have yet to contain the credit crunch. However, expected slower growth could be tempered by the fiscal stimulus package of US\$152 billion expected in the middle of 2008. A recession in the US could also adversely affect the global electronics sector. A more upbeat forecast of the US economy translates into electronics growth of 7% for 2008. In contrast, the pessimistic forecast of the US economy could mean that global chip sales contract by 1.3% and this will have a negative impact on Singapore's manufacturing sector. Under both scenarios, however, China and India will provide a buffer to Singapore's economic growth. Furthermore, robust domestic construction activities and the services industries will continue to support the local economy.

If Singapore were to grow at 5.5%, the consumer price index (CPI) is expected to rise by 6.8% in 2008Q1, 5.8% in Q2, and by 3.4% in Q3 and 2.4% in Q4 as the GST impact washes out. Under this scenario, overall inflation is expected to be 4.6% for 2008. With less rosy growth of 3% for the Singapore economy, inflation is still expected to average 3.9% due to the prevalence of external supply shocks.

Demand in the labor market is expected to remain strong, particularly during the first six months of 2008. Our optimistic growth forecast of the Singapore economy will see 141,000 jobs created for the year and an average unemployment rate of 1.9%. Our recession scenario forecast sees a much lower 110,000 new jobs being created, with unemployment correspondingly higher at 2.3%. Because of the relatively strong demand for labor, we expect monthly nominal wages to grow by 6% in 2008 if real GDP expands by 5.5%. By contrast, a growth rate of 3% will mean an increase in monthly wages of only 3.5%.

In the optimistic scenario, all major sectors will experience fairly robust growth except for manufacturing output, which is expected to advance by only 4.3%. The best performer is likely to be the construction sector, forecasted to grow by nearly 15%. The services sector will also do well in view of the slate of activities and events being hosted by Singapore this year, such as Formula 1 racing, and the boom in tourism. For 2008 as a whole, the services industries are projected to grow by 6.1%, higher than the overall GDP growth rate.