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Singapore Business Forecast Report Q2 2014

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Abstracts

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Core Views

Singapore's ongoing restructuring drive continues, and the PAPled government is highly unlikely to abandon its path even amid an increasingly tight labour market. While this will have an economic impact over the near to medium term, we note that electoral factors have become progressively more important in the government's policy-making process.

Despite a slowdown in Q413, the Singaporean economy picked up pace in 2013, achieving a real expansion of 3.7% (according to initial government estimates) versus 1.3% in 2012. While we continue to believe that Singapore will chalk up solid real GDP growth of 3.2% in 2014, we note that Singapore does bear risks to a slowing Chinese economy as well as a potential credit retrenchment following a period of extremely strong lending. That said, we stress that Singapore's economy remains on a solid footing overall, and our long-term outlook remains sanguine. **Major Forecast Changes** Despite the fact thaTheadline inflation ended 2013 on a weak note, coming in at 1.5% y-o-y in December, we expect rising wage pressures as well as weak base effects within the transportation sub-index to push headline inflation higher as 2014 develops. As a result, we have upgraded our 2014 average inflation forecast to 2.8%, from 2.5% previously.

Key Risks To Outlook

While we believe that Singapore's extremely strong external balance sheet will shield it from any major crisis, we nevertheless note that the city-state is highly vulnerable to global economic shocks. In particular, should global credit markets seize up, the richly valued Singaporean property market could be hard hit, which would have downside implications for the broader economy.

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economy as well as a potential credit retrenchment following a period of extremely strong lending. That said, we stress that Singapore's economy remains on a solid footing overall, and our long-term outlook remains sanguine.

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Solid Fiscal Accounts Allow For New Spending Measures

Singapore remains one of the most fiscally sound sovereigns in the developed world, with huge financial reserves and a perennially balanced budget providing a rock-solid foundation. Despite the fact that the government will continue to pursue spending initiatives aimed at restructuring the economy, as well as addressing the country's challenging demographic issues, we do not believe that it will resort to deficit budgets in order to achieve these objectives. As a result, we see the government running a slight fiscal surplus, averaging 1.0% of GDP per annum over the coming decade.

Table: FISCAL POLICY

Monetary Policy

Weak December Inflation Print A One-Off As Transitory Pressures To Emerge

Headline inflation took a surprise tumble in December, falling to 1.5% y-o-y from its previous clip of 2.6%. Once again, the volatility was largely the result of unique price pressures in the transportation category, where we expect weak base effects to actually contribute to a rapid rise in the headline CPI figure beginning in March. Nevertheless, we note that fundamental inflationary drivers, including broad money supply (M3) growth, remain in check, and we expect these opposing forces to result in an average inflation rate of 2.8% in 2014.

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the Singapore Economy to 2023

Solid Growth Trajectory To 2023

We are fairly upbeat on Singapore's longer-term growth prospects to 2023, forecasting real GDP to expand at an average rate of 3.3 %per annum. Key supporting factors will be the government's sound economic policy, a highly skilled workforce, a superior business environment and financial services industry as well as the city-state's strategic location in Asia. Key constraints include the economy's reliance on the external sector and Singapore's ageing demographic profile.

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