

# Country Analyst

UOB Economic-Treasury Research  
Company Reg No. 193500026Z



**Chow Penn Nee** [Chow.PennNee@uobgroup.com](mailto:Chow.PennNee@uobgroup.com)  
**Jimmy Koh** [Jimmy.KohCT@uobgroup.com](mailto:Jimmy.KohCT@uobgroup.com)

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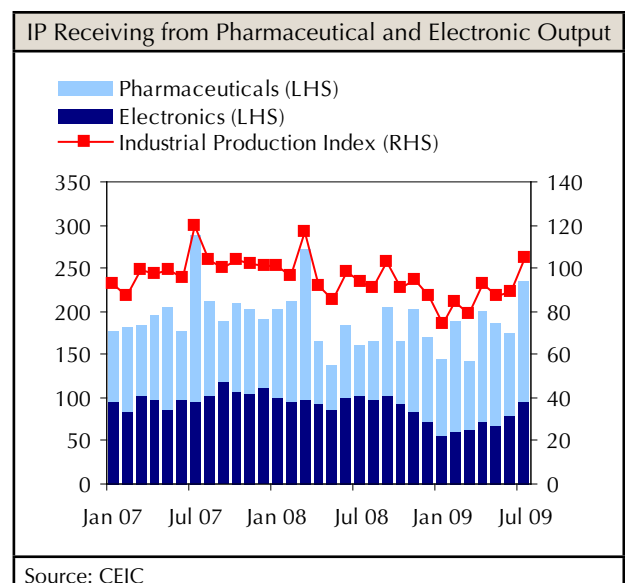
## Singapore: Revisiting Forecasts

- From a steep 9.5% y/y contraction in the 1Q, GDP has picked up to register a smaller shrinkage of 3.5% in the 2Q
- We are revising our full year GDP forecast upwards to -3.3% from -5%. We think the situation is likely to improve further for the rest of 2009 and in 2010, when the US and EU markets turn in positive growth for 2010.
- We are revising the number of jobs lost to about 36,000, with unemployment rate at 3.7% at the end of the year
- We are looking at the USD/SGD touching 1.41 around the end of the year, before easing further to around the 1.39 level in 2010.

### Economy

Singapore's economy seems to have turned a corner. The economy, although still shrinking, has moderated its declines considerably. Job losses, initially feared to reach hundreds of thousands, have surprised by being resilient to the worsening economy. But even as the economy starts to look better, the downturn still ranks as the deepest and one of the longest since Singapore's independence. The series of quarterly declines which started in 2Q 2008, saw 4 quarters of consecutive contractions, comparable to the Asian financial crisis, where Singapore also went through 4 quarters of straight declines beginning in 4Q 1997. The depth of this downturn however, is the most severe, with double-digit q/q contractions 2001, unseen during the Asian financial crisis or the bursting of the tech-bubble.

The coming months will probably look more cheerful, with monthly economic indicators surprising on the upside. From a steep 9.5% y/y contraction in the 1Q, GDP has picked up, registering a smaller shrinkage of 3.5% in the 2Q. One year on from the collapse of Lehman, things seem to have stabilized and the rest of the year looks likely to continue improving. If the July data is anything to go by, we might see a marked improvement in the 3Q. Manufacturing and export data have surpassed expectations, with manufacturing surging 12.4% y/y- the first double digit growth since Mar 08. Declines in non-oil domestic exports have also lessened to an 8.5% contraction, the least since Sep 08, and an improvement from Jan 09's 35% fall. A leading indicator, the PMI, showed further evidence of growth in Aug. After hovering near the 51 level, the manufacturing economy is now on more solid expansion territory at 54.4 With July setting the tone for the rest of the 3Q, and outlook brightening in the US and EU- Singapore's major trading partners, this could spell a much smaller contraction in 3Q and better full year forecast.

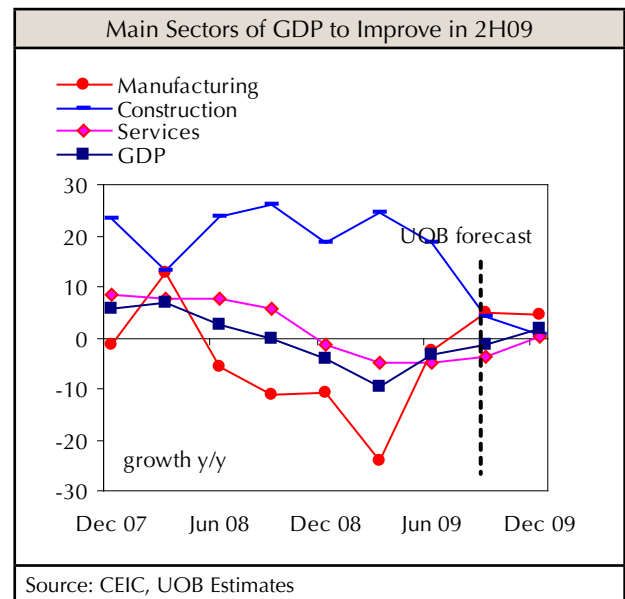


The economy is receiving a boost from different sectors of the economy notably manufacturing and financial services. In manufacturing, the surge in pharmaceutical production has not petered out, as was initially feared, instead soaring 139% in July. Contractions in the other main component of manufacturing- electronics- has also lessened sharply to -5.6% in Jul from -44% in Jan. We project that the manufacturing sector on the whole could see a return to expansion of 5% y/y in the 3Q, growing for the first time since Mar 08, with full year contracting 4.8%. The service sector seems to be rebounding from its Mar trough. Financial services will continue to be buoyed by the booming property market, and better investor sentiment. Financial services could possibly expand 3.5% for the 3Q and even into slight growth 0.3% for the full year. We are revising our full year GDP forecast upwards to -3.3% from -5%. We think the situation is set to improve further for the rest of 2009 and in 2010, when the US and EU markets turn in positive growth for 2010. We project GDP to rise 4.5%, which mirrors prior episodes historically, where the economy bounces back after a deep downturn, part of which is attributed to the low base effect.

## Unemployment

Initially during the dire phases of the downturn, we had predicted that 50,000-100,000 job losses could be sustained, the overall unemployment rate could reach 4.2%, and the residential unemployment to touch 6%. A year on, these fears have been largely tempered. Latest job figures show overall unemployment hovering at 3.3% in the 1Q and 2Q, and resident unemployment even managing to decrease to 4.6% from 4.8%. Job losses since the start of the year have amounted to 18600, less than half of our initial forecasts.

Nor was this phenomenon confined only to Singapore. Other Asian countries such as Thailand, and South Korea have not experienced a spike in unemployment rates thanks to a slew of fiscal measures from the various governments (see our report Asia: Labour Market Holding Steady). Assuming the same number of job losses in the second half of the year as the first, we are revising the number of jobs lost to about 36,000, with unemployment rate at 3.7% at the end of the year.



## Monetary Policy

Since there has not been a severe deterioration in the economic data since Apr's meeting, the MAS looks likely to maintain the current level of the SGD Neer, after easing monetary policy twice since Oct 2008. With the brightening outlook and the return of some risk appetite, Asian currencies have been lifted, the SGD included. The SGD earlier this week saw a break out of the 1.43-1.45 trading range dominant since the start of 2H09. At the present currency levels, our model is 0.6% above the mid-point which corresponds to USD/SGD at around 1.42. As the economy's contraction eases and market sentiment improves, the SGD looks set to get stronger. We are looking at the USD/SGD touching 1.41 around the end of the year, before easing further to around the 1.39 level in 2010. Inflation is also likely to be manageable, falling within the MAS' projection of between -0.5% and +0.5%. As such, the current monetary policy seems sufficient for now.

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