National Australia Bank

November 2006

Singapore economy still growing rapidly

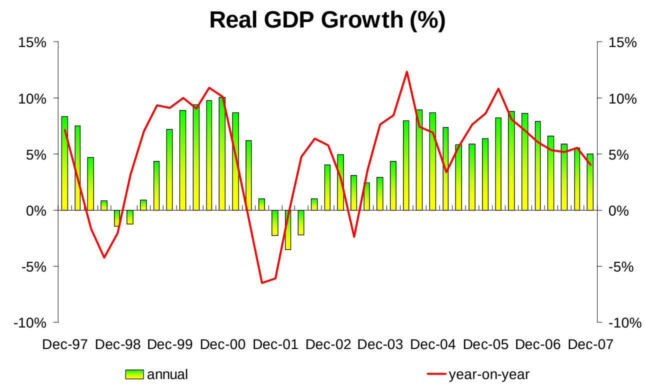
Key trends

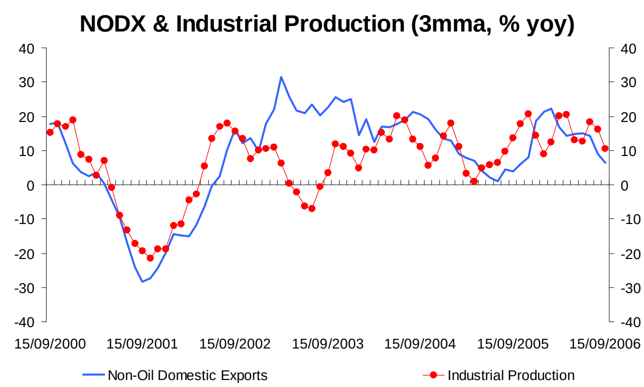
- **The September quarter advance estimate put real GDP growth at 7.1% yoy, compared with 8.1% yoy in the June quarter**. This brings growth in the first three quarters of 2006 to 8.6% yoy, which is on track to exceed the government's official target range of between 6.5% and 7.5% for the full year. We are expecting full year growth to come in at 8% this year, before edging down to around 5¼% in 2007 in line with the projected slow down in global economic growth.

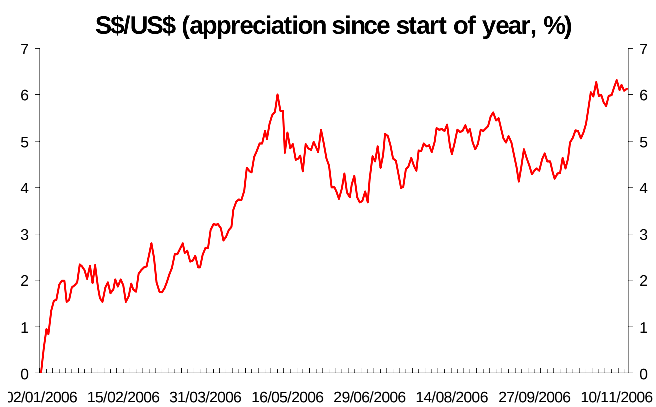
- **The monthly data confirms that the growth momentum in the economy is slowing**, although moderating exports and manufacturing growth should be partly offset by more buoyant domestic demand.

- **Strengthening employment growth, rising incomes and positive wealth effects arising from higher domestic property propertry prices should eventually feed through into an acceleration in consumer spending** and this should help to alleviate the expected slow down in external demand.

- **The MAS reaffirmed its policy of tightening Singaporean monetary policy in its October 10 policy statement.** This means that the currency – which is the principal means that the MAS uses to influence the economy – should continue to appreciate. The MAS's aim is to hold down inflationary pressure and it seems to be succeeding, with consumer price inflation now at its lowest level for some time.







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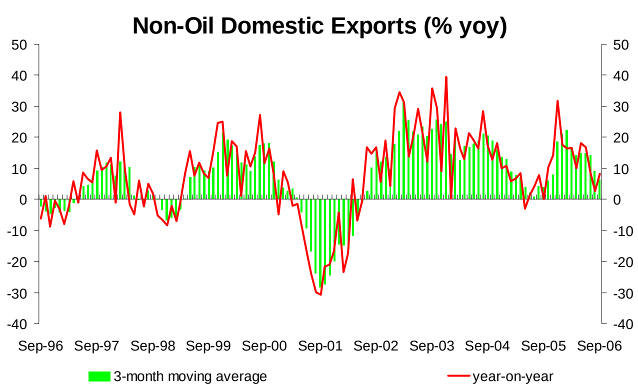
Economic growth still strong

Singapore's economy remains one of the fastest growing in the region. The September quarter advance estimate put real GDP growth at 7.1% yoy, compared with 8.1% yoy in the June quarter. This brings growth in the first three quarters of 2006 to 8.6% yoy, which is on track to exceed the government's official target range of between 6.5% and 7.5% for the full year. We are now expecting full year growth to come in at 8% this year, before edging down to around 5¼% in 2007 in line with the projected slow down in global economic growth.

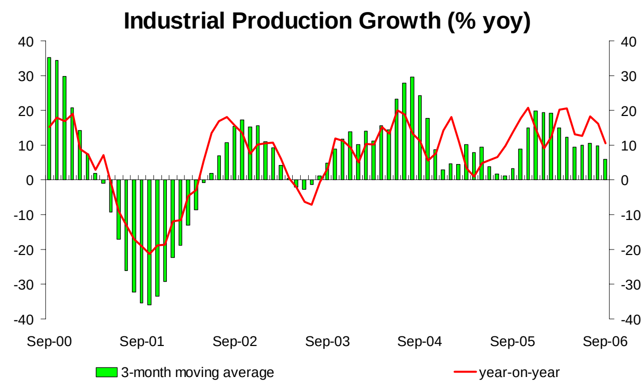
Monthly data points to moderation

The monthly data confirms that the growth momentum in the economy is slowing, although moderating exports and manufacturing growth should be partly offset by more buoyant domestic demand. In September, non-oil domestic exports (NODX) rebounded, growing by 8.3% yoy from 2.5% yoy in the previous month.

However, the 3-month data shows that export growth is on an easing trend, with NODX slowing to 6.3% yoy, which was well down on the double-digit rates of growth seen through the first half of this year. Weaker export growth has been influenced by slower growth in the key United States and European Union markets, although support is being provided by strong regional demand, led by China.



The trend in manufacturing sector activity is strongly influenced by exports as a large portion of Singapore manufactures are destined for overseas markets. In September, industrial production growth picked up to 7.6% yoy, from 5.2% yoy in the previous month. However, 3-month trend growth continued to head down, with output slowing to 10.6% yoy from more than 16% yoy in the previous month, and well down on the rates of growth seen earlier in the year. This has been mainly due to a slow down in output from the key electronics sub-sector.



The forward looking data paints a mixed picture for the manufacturing sector. October's Purchasing Managers' Index (PMI) rose to 53.4 points, its highest reading since November 2005, while the PMI in the electronics also performed strongly, rising fom 52.7 points to 54.4 points. This mainly reflected an acceleration in output spurred by strong growth in export orders ahead of the pre-Christmas peak season.

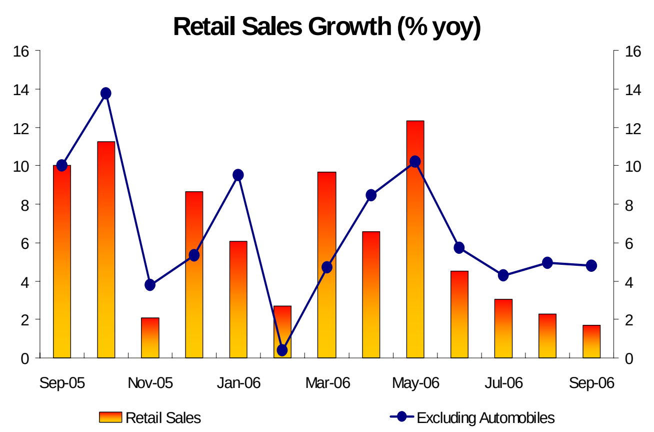
The PMI figures stand in sharp contrast to the latest survey released by the Economic Development Board (EBD), which showed manufacturers turning more cautious about prospects six months ahead. According to the September survey, a net-weighted 22% of manufacturers expect business conditions to improve in the next 6 months, compraed with 26% in the previous survey. Business confidence in the services sector appears stronger, but electronics manufacturers were considerably less upbeat, with only a net weighted 17% expecting improved business conditions in the next six months, down from 45% in the June 2006 survey.

Business Expectations (net-weighted balance) 6-months Forward

	June	Sep
Manufacturing	26	22
Electronics	45	17
Commerce	18	24
Transport & Storage	18	9
Business Services	14	29
Financial Services	27	30

Consumer demand is strengthening

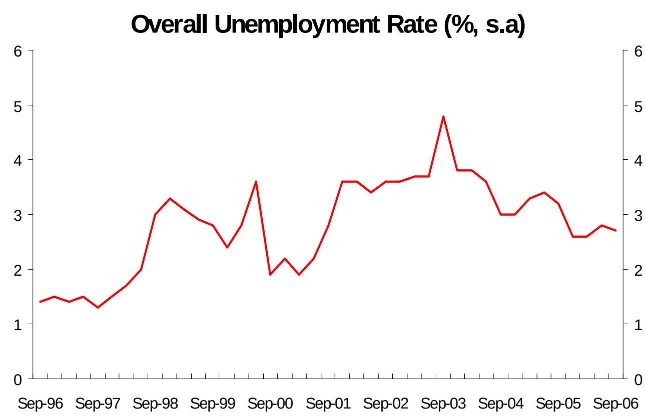
Retail sales, which provide a proxy for household spending, remain weak. In September, retail sales grew by just 1.7% yoy and had been declining since hitting a recent peak of 12.3% yoy in May 2006. The overall index was again weighed down by a sluggish performance in the auotomobile sector, probably reflecting the negative impact of high oil prices. Excluding automobiles, retail sales grew by 4.8% yoy in September, down slightly from 5% yoy in the previous month.



However, we expect strengthening employment to eventually feed through into an acceleration in consumer spending and this should help to alleviate the expected slow down in external demand growth. Singapore's economy created a further 41,600 jobs in the September quarter, raising total employment by 123,000 in the period January-September 2006. This represents the biggest increase in more than a decade and already exceeds total employment growth of 113,000 in all of 2005.

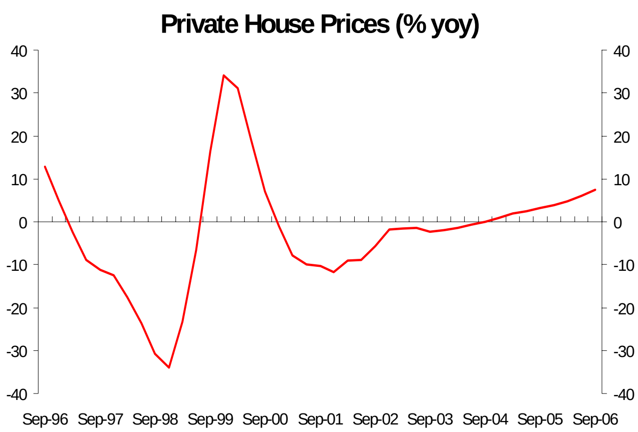
The bulk of the gains continue to come from the services sector, which added 24,600 jobs in the September quarter, while manufacturing added 11,300 jobs. The number of retrenchments in the private sector has also slowed, with manufacturing continuing to form the bulk of retrenchments because of the ongoing restructuring of the domestic electronics industry.

The unemployment rate subsequently fell to a seasonally adjusted 2.7% in the September quarter, down from 2.8% in June.



Government authorities remain fairly confident about the job market in the next six months. The business surveys also paint a positive picture, with employment growth expected to continue across most major industries in the next three months.

Positive wealth effects are also expected to boost consumer spending in 2007. In particular, Singapore households are benefitting from rising property prices after suffering from a prolonged slump that followed a bulding boom in the 1990s that flooded the market (home ownership rates in Singapore are close to 90%). House prices continued to rise in the September quarter, spurred by the government's relaxation of investment rules and continued demand growth. The URA price index for residential homes rose by 7.5% yoy during the quarter, marking the eigth consecutive quarter of price rises.

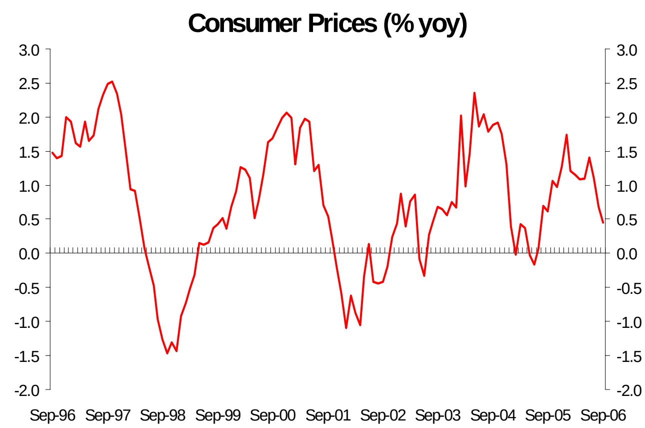


MAS reaffirms policy stance

The MAS reaffirmed its policy of tightening Singaporean monetary policy in its October 10 policy statement. This means that the currency – which is the principal means that the MAS uses to influence the economy – should continue to appreciate – it has risen by just over 6% so far this year.

In terms of specifics, the MAS operates to keep the trade weighted index of the Singapore dollar within an undisclosed band, but it has recently announced that the currency is in the upper half of that band, that it does not intend to change the band in the near-term and that there will be further "modest and gradual appreciation" of the currency.

The MAS's aim is to hold down inflationary pressure and it seems to be succeeding. Consumer price inflation slowed to 0.4% yoy in September, its slowest rate of increase since July 2005. The decline was underpinned by significantly lower transport and communications costs and a strong domestic currency. Inflation is now averaging just 1.1% in the first nine months of 2006 and within the government's 1-2% forecast range.



The authorities are forecasting an inflation range of 1-2% for 2007 and we think that this can be achieved. Potential inflationary pressures stemming from stronger domestic demand and a tightening labour market should be offset by the continuing strength of the Singapore dollar against the US dollar, which will help to limit imported price pressures. The stable price level will also allow the MAS room to ease monetary policy in the event of a sharper-than-expected slow down in the economy.

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