**Publication: Channel News Asia Online**
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## Commentary: Is the uptick in the Singapore economy deserving of greater optimism?

Where MTI has announced a 4.3 per cent growth for the first quarter of 2018, and MAS said they would allow the Singapore dollar to rise in the first tightening of monetary policy in six years, one observer from SMU says there's room for greater optimism.


Singapore is the latest economy in the region to show an improvement as global demand improves (Photo: AFP/Toh Ting Wei)

SINGAPORE: The Ministry of Trade and Industry (MTI) announced in April 2018 advanced estimates of Singapore's real gross domestic product (GDP) growth of 4.3 per cent year-on-year in the first quarter this year, higher than the 3.6 per cent growth in the previous quarter driven by strong manufacturing (of 10.1 per cent) and stable services growth (of 3.8 per cent).

Economists identify three scenarios of recovery – V, U or W. According to The Economist magazine: *V-shaped recovery would be vigorous, as pent-up demand is unleashed. A U-shaped one would be feebler and flatter. And in a W-shape, growth would return for a few quarters, only to peter out once more.*

Singapore exhibited V-shaped recovery during 1985, where real GDP rebounded and growth rates remained elevated for several years before the next contraction; and W-shaped recoveries in 1998 and 2001 where real GDP rebounded and contracted within a short period of time.

In another instance, following the 2008 global recession, the economy grew sharply at 15 per cent year-on-year in 2010 following a mild 0.6 per cent contraction the previous year. The economy subsequently faced a period of flat to moderate growth of 2 to 3.5 per cent between 2014 to 2017.

The MTI's recent announcement of a 4.3 per cent growth for the first quarter of 2018 is therefore good news, but the question is if the recovery has moved out of the "feeble and flat" phase.

**GROWTH MOMENTUM COULD IMPROVE**

Singapore's Composite Leading Indicator, comprising forward-looking indicators, such as local business expectations surveys and US Manufacturing Purchasing Managers' Index (PMI) suggests the improved growth momentum could continue.

The indicator, compiled by Singapore Department of Statistics, is used to monitor economic activity and anticipate upturns and downturns in the economy. Components were chosen because of leading cyclical properties, economic significance and timeliness, among other factors.

The US PMI April reading at 57.3 per cent (slightly down from March reading of 59.3 per cent) showed manufacturing activity remained robust. This followed 108 consecutive months of growth in the overall US economy and 20 straight months of growth in the manufacturing sector.

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(Based on studies of historical trends by the Institute for Supply Management that generates the US PMI each month, readings above 43.2 per cent over a period of time indicates an expansion of the overall economy.)


People walk by a Wall Street sign close to the New York Stock Exchange (NYSE) in New York, U.S., April 2, 2018. (Photo: REUTERS/Shannon Stapleton)

**STRONG DEMAND FROM CHINA AND THE US**

According to the US PMI report, "export orders remained strong, supported by a weaker US currency. Demand remains robust, but the nation's employment resources and supply chains are still struggling to keep up".

The business strength in US has translated to 20 months of consecutive expansion in Singapore's PMI readings. Singapore's April PMI reading at 52.9, marginally down from 53.0 in March, indicated resilience in sectors attributed to higher new orders and new exports from trading partners.

(Based on studies of historical trend by the Singapore Institute of Purchasing and Materials Management, readings above 50 indicates expansion in manufacturing activity.)

Notably, China's share of Singapore exports destination has been rising (13 per cent in 2016, up from 4 per cent in 2000), while the US's share has been declining (7 per cent in 2016, down from in 17 per cent in 2000).

With China growing in importance as a trading partner for Singapore and the region, there were concerns over China's February PMI reading at 50.3, which were somewhat mitigated by improvements in March and April PMI readings at 51.5 and 51.4 respectively.

(Based on studies of historical trends by the National Bureau of Statistics of China, readings less than 50 indicates contraction in manufacturing activity.)

**TIGHTENING MONETARY POLICY NEEDS PERSPECTIVE**

On the back of strong economic growth, the MAS announced in April 2018 it would allow the Singapore dollar to rise, the first time it is tightening the exchange rate-based monetary policy in six years.
This may lead some to wonder about the impact of this tightening on Singapore's international competitiveness and hence the economy's recovery in the medium term.

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Singapore banknotes. (File photo: AFP/Roslan Rahman)

The MAS maintains the Singapore dollar nominal effective exchange rate against a band of trade-weighted basket of currencies of Singapore's major trading partners and competitors, rather than keep to a fixed value. The MAS's monetary policy objective is price stability over the medium term as the basis of sustainable economic growth.

Exchange rate movement is not the only factor that can affect the level of international competitiveness. Factors such as price and unit labour cost movements also impact a country's international competitiveness.

For example, a nominal depreciation of local currency - matched by positive inflation differential with trading partners - will not give local exporters an additional edge over foreign competitors. To this end, we refer to the IMF's computation of the real effective exchange rate, which adjusts for differentials in prices or unit labour costs between domestic and foreign trading countries.

On both counts, relative to its trading partners and competitors, the real effective exchange rates have favoured Singapore residents. Raising nominal exchange rates can indirectly decrease the local currency prices of imported intermediate and consumption goods.

Furthermore, measures the Government has put in place to ensure stable non-labour costs, and wage increases commensurate with productivity improvements, have contributed to Singapore's favourable position. Its unit labour costs contracted by 0.24 per cent in 2017 due to labour productivity growth of 4.5 per cent in 2017, the highest in seven years.

For now, there is room for cheer for the Singapore economy. US and China manufacturing leading indicators suggest the momentum for Singapore to move out of the feeble and flat phase can be sustained.

MAS's tightening of the exchange rate-based monetary policy does not necessarily translate to loss in international competitiveness, in real terms.

These can however be derailed by the US-China trade dispute, and domestic labour productivity slowdown.

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Source: CNA/nr