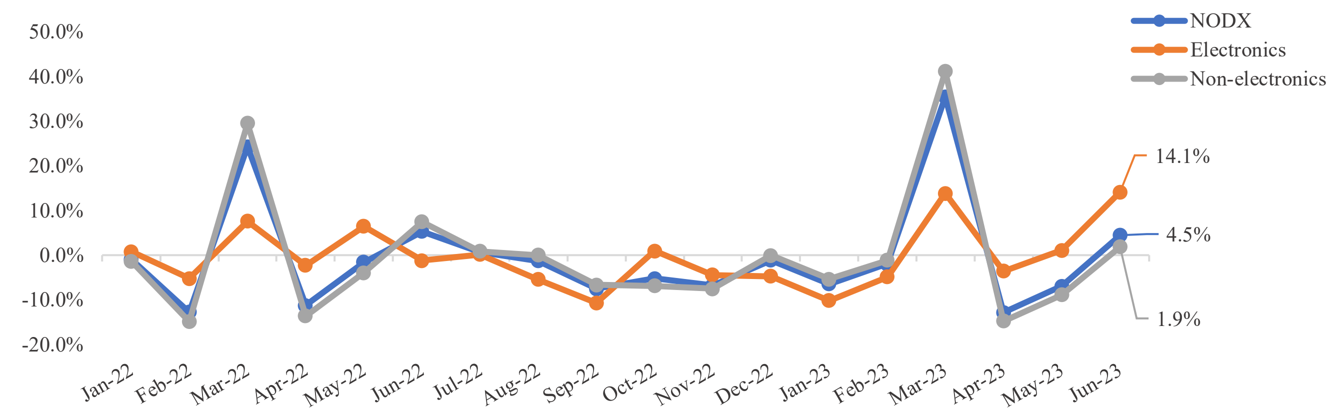
Q2 2023

Singapore's economy narrowly escaped a recession in the second quarter of 2023 as global demand weakened and China's slowdown dragged on trade flows. GDP grew by 0.7% y-o-y in Q2 of 2023, partially recovering from a 0.4% contraction in Q1. The inflation had remained elevated in the first half of 2023 between 3.5% to 4.5%, however, it is expected to moderate closer to 2.5% to 3.0% by the end of the year.

Non-Oil **Domestic** Export (NODX)[1]



- **Trend:** NODX of both electronics and non-electronics sector have continued the increase trend in 2023 May.
  - NODX increased by 4.5%, following a reduction of 6.9% in May
  - Electronics increased by 14.1%, following a slight increment of 1.1% in May
  - Non-electronics increased by 1.9%, following a reduction of 8.9% in May

- **Electronics:** Most of the electronic products increased in export volume, with consumer electronics, PCs and PCB Assembled contracted by 22.79%, 13.42% and 9.02% respectively.

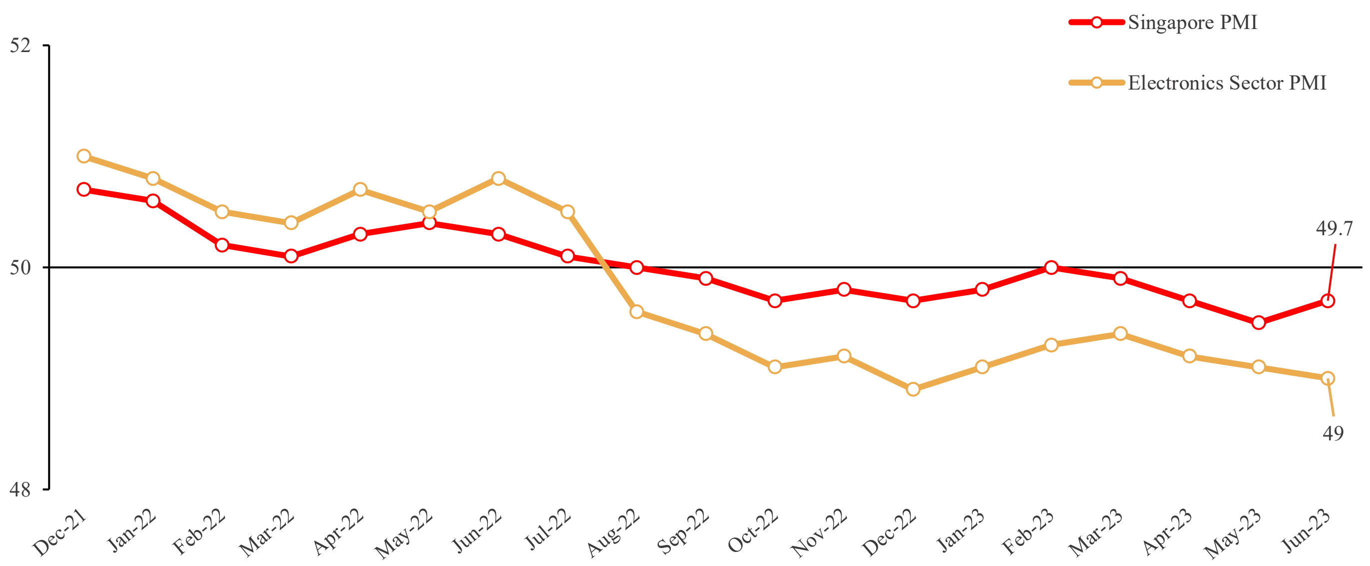
- **Non-electronics:** All segments in the non-electronics shrink in June, with the pharmaceuticals, primary chemicals and petrochemicals contributing the most to the decline at 37.15%, 15.16%, 4.03% respectively.

- **Going forward:** The weakening global economic growth momentum has impacted on consumer demand for electronics, with soft demand in mainland China contributing to the downturn in new orders. NODX is expected to remain constrained by weak demand in several important export markets for manufactures, notably the US and European Union (EU).

- NODX to the top markets as a whole declined in June 2023, though NODX to the Hong Kong and China rose. The largest contributors to the decline in NODX were Malaysia (-30.7%), Indonesia (-35.7%), and South Korea (-24.2%).

[1] *Link to the June monthly trade report:* [mr03223_monthly-trade-report---jun-2023.pdf (enterprisesg.gov.sg)]

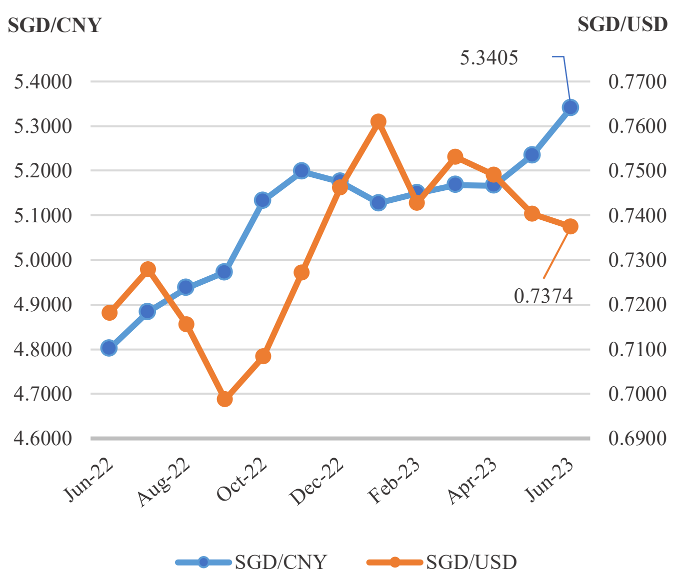
Purchasing Managers Index **(PMI)**

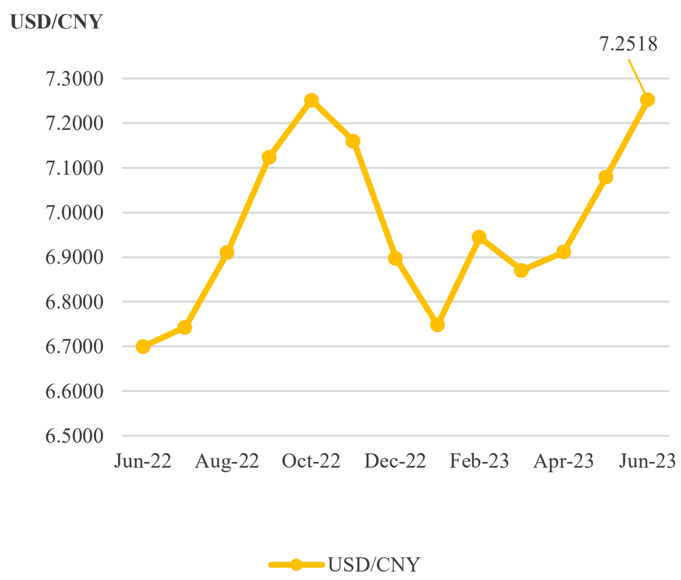


- **Trend:** The Singapore PMI recorded a reading of 49.7 in Jun 2023, improved by 0.2 point from the previous month (49.5). Electronics Sector PMI fell for the 3rd consecutive month to 49 (vs 49.4 in March).

- The latest PMI reading was attributed to a slower contraction in the indexes of new orders, new exports, factory output, but a faster contraction in inventory, employment and a first-time contraction in supplier deliveries.

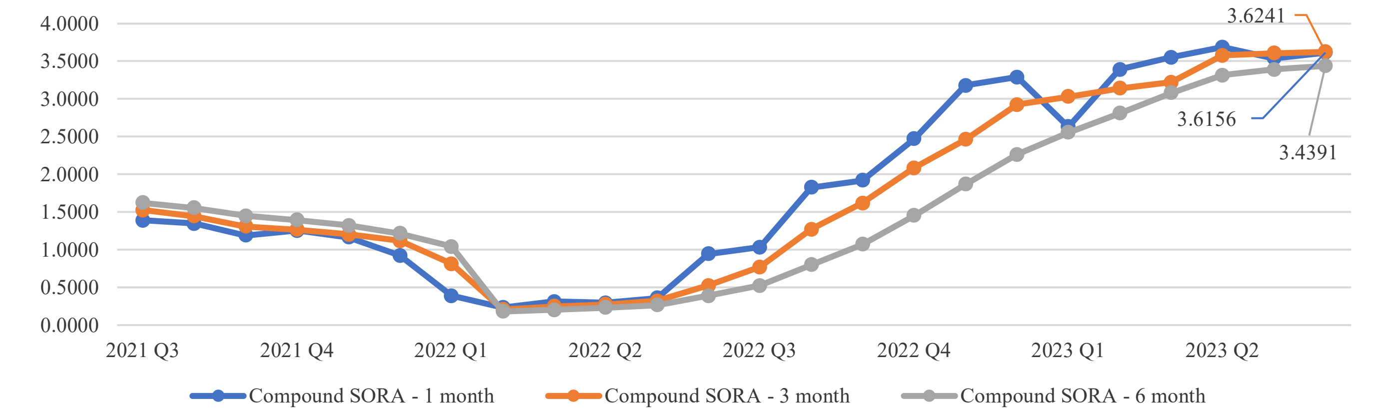
Foreign Exchange Rates **(FX)**





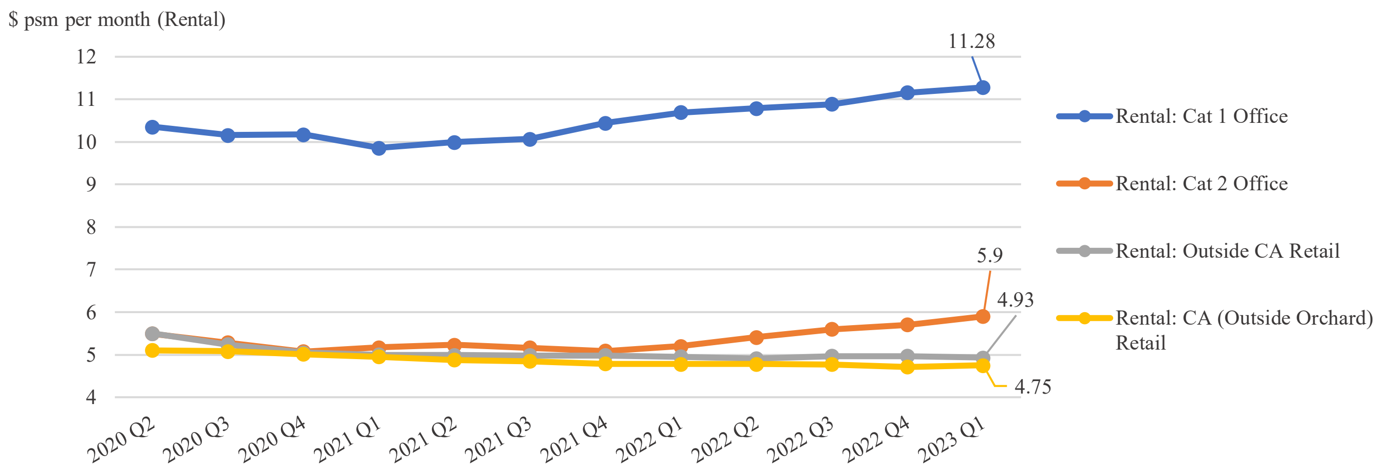
- **SGD/USD:** SGD depreciated against USD in June 2023 (at a rate of 0.7374).
- **SGD/CNY:** SGD appreciated against CNY in June 2023 (at a rate of 5.3405).
- **USD/CNY:** USD appreciated against CNY in June 2023 (at a rate of 7.2518).

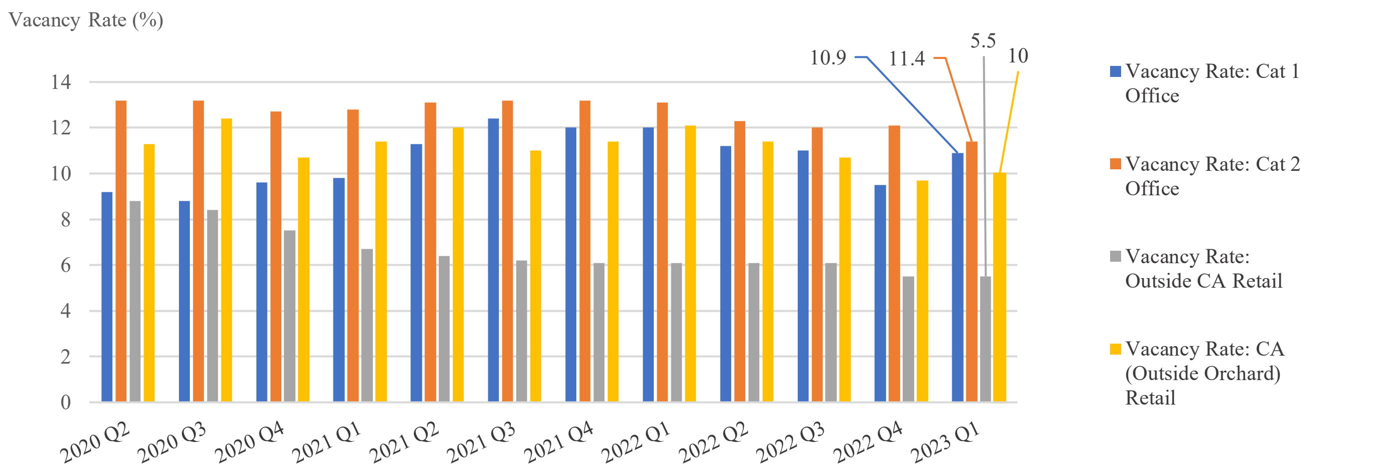
Singapore Overnight Rate Average (SORA)



- **SORA Trend:** All three compounded SORA rates continue to increase, with 1-month compounded SORA at 3.6156, 3-month compounded SORA at 3.6241 and 6-month compounded SORA at 3.4391 in Jun 2023.

Median Rentals and Vacancy Rates for Offices and Retails





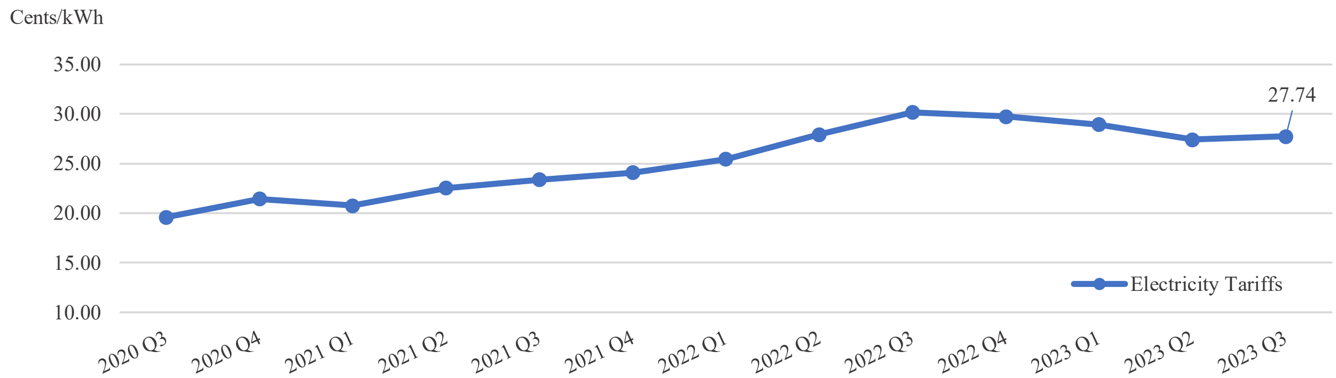
- **Median rental:** Median rental of Cat 1 offices (located in core business areas in Downtown Core and Orchard Planning Area) and Cat 2 offices (localities not included in Cat 1) exhibit an increasing trend in Q1 2023. Median rental of retail space in Outside Central Area (CA) and retail space in CA (outside Orchard) median rental both remained relatively stable in 2023.

- **Vacancy rate:** The vacancy rate of Cat 1 offices increased while the Cat 2 offices decreased in Q1 2023. There's not much change on the vacancy rate of Outside CA Retail and CA (Outside Orchard) Retail in 2022.

- **Analysis:** Singapore's CBD Grade-A office rents have continued their upward trajectory during the second quarter of the year supported by tight vacancies and flight to quality moves. The leasing activity in the first half consisted largely of enquiries that originated in 2022, keying on the resurgence of employees returning to the office, business growth following the reopening of the economy, and the relocation of more regional headquarters functions to Singapore. However, there has been a noticeable scarcity of new leasing inquiries in 2023, particularly from organizations in need of large office space. With the limited pipeline of leasing transactions and the longer business approval process, we can anticipate the demand for office space will be subdued during the second half of 2023.

- **Note:** Data for Q2's vacancy and rental not released yet.

Utilities: Electricity Tariffs and Water Price



- The Singapore electricity tariffs (Reviewed by SP Group every quarter) was set at 27.74 cents for Q3 2023, compared with 27.43 cents in previous quarter (Q2 2023).

- Note: Figures are not inclusive of GST.

Industrial Water Price

	From 2000	Phase 1 From Jul 2017	Phase 2 From Jul 2018
Water tariff	$0.65	$0.66	$0.66
Waterborne fee	$0.56	$0.78	$0.92
Total	$1.21	$1.44	$1.58

- Singapore last increased in water price, amounting to 30% was spread out over two phases, the first of which took place on July 2017 and second phase on July 2018.

- Note: Figures are not inclusive of GST.

Key Policy Updates

- **Government further raise ABSD rates; citizens to pay 20% for 2nd home:** Buyers of residential properties now have to pay higher additional stamp duties, after the Government announced a fresh round of cooling measures late on 26 April night in a move to "promote a sustainable property market".

In a joint statement, the Ministry of Finance, National Development Ministry and Monetary Authority of Singapore said the Additional Buyer's Stamp Duty (ABSD) rate for foreigners buying any residential property will be raised from 30% to 60% - the highest increase.

Adjustments to ABSD rates

Additional buyer's stamp duty		Rate till April 26	New rate from April 27
Singapore citizens	First residential property	0%	0% (No change)
	Second residential property	17%	**20%**
	Third and subsequent residential property	25%	**30%**
Permanent residents	First residential property	5%	5% (No change)
	Second residential property	25%	**30%**
	Third and subsequent residential property	30%	**35%**
Foreigners	Any residential property	30%	**60%**
Entities, trustees	Any residential property	35%	**65%**
Housing developers	Any residential property	35% (remittable, subject to conditions) + 5% (non-remittable)	35% (remittable, subject to conditions) + 5% (non-remittable) (No change)

Table: STRAITS TIMES GRAPHICS - Source: MOF, MND, MAS

Based on 2022 data, the increases will affect about 10% of residential property transactions. This is the third round of cooling measures in the past 16 months.

The Government said that while the earlier two rounds of measures in December 2021 and September 2022 have had a moderating effect on the market, property prices showed "renewed signs of acceleration amid resilient demand" in the first quarter of 2023.

- **Singapore to unveil improved family office tax incentives:** Senior Minister and MAS Chairman Tharman Shanmugaratnam mentioned that Singapore's central bank will announce in July improvements to its tax incentive scheme for single family offices in Singapore.

Mr Tharman mentioned that these include providing tax privileges, incentives or grants for contributions to charity, channelling capital towards blended finance and investing in the mitigation of climate change globally.

He added that single family offices are one important source of growth capital, which is a significant pool of capital that is growing faster than most other sources of wealth. The changes are expected to encourage family offices to pay more attention to the social causes that require compassion, impact, investment and deep engagement in society.

Ultra-high net worth families are increasingly setting up family offices in Singapore as they seek safe havens from political turmoil and economic uncertainty. The number of single family offices that were awarded tax incentives by the MAS has increased to 1,100 as of end-2022, up from 700 in 2021.

- **Singapore climbs 10 places to 8th in global start-up ecosystem ranking:** Singapore climbed 10 places to eighth in Startup Genome's latest global start-up ecosystem ranking, the first time it has entered the top 10. According to Startup Genome, a research and policy advisory firm focused on measuring the success of start-up ecosystems, Singapore is now ranked third in Asia, behind Tel Aviv (5th globally) and Beijing (7th globally).

The ranking is based on factors such as performance, market reach, infrastructure and the quality of the talent pool.

At a dinner on Thursday organised by the Action Community for Entrepreneurship Singapore (ACE.SG) to celebrate Singapore's rise in the global ranking, Manpower Minister and Second Minister for Trade and Industry Tan See Leng said there are now 31 unicorns headquartered here, more than half of which were set up in the past two years.

Singapore is currently home to approximately 4,000 tech start-ups and 200 incubators, and has consistently ranked among the top 10 countries in the Global Innovation Index. It is also among the world's top 15 countries for ease of source funding, according to Startup Genome.

- **More affluent consumers and stable government among reasons why Singapore attract investors:** A stable government and a business-friendly environment help Singapore attract foreign investments and drive domestic growth. Singapore's geographical locations also allows it to be well integrated across the Asean region.

These findings were reported in a new white paper by asset manager Eastspring Investments and PwC Singapore, titled Asia 2.0: Investing in An Era of New Opportunities[2].

The white paper was based on a global survey of 100 C-suite business leaders of international corporations across multiple industries and interviews with senior executives from some of Asia's leading companies. It examines the impact of key transformations across Asian markets and the opportunities that will emerge for investors. According to the white paper, another strength of Singapore is its growing consumer base with higher spending power.

Singapore remains a leading trade centre with 47% of business leaders surveyed have their regional or international corporate headquarters in the city, while 29% of them have a regional logistics hub based in Singapore. It was ranked Asia's top financial centre and third in the world in 2022 according to the Global Financial Centres Index.

[2] *For more information on Asia 2.0: Investing in An Era of New Opportunities, refer to URL link: https://www.eastspring.com/insights/asia-whitepaper*

Finance

- **Asean economies poised to increase share of global trade as manufacturers seek more resilient supply chains:** Singapore and other Asean economies may have a unique opportunity to increase their share of world trade as an increasing number of global manufacturers seek to move sourcing of supplies and production out of China.

The trend is not new, but China's disruptive Covid-19 lockdowns and intensifying tensions with the United States have added a sense of urgency among multinational companies seeking more resilient and conflict-free supply chains.

The Hong Kong-based Pacific Basin Economic Council, Monash University Malaysia and consultant KPMG recently published a joint study[3] on the subject of shifting supply chains in the Asia-Pacific region. The study, based on a sample of 132 companies that are considering changing or have already altered their supply chain destinations between 2018 and 2023, found geopolitics taking the lead as the top concern over tariffs that started to rise as the US-China trade war intensified.

Experts believe the reconfiguration of supply chains provides Asean companies the incentive for vertical integration, which enables them to take direct ownership of various stages of production rather than relying on external suppliers. This vertical integration, which can also boost intra-Asean connectivity, trade and capital flows, is important because companies seeking an additional or alternative base of production and source of supplies will be hesitant to move to a region where most of their vendors and partners are also dependent on imports from China.

- **Singapore avoids technical recession with economy growing 0.3% quarter on quarter:** Singapore's economy expanded by 0.3% in Q2 2023 from the previous 3 months, narrowly avoiding a technical recession or 2 consecutive quarters of contraction. Gross domestic product (GDP) also grew 0.7% YOY in the April-June period, according to advance estimates from the Ministry of Trade and Industry (MTI) on 14 July. Despite dodging a recession, economists were still rather gloomy about the outlook for Singapore's economy.

The ministry mentioned that the growth in Q2 was again weighed down by the trade-driven manufacturing sector, which contracted further on weakness in the global economy and the electronics down cycle. However, the service sector delivered an upside surprise.

With weaker global demand for electronics and a sluggish outlook for China, Enterprise Singapore expects non-oil domestic exports (NODX) from Singapore to shrink in 2023 by 8% to 10%, with total merchandise trade expected to decline by 6% to 8%.

[3] *For more information on the joint study, refer to URL: https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2023/03/charting-a-new-course-in-asia-pacific.pdf*

Manufacturing

- **P&G to invest S$100m in new manufacturing facility in Singapore:** Consumer goods company, Proctor & Gamble (P&G) will be investing more than S$100m into setting up a new manufacturing facility in Singapore. The investment is a step towards solidifying P&G's position as an epicentre for trade, technology and talent in Singapore according to the company's president for Asia-Pacific, Middle East and Africa, Stanislav Vecera. Moreover, Singapore was chosen as the home of its next facility for several reasons. The reasons reportedly include Singapore's strategic location, business infrastructure, innovation and digital ecosystem as well as its talent, which made it a viable option.

According to CNA, P&G has stood to benefit from Singapore's meticulous IP ecosystem which spurs investments in research and development. For instance, the company chose Singapore for its innovation centre, which is reportedly the largest private research facility in the city-state. With more than 450 scientists and engineers from 27 nationalities, the innovation centre houses more than 250 research laboratories that help develop P&G's global product range, including brands like Pantene, Ambi Pur and Pampers.

Singapore is also home to P&G's Asia Pacific headquarters, reportedly from which the brand manages its regional IP filings and leverages the country's IP ecosystem to protect its innovations.

- **Siemens's new S$290m factory set to open by 2026 and create 400 jobs:** – Siemens is building a new factory in Singapore for its industrial automation and digitalisation products that will create more than 400 jobs locally. The German conglomerate's plant will begin operation in 2025 or 2026, with an estimated cost of €200 million (S$290 million) and with Tuas as the likely location.

Siemens chief executive for digital industries, Mr Cedrik Neike mentioned that the facility will be among Siemens' most flexible and advanced automated factories globally, which will serve burgeoning demand in South-east Asia and strengthen the resilience of the firm's supply chains. Adjustments can be made at the plant on demand to produce thousands of different types of sensors and electronic modules to better serve regional customers in sectors such as semiconductor, electric vehicle and food and beverage. Existing factories in Germany and China that focus on high production volumes contribute 40% each to Siemens' output in the product segment. The factory here is expected to account for 10% to 20% but has more flexibility to support spikes in demand.

Mr Neike mentioned that access to talent, together with proximity to rapidly growing South-east Asian markets, political and legal stability, free trade agreements with numerous countries and an emphasis on sustainability, made Singapore the right choice in the region.

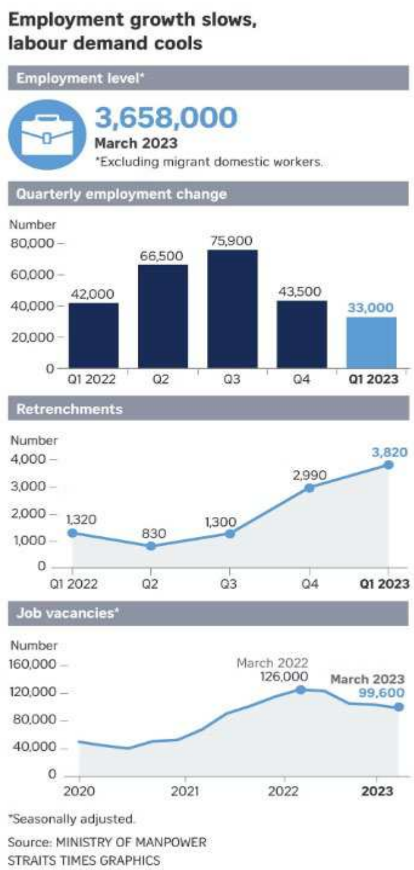
The factory is part of a €2 billion global strategy to expand the firm's manufacturing capacity worldwide and build innovation labs, education centres and other facilities. Siemens also announced that it is expected to increase its research and development spending for the 2023 fiscal year by €500 million (S$750 million) to over €6 billion (S$8.7 billion) during the announcement of the factory.

Labour Market

- **Wages in Singapore likely to see slower rise as labour demand softens in weaker economy:** Monetary Authority of Singapore (MAS) mentioned on April 26 that while wage growth is expected to ease further, it will stay above its historical average.

The central bank cited its studies which indicate that wages respond less than proportionately to prices in the near term. MAS mentioned in its biannual macroeconomic review that policy and administrative factors will nevertheless put a floor on the extent to which resident wage growth in certain industries eases in the near term.

These include policies to uplift incomes of lower-wage workers, including enhancements to the Progressive Wage Model, and salary increases in the civil service, healthcare and education sectors, which will support overall resident wage growth. The rise in wages will also likely be uneven across sectors. It will be higher for travel-related and domestic-oriented ones like construction, real estate, retail as well as food and beverage – compared with the external-oriented types like trade and manufacturing.



- **Singapore showing signs of cooling labour demand as job vacancies drop for 4th straight quarter:** Singapore showed signs of cooling labour demand in the latest market data released on 15 June. Economists said the job market is likely to toughen further given economic uncertainty and global headwinds.

Total employment expanded at a slower pace, retrenchments rose and job vacancies, while still high, dropped for a fourth straight quarter in the Ministry of Manpower's (MOM) labour market report for the first quarter of 2023. Retrenchments rose for the third consecutive quarter to 3,820, from 2,990 in the fourth quarter of 2022.

Labour MP Patrick Tay pointed out that skill and job mismatches remain significant contributors to unemployment in Singapore in the near and medium term. To address this issue, he urged doubling down on efforts to promote and encourage skills upgrading and acquisition, emphasizing the importance of staying prepared, relevant, and resilient.

- **New digital connectivity blueprint to support further growth:** Singapore's information and communications sector grew 8.6% in 2022, outpacing the 3.6% growth clocked by the overall economy, according to a new Digital Connectivity Blueprint unveiled on June 5.

The new blueprint which will support the industry's continued expansion was drafted by both the Ministry of Communications and Information and Infocomm Media Development Authority. It was released by Minister for Communications and Information Josephine Teo ahead of the annual Asia Tech x Singapore Summit, which starts on June 6.

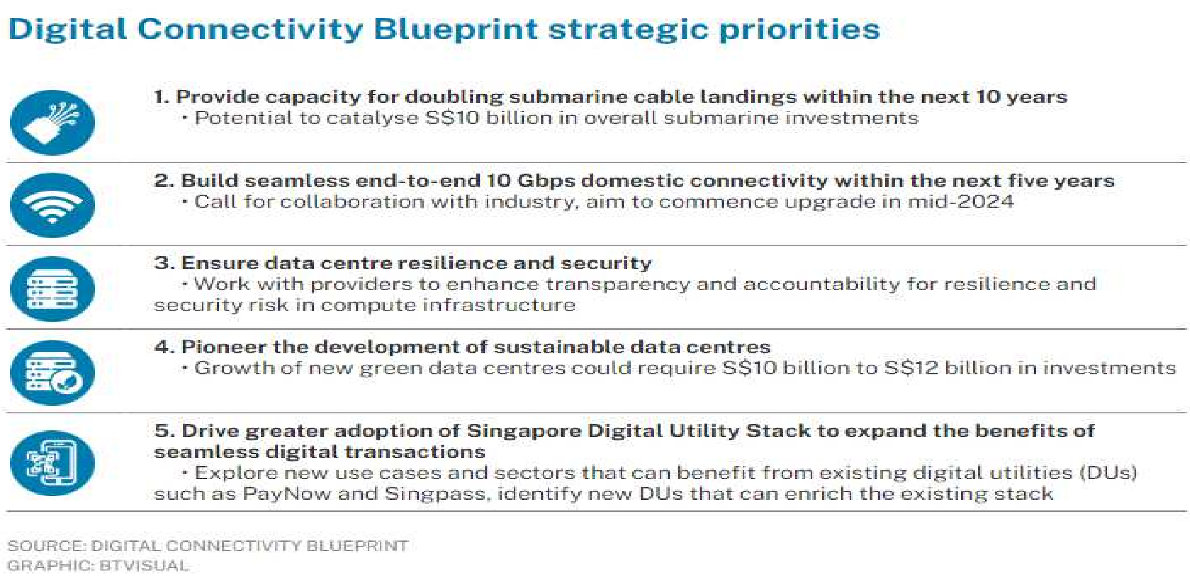
Ms Teo noted that digital connectivity infrastructure may require long lead times to build up capacity, while demand tends to grow in spurts. She emphasised that if all the digital infrastructure investments be made just-in-time, there will be too many missed opportunities. She added that the blueprint's plans will put Singapore in a better position to seize opportunities from emerging tech trends in areas such as generative artificial intelligence and autonomous systems.

As part of the blueprint, Singapore government will develop three digital infrastructure "stacks": hard infrastructure, physical-digital infrastructure and soft infrastructure.

Within the realm of hard infrastructure, the government hopes to improve traditional connectivity. This includes submarine, satellite, broadband, mobile and Wi-Fi networks.

As for physical-digital infrastructure, the government hopes to enable greater interaction between different digital infrastructure components and their physical counterparts.

Lastly with soft infrastructure, the government will look to scale up the Singapore Digital Utility (DU) stack. This stack includes the verification of digital identities, e-payments and e-invoicing, document attestations and data exchanges.



- **Singapore SMEs lead S-E Asia in tech spending:** Smaller firms in Singapore, Indonesia, Malaysia, Thailand and Vietnam are set to spend $173.6 billion on technology – a 70% increase over the next three years, noted a report by TDCX[4].

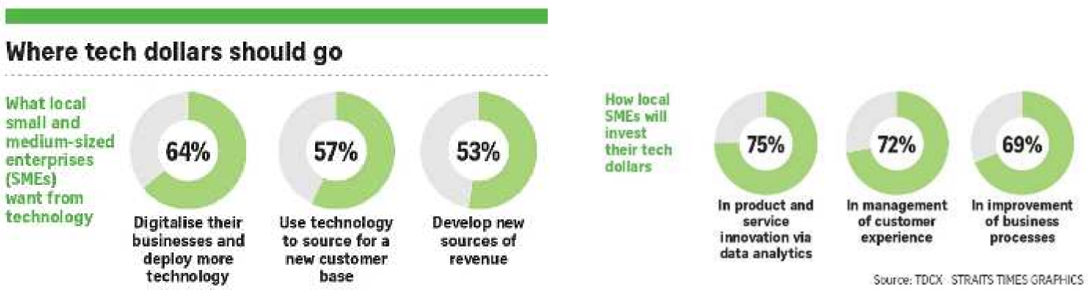
It found that small and medium-sized enterprises (SMEs) in Singapore are especially keen to employ technology to digitalise their businesses, while more than half wanted to exploit tech services to seek out new customers. These aims have prompted many local firms to map out what they would like to invest in over the next two years, with about 70% intending to focus on product and service innovation, managing customer experience and improving business processes.

Singapore's SMEs are already well ahead of their South-east Asian neighbours in this area, according to the survey of 750 companies across the region commissioned by TDCX, a Singapore-based company that provides services in sales, digital marketing and content monitoring, among other offerings.

The study noted that about 36% of local SMEs had already digitalised a significant portion of their operations whereas only between 16% and 26% of their regional counterparts had done so. At the other end of the spectrum, the number of local SMEs that had either just started or have yet to start down the technology route ranked the lowest in the region. About 20% of local businesses fell into this category while between 23% and 36% of SMEs in the region were still milling at the starting line.

While SMEs here appear to be on a surer footing on the digitalisation path, they continue to face several challenges, including gaining access to knowledge and expertise, the need to train staff and being able to seek guidance on how to digitalise their businesses even further. The top three pain points local companies cite are creating engaging content, being able to reach customers and the lack of in-house digital marketing expertise.

Meanwhile, TDCX chief executive Laurent Junique said the pandemic had accelerated digitalisation across the ASEAN region. He noted that tech providers of cloud services, system integration, cyber security, as well as digital platforms, were all vying for a share of the growing Asean SME market, with companies such as Airwallex, Bytedance and Slack already expanding their regional footprints to capitalise on these opportunities.



[4] *For more information on TDCX report, refer to URL Link: https://www.tdcx.com/intuitreport/*

- **Singapore to invest in new capabilities to meet sustainability targets, raise climate resilience:** Singapore Minister for Sustainability and the Environment Grace Fu mentioned that Singapore will invest in new capabilities to meet its sustainability targets and raise its resilience against climate threats.

Ms Fu said Singapore has partnered companies and institutes of higher learning to roll out research and development programmes in areas like decarbonisation, agri-food production, urban heat mitigation, coastal protection and vector control. She added that technologies such as solar panels on reservoirs and an integrated facility in Tuas that treats used water and food waste at the same site are being tested and implemented.

Singapore has a target of net-zero emissions by 2050. To meet this, initiatives will be implemented under the Singapore Green Plan[5] to help enterprises and households reduce their carbon footprint, through schemes like the Energy Efficiency Fund and Climate Friendly Households Programme.

Ms Fu noted that with the carbon tax to be raised progressively from $5 per tonne to between $50 and $80 per tonne by 2030, there are plans to accelerate the low-carbon transition. These include international collaborations to support decarbonisation efforts, such as in carbon markets, carbon capture and storage, a regional power grid and renewable energy.

- **UOB & Keppel to provide sustainability and digitalisation solutions for businesses:** UOB and Keppel Corp announced on 29 May that they will jointly develop and provide sustainability and digitalisation solutions for businesses in South-east Asia. The collaboration, which aims to simplify sustainability for businesses, will focus on solutions in the energy, built environment and digital connectivity sectors.

In the energy sector, businesses can tap Keppel's one-stop energy-as-a-service solution to reduce their carbon footprint and achieve energy efficiency and cost savings. This includes electricity with renewable energy credits, energy storage solutions, distributed solar photovoltaic systems and electric vehicle charging infrastructure.

In the digital connectivity sector, UOB will collaborate with Keppel's subsidiary M1 to develop solutions with embedded banking and sustainability reporting solutions. These solutions, which support the decarbonisation goals of businesses, will be rolled out progressively this year.

UOB and Keppel noted that the tie-up will accelerate the adoption of sustainable practices. This strategic partnership will provide new pathways for companies across the region to become more sustainable and resilient.

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[5] *For more information on Singapore Green Plan, refer to URL Link: https://www.greenplan.gov.sg/*

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