D&B, Dun & Bradstreet, is pleased to send you the D&B Optimism Index for Singapore. It is recognized as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Optimism Index is arrived at on the basis of a quarterly survey of business expectations. Over time, this quarterly survey has emerged as a leading indicator of turning points in economic activity in countries which it is published.

**Methodology**
For the purpose of conducting the survey, a sample is randomly selected from D&B’s database, consisting of companies belonging to the following sectors included Agriculture, Construction, Utilities, Finance, Manufacturing, Mining, Services, Transportation and Wholesaler.

All respondents in the survey are asked six standard questions regarding their expectations as to whether the following critical parameters pertaining to their respective companies will register an increase, decline or show no change in the ensuing quarter as compared to the same quarter in the prior year: Volume of Sales, Net Profits, Selling Prices, New Orders, Inventory Levels, and Employees. The individual indices are then calculated by subtracting the percentage of respondents expecting decreases from those expecting increases. Unless otherwise stated, increases and decreases in indices represent changes from the previous quarter.

**Composite Business Optimism Index**
The purpose of the Composite Business Optimism Index is to capture the aggregate behavior of all the six individual indices. Each of the six parameters has a weight assigned to it. For calculating the Composite Business Optimism Index, the positive responses for each of these parameters for the period under review are expressed as a proportion of positive responses in the base period (Q3 2009). The parameter weights are then applied to these ratios and the results aggregated to arrive at the Composite Business Optimism Index. For the purpose of the survey, Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September and Q4 is the period between October and December each year.
D&B Optimism For Singapore for Q3 2013

Global Economy

Acknowledging that the United States economy is underperforming, the Federal Reserve (Fed) pledged in mid-July to keep feeding liquidity into the system and the interest rate low until unemployment falls to a tolerable level. The global markets responded positively as money pumping is now assured for the immediate future. There had been fears that the Fed could scale back monetary easing before the end of the year. The Bank of Japan (BoJ) also announced that its own version of quantitative easing has fuelled economic growth and would be expanded over the coming months. Earlier in the month of July, the Bank of England and the European Central Bank (ECB) issued statements that interest rates would remain low despite some early signs of recovery.

The International Monetary Fund (IMF) projected that the global economy will expand 3.1% in 2013, down from its earlier estimate of 3.3%, before growing 3.8% in 2014. The global economy is expected to remain in a three-speed model—emerging markets to grow rapidly, slow but steady recovery in the U.S. and much of Europe continues to struggle.

Owing to “low demand, depressed confidence and weak balance sheets”, the IMF expected the eurozone to suffer a 0.6% decline in growth in 2013. The Standard and Poor’s (S&P) downgraded Italy’s rating to BBB, citing the impaired financial system and poor economic prospect as the reasons for cut. However, IMF maintained that the eurozone could stage a turnaround in 2014, while cutting its growth projection to 0.9% from 1.1% in the April forecast. In view of the severe unemployment, political leaders and central banks are now ready to relax austerity. The European Commission will soon be empowered to shut down underperforming banks in the single currency market. This is viewed as a decisive move to break the link between the banking crisis and the sovereign debt, as a large amount of taxpayer money has already been used for saving the struggling banks.

Sluggishness in the advanced economies will slow down the exports of the emerging markets of BRICS, which are also facing slowdowns in domestic demand and consumption.

United States

The U.S. economy is expected to generate positive but modest growth of about 2.0% in 2013, a pace similar to 2012. Rising employment in recent months is widely interpreted as evidence of improved business outlook, at least in the near future. Payrolls increased by 195,000 in June for a second straight month. Driven by strength in housing and the automobile industry, investment is expected to pick up in H2. Investment in equipment and software is expected to grow 4.8% in 2013, according to the Q3 update of the 2013 Equipment Leasing & Finance U.S.

The U.S. and China will start negotiating a bilateral investment treaty which promises to open vast sectors of both economies to massive investments. Currently, many American firms are facing hurdles in investing in China. The treaty would open doors for American financial, consulting and energy firms to make significant progress in the vast but not fully explored market. With concerns about espionage and theft using the internet in recent weeks, protections against cyberspying could turn out to be a deciding factor for the coming negotiations. Chinese-held U.S. federal debt has reached a record $1.3 trillion. In May 2013 China bought $25.2 billion in U.S. Treasury notes and bonds

The U.S. government is concerned with the measures that India has imposed to promote and protect its manufacturing sector. These measures range from subsidies for solar developers who employ domestically manufactured products, to preferential treatment for Indian producers. India has put on hold a policy that requires local firms to purchase domestically manufactured goods.

Asia

China

China registered a 7.5% growth in Q2 2013. As this is the 5th straight quarter with under double-digit growth, critics and doomsayers are now questioning the Beijing government’s wisdom in delaying its stimulus measures. The leaders have repeatedly assured the world that their long-term goal is to rebalance the economy away from over-reliance on exports and investment, and to spur consumer spendings. The National Bureau of Statistics also reported a slower growth in factory output at 9.3% in H1.

Observers are quick to reiterate the slowdown’s possible impact on the rest of the world. Countries including Australia, Brazil and others in Southeast Asia have seen huge profits in recent years because of Chinese demand for natural resources.

The IMF scaled back its earlier forecast from 8.1% in April to 7.8% in July. The economy is now expected to grow by 7.7% in 2013, revised downwards from 8.3% earlier. The world’s second-largest economy has become unbalanced with too much investment and too little consumption. The investment, largely financed through China’s shadow banking system, has grown rapidly during the global financial crisis of the past few years. The IMF also reminds the Chinese government to take quick actions to reignite the economic engine.

India

The fastest-growing economy continues to worry about its inflation. The wholesale price index climbed to 4.9% in June, up from 4.7% in May. The consumer price index also hit 9.3% in the same month. Critics are quick to highlight that the warning signs of “stagflation tendencies” have started to surface. The rupee’s plunge to a record low against the U.S. dollar also presents threats to stoke inflation. The authorities are now considering selling sovereign bonds abroad for the first time.

Meanwhile, the industrial output declined unexpectedly in May, thus adding pressure for government measures to restore accelerated economic growth. Production at factories, utilities and mines had declined by 1.6%.

But the Indian government is confident that it will achieve the overall budgeted revenue target in the fiscal year to March 2014. The series of foreign direct investment proposals approved by the Union Cabinet in key areas of defence, insurance and telecommunications along with others will also provide the much needed boost to the economy.

Top Indian transnational companies (TNC) continue their aggressive globalization march by showing double-digit growth in international revenue, assets and employment, despite the general dip in aggregate overseas FDI in 2012.

Already matching Japan with three mega cities, the Indian government announced its plan to build more cities as the country embarks on a high-growth path. But with the urban population continues to expand (Delhi’s population grew by 40% in the last decade), the nation is facing more challenges from rapid urbanization. While this has been a talking point for years, the authorities are now ready to take serious steps in urban development. More challenges (e.g., overcrowding, pollution, crimes, unemployment and gentrification) and opportunities (e.g., international tourism, massive construction and real estate investment) are expected to follow with this latest development.
Japan

Although the incumbent government was handed a landslide victory in the parliamentary election, the course of public policy remains a matter of uncertainty. Thanks largely to a weaker yen and the aggressive expansionary strategies taken by the government, dubbed Abenomics by political analysts, the Japanese economy continues to show signs of recovery. The ruling party had advocated aggressively during the election campaign that this is Japan’s final chance to regain its economic stature as the country has been eclipsed by China. The aggressive reflational measures are expected to help the share market to fare better than all its Asian peers in H2. Tokyo’s Nikkei has reported a resounding 40% rise so far this year.

Observers are eager to know whether the government will deliver bold reforms that include corporate tax reduction and lifetime employment. Consumers are expected to increase their spending while the government is preoccupied with the promotion of its hawkish stance. This includes the nationalization of over 400 undained islands, a move widely recognized as Japan’s effort to preserve its maritime resources. The government had also announced recently that the sales tax would be doubled from the current 5% in two stages, to 8% in April 2014 and 10% in October 2015. If the economy is assessed to be strong enough to cope with the impact.

The IMF has revised its growth forecast for Japan in 2013 upward to 2%, in view of the impact of the quantitative easing policy. But the forecast for 2014 is reduced to 1.2%, owing to “the weaker global environment”. In June, bank lending rose by 2.2%. The BOJ reported that the trend will continue in the coming months.

The election ends the situation whereby the Lower and Upper Houses are ruled by different political parties. The ruling coalition of the Liberal Democratic Party (LDP) enjoys a huge victory while the opposition Democratic Party of Japan (DPJ) is “finished” after three years in office.

Australia

Drawing comparison with the sub-prime crisis that plagued the U.S. economy in late 2007, Moody’s reported that Australian banks are at risk in a housing bubble. The banks’ home loans are about 65% of their total lending. This compares unfavourably with the U.S. (35%), the U.K. (20%) and Germany (20%). With unemployment rate climbed to 6%, a housing crash remains a possibility, although home prices are widely expected to fall gradually. Currently, the top 4 banks (Commonwealth, Westpac, NAB and ANZ) control 85% of the total mortgages.

Australia’s economic growth has slowed down in Q1 amid sharp contractions in the mining sector. The marginal 0.6% growth was lower than economists’ general expectations, but the Federal Treasurer maintained that “Australia is doing very well when compared with many other developed economies”. The outlook of the Australian economy continues to be obscured by the leadership issue and the ruling party’s in-fighting. The coming federal election is expected to be closely contested.

Singapore

In Q1 2013 the Singapore economy experienced an unexpected contraction. But a quarter later, the economy reported a strong recovery with a 3.7% year-on-year growth in GDP, according to the advance estimates released by the Singapore Government. This was powered by a turnaround in the manufacturing sector. However, analysts are not optimistic that the bullish outlook will continue in Q3, as spilt-over effects from a slowdown in China will remain to be felt. Moreover, the manufacturing rebound is not even the chemical, precision engineering and transport engineering clusters are still contracting.

Construction growth will remain healthy, thanks to the numerous housing and public transport projects. But the rising wages and industrial rentals may dampen the growth. Singapore has become the second priciest country in the world for foreign home buyers. Ranked behind Hong Kong but ahead of Sydney and London, Singapore attempts to cool the local property market with adjusted fees and taxes. The additional stamp duty for foreigners was increased from 10% to 15%, and the tax for high-end residential properties will be raised to 16% in the next couple of years.

Retailers enjoyed a 3.2% rise in sales in May. All retailers, apart from petrol stations and sellers of furniture and household equipment, registered higher year-on-year sales. Excluding motor vehicles, the retail sales had risen by 3.1% in May.

However, the banks’ creditability was unexpectedly downgraded by Moody’s, which showed concerns about the rising debt level. Singapore’s households are most heavily indebted in Asia, relative to their earnings. Since 2009, household debts has risen by 40.4%, while monthly incomes by 26.3%. While UOB and OCBC were assessed to be “stable”, DBS was reported to be “negative”.

The Monetary Authority of Singapore (MAS) is determined to tighten the control on financial institutions, in an attempt to prevent illicit money from entering Singapore. Citing the nation as “well-positioned to play a role in China’s plans to gradually internationalize its currency”, local banks will soon be able to conduct foreign exchange conversions in China via the RMB Clearing Bank with a new regulatory framework, according to MAS. The RMB may become one of Singapore’s reserve currency.

The details about the D&B indicators are discussed in the following sections.

- Up in Volume of Sales

With the number of optimists (30.0%) outnumbering the pessimists (11.7%), the overall Optimistic Index for Sales Volume has managed to reverse its declining trend and moves back to the expansion region at +18.3%. The signal is clear: the business sectors are now hopeful of a better business situation in the coming months, despite a cautious stance taken by the authorities.

The manufacturers are most upbeat (net +75.0%), but the financial (net -60.0%) and agriculture (net -22.2%) sectors are rather pessimistic about the business outlook given their specific concerns. With the potential risk of a tapering in quantitative easing and a turn in the interest rate cycle, the local financial companies continue to perceive strong asset inflation and credit growth trends as vulnerabilities. This causes credit costs to rise and if the interest rate were to be revised upwards, then it may outweigh all potential profitability in lending. Singapore banks are now more exposed to global credit cycles.

It is worthwhile to note that the construction sector (net +38.9%) is looking forward to an improved situation in sales volume in the next quarter.
Up in Net Profits
With the exception of the agriculture (net -22.2%) and the transportation (net 0.0%) sectors, all other surveyed sectors are optimistic that their net profit will grow in Q3. This is a significant reverse of the situation reported for Q2.

A net balance of 18.3% of the companies surveyed is anticipating a rise in net profit in Q3 (12.5% pessimists vs. 30.8% optimists). The manufacturers are most upbeat (net +75.0%), given their improved outlook in sales volumes.

No change in selling price
The selling price is expected neither to rise nor decline. While growth is expected in the services sectors (net +12.5%), the financial sector is anticipating a decline, with none of its surveyed companies confident to suggest an improved situation (net -20.0%) in Q3. This is echoed by the wholesale (net -4.5%) and the transportation (net -10.0%) sectors.

Like the primary (agriculture and mining) and construction sectors, the manufacturers reported no growth in selling price (net 0.0%) in the next quarter.

Up in new orders in the manufacturing sector
Given the better outlook ahead, the local manufacturers are anticipating a growth in new orders (net +25.0%). About 25% of the surveyed companies anticipate an improved situation, while the remaining more supportive of a status quo. The manufacturers are the only sector which furnishes information on their new order assessment.

Up in inventory level
The net Optimistic Index for Inventory hangs on in the expansion region (net +2.5%) after reporting a gloomy picture two quarters ago. The financial sector is most optimistic (net +20.0%), followed by the construction (net +5.6%), wholesales (net 4.5%) and services (net +3.1%) sectors. The transportation sector, however, is anticipating a decline (net -5.0%). The other sectors (agriculture, mining and manufacturing) remain cautious with their forecast, with the majority of surveyed companies, if not all, reporting an unchanged situation in Q3.
Up in Employment

Despite all uncertainties surrounding the improved prospect ahead, more job openings are expected in Q3, with the manufacturing and services sectors (both net +25.0%) taking the lead in job creation. The construction sector is also likely to hire more, with a net +22.2% of the companies surveyed planning to increase their manpower in the next quarter. On the other hand, the agriculture sector is anticipating a worsened situation for employment (net -11.1%). These results are in line with the above-mentioned assessments in sale volumes and net profits.

An overall net balance of 12.5% of the companies surveyed expects to offer more jobs in Q3 (15.8% optimists vs. 3.3% pessimists). As in the previous quarter, the majority of the companies (80.8%) anticipate an unchanged situation for their workforce.

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About D&B
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Information is gathered in over 200 countries, in 95 languages or dialects, covering 186 monetary currencies. The database is refreshed more than one million times daily as part of D&B’s commitment to provide accurate, comprehensive information for its customers around the world.

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