CPF Trends

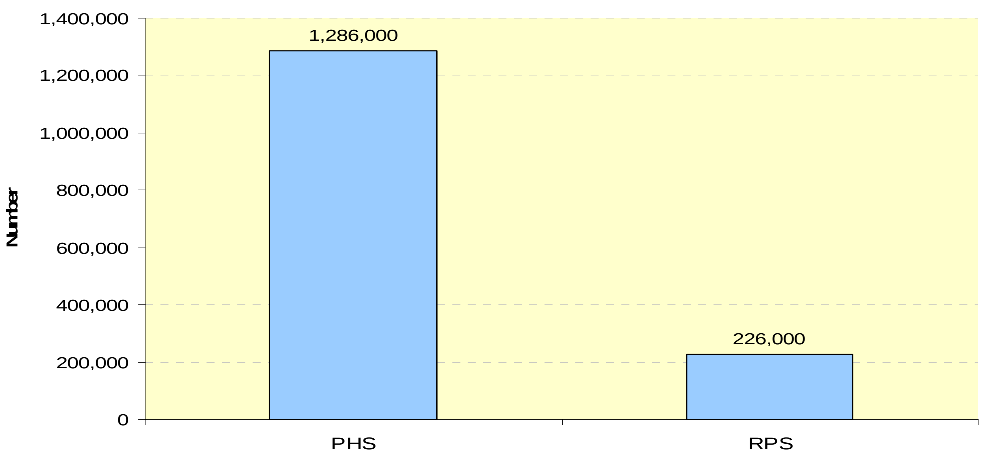
February 2009

CPF Housing Scheme

The CPF Public Housing Scheme (PHS) and Residential Properties Scheme (RPS) for private properties were introduced in 1968 and 1981 respectively. These schemes allow CPF members to finance the purchase of their own homes with their CPF savings.

The number of members who have used the two schemes to finance their homes has been increasing steadily. Members who have used their CPF under the PHS grew from 2,900 in 1968 to 1.29 million at the end of 2007. In comparison, the number of members who have used their CPF savings under the RPS rose from 1,000 in 1981 to 226,000 in 2007. (Refer to Chart 1)

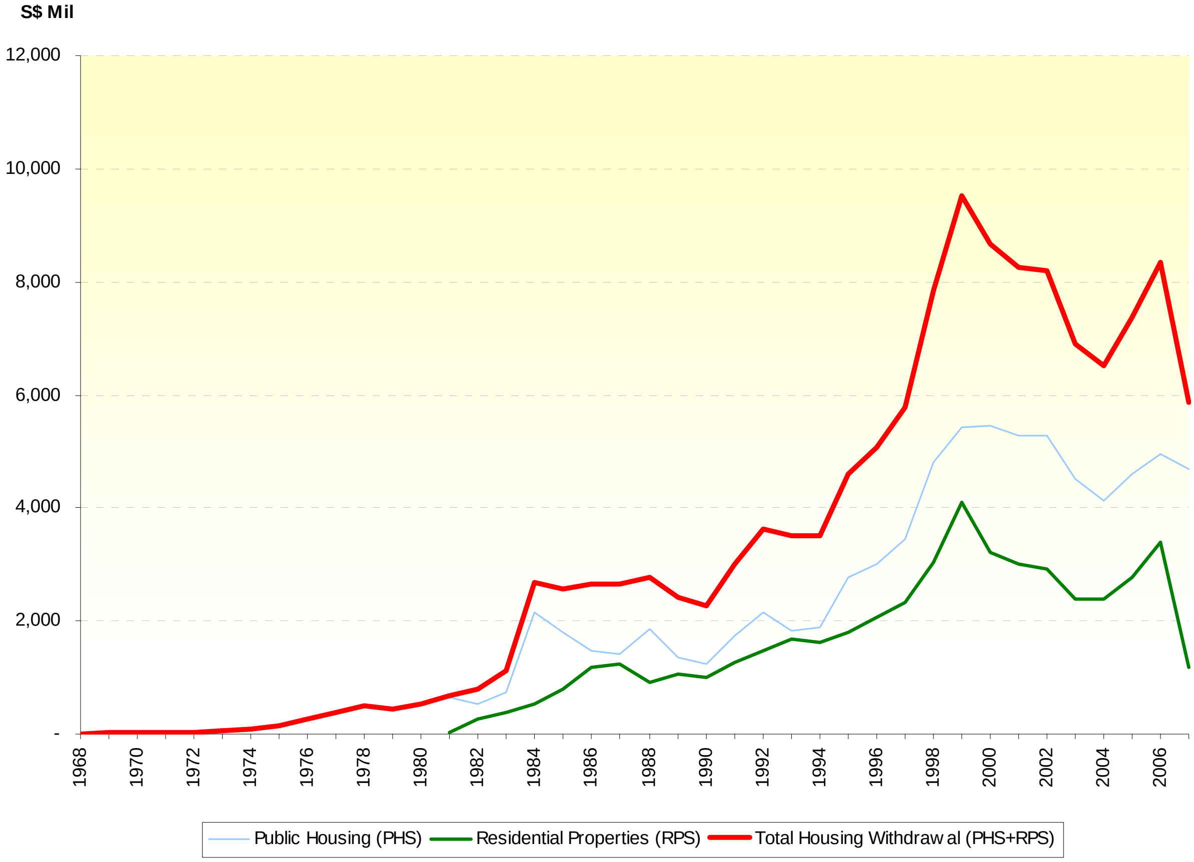
Chart 1: Membership under Public Housing Scheme and Residential Properties Scheme as at end of 2007



The withdrawal of CPF savings for housing has been on the rise since the inception of the two schemes. Chart 2 shows the trend of the net amount withdrawn for both schemes from 1968 to 2007. A net amount of $4,680 million was withdrawn in 2007 under PHS while $1,189 million was withdrawn under RPS for the same period. The withdrawals for housing between 1994 and 1999 were the greatest prolonged increase. Total net housing withdrawals increased by 172% from 1994 to 1999. However, after 1999, withdrawals nosedived for the next 5 years before picking up in 2005. From 1998 to 2005, the lowest total net housing withdrawals of approximately $6,517 million was recorded in 2004. Statistics showed that withdrawals for housing picked up from 2005 to 2006 before it plunged again in 2007.

We will now look at the peaks and troughs of housing withdrawals from 1997 to 2007 as well as the reasons that could have accentuated its rise and fall.

Chart 2: Net Amount Withdrawn under Public Housing Scheme and Residential Properties Scheme



• **Sharpest Increase in Housing Withdrawals (1997 - 1999)**

Withdrawals for housing between 1997 and 1999 saw the steepest upward trend. This was reflected in the steep rise in total net amount withdrawn for housing, from $5,786.8 million in 1997 to a high of $9,530.2 million in 1999. Net withdrawals for private properties increased by 76.2% while public housing withdrawals increased by 56.9% between 1997 and 1999.

• Poor Economic Outlook Put a Brake on Housing Withdrawals (2000 – 2004)

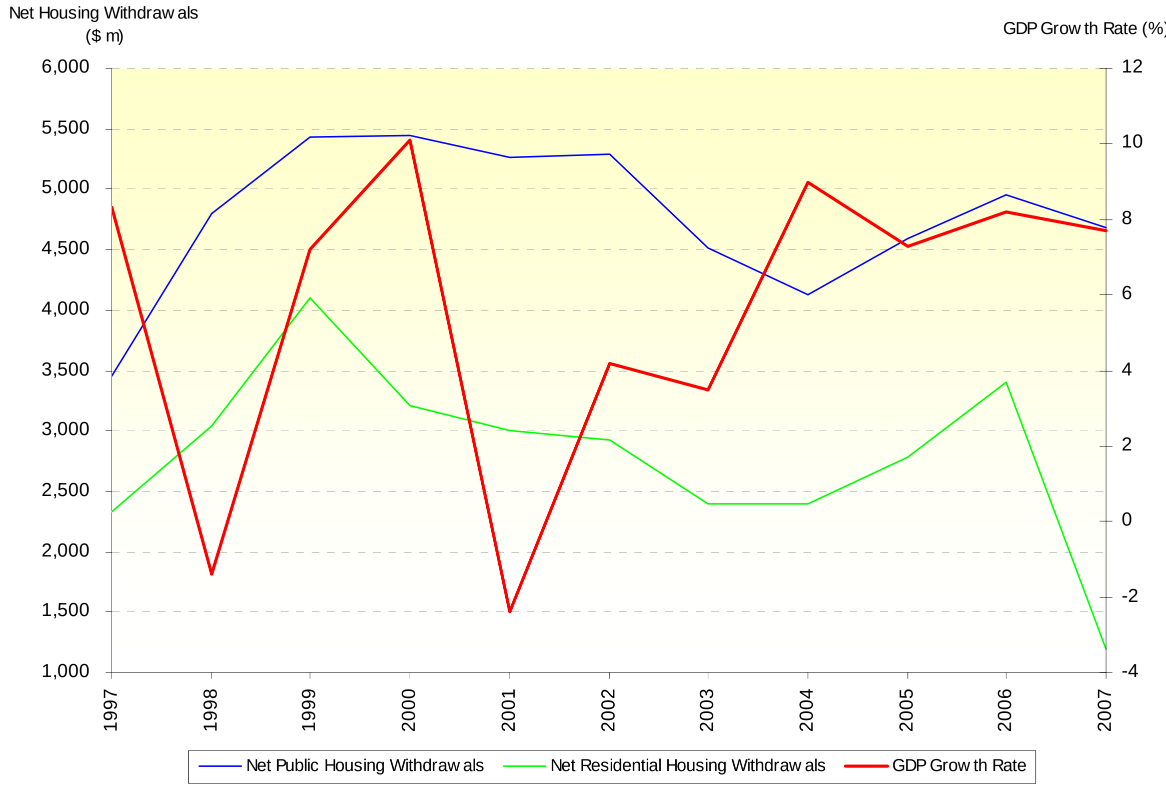
Post 1999, net withdrawals for housing declined. In 2000, the global hike in oil prices resulted in an overall dampened consumer demand which mirrored the fall in housing withdrawals. Following that, the dot com bubble burst that resulted in a sharp downturn in IT demand in the US sparked off the recession in 2001. This in turn precipitated a global electronics slump and a synchronised slowdown in all of the major industrialised nations. The September 11 terrorist attack also brought about further contractions in the global economy. Locally, the Ministry of National Development announced that less than 8,000 new public flats would be built in 2001. These events led to a lower net housing withdrawals in 2001. This was seen especially for residential properties which saw net withdrawals declined from $3,212.2 million in 2000 to $2,999.7 million in 2001.

From 2002 to 2004, total net housing withdrawals took a significant dip, it dropped from $8,208.8 million in 2002 to $6,517.4 million in 2004. This was a 20.6% decrease in total net housing withdrawals within 2 years. The years 2002-2004 were also plagued with SARS and the Gulf War. These two events subsequently weakened the economy and consumer confidence plunged further.

The years 2003 and 2004 were gloomy periods for the property market in Singapore. The local economy suffered badly before picking up steadily in 2004. Gross Domestic Product (GDP) growth rate dropped from 4.2% in 2002 to 3.5% in 2003 (Refer to Chart 3). Employer's CPF contribution rate was slashed from 16% in 2002 to 13% in 2003. This resulted in the fall of total contribution rate from 36% to 33% in 2003.

The consequence of the CPF contribution cut meant that members had lesser CPF savings for housing and that affected the amount of housing withdrawals. Net public housing withdrawals dropped 8.6% while net residential properties withdrawals fell 0.2% from 2003-2004. Both foreign (such as dot com bubble burst and the Gulf War) and local factors (such as economic slowdown, SARS and a cut in employer's contribution rate) led to a drastic decline in total net housing withdrawals from 2001 to 2004.

Chart 3: Trend of Net Public and Residential Housing Withdrawal to GDP Growth Rates



• Sustained Economic Recovery and Policy Liberalisation Encourages Housing Withdrawals (2005 – 2006)

As the economy picked up steadily after 2003 and showed signs of recovery, net housing withdrawals also increased correspondingly. In 2005, the liberalisation of policies led to the increase in housing withdrawals. These included changes in the policies such as using CPF for downpayment, lowering minimum lease period from 60 to 30 years and allowing non-related singles to jointly use their CPF to buy private residential properties.

In 2006, the GDP growth rate expanded to 8.2% from 7.3% in 2005. Unemployment rate also dipped to 2.7%. In addition, 173,300 jobs were created for the year. With positive economic growth, wages increased and employees saw better bonuses. Average wage rose by 3.2% in 2006. With this favorable backdrop, members have more savings in their CPF due to higher wages and bonuses.

The liberalisation of housing policies, growing economy, more jobs, low unemployment rate and better wages led to the increase in total net housing withdrawals from $6,517.4 million in 2004 to $8,355.7 million in 2006.

Another factor for the increase in total net housing withdrawals could be attributed to the pent up demand from 2002 to 2004, during which housing withdrawals dropped continuously for these years. After a period of economic contraction since 1999, members could have a greater desire and demand to purchase flats when the economy picked up, thus, this led to a sharp rise in housing withdrawals from 2004 to 2006.

- **Credit Crunch and High Oil Prices Brought Property Market Down (2007)**

The US sub-prime mortgage problems led to a global credit tightening which saw its effects rippled into the Asian market in 2007. Buyers and sellers in the property market were cautious. Oil prices also surged to record high, past US$100 per barrel. This brought about a global increase in prices such as electricity and petrol. Singapore was not spared the effects of the US sub-prime mortgage, which saw GDP growth rates decrease from 8.2% in 2006 to 7.7% in 2007. Private property en bloc sales also saw a record run during the year. Total net housing withdrawals in 2007 saw a sharp decline from $8,355.7 million in 2006 to $5,869 million in 2007. This was mainly due to the higher refund of CPF savings under RPS. The higher refunds could have resulted from the fuelled private property en bloc sales. Refunds in 2007 were about twice that in 2006.

Conclusion

From the trends above, CPF members' use of their savings for housing were largely affected by market forces as well as policy changes. Nonetheless, Singaporeans have increasingly used their CPF savings to purchase homes under PHS and RPS. As their CPF savings are essentially for old age, they should be reminded to address how the use of CPF savings for housing affects their retirement nest egg.