CHAPTER 1
Economic Performance

CHAPTER 1

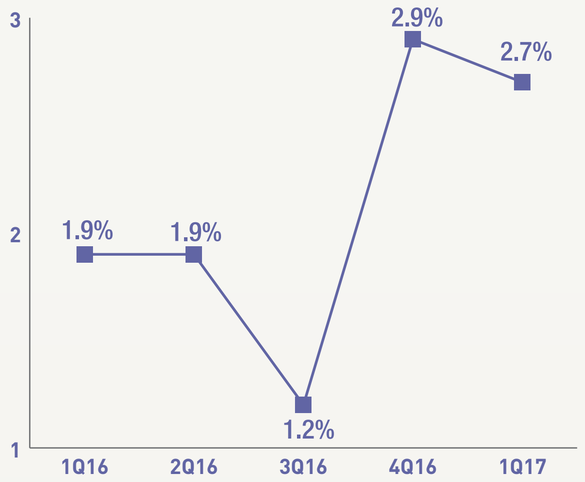
THE SINGAPORE ECONOMY

ECONOMIC PERFORMANCE

Real GDP grew by

2.7% in 1Q17

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 1Q17

MANUFACTURING

1.4%-point contribution

TRANSPORTATION & STORAGE

0.3%-point contribution

BUSINESS SERVICES

0.3%-point contribution

In total, these sectors accounted for

74% of GDP growth

LABOUR MARKET

RESIDENT UNEMPLOYMENT RATE

3.2% in 1Q17

EMPLOYMENT (Q-O-Q CHANGE)

-8,500 employed

Sectors with the Highest Employment Growth in 1Q17

OTHER SERVICES INDUSTRIES	+7,300 employed
FINANCIAL & INSURANCE SERVICES	+2,700 employed
INFORMATION & COMMUNICATIONS	+600 employed

PRODUCTIVITY

VALUE-ADDED PER WORKER (Y-O-Y GROWTH)

+2.7%

Sectors with the highest Value-added per Worker Growth in 1Q17

MANUFACTURING	+11.9%
CONSTRUCTION	+3.0%

COSTS

Overall Unit Labour Cost declined by

1.0% in 1Q17

WITHIN THE MANUFACTURING SECTOR

1Q17	Unit Business Cost	Unit Labour Cost
	-0.5%	-9.8%

PRICES

The Consumer Price Index (CPI) rose by

0.6% in 1Q17

CATEGORIES WITH PRICE INCREASES

Quarterly Growth (Year-on-Year)

- TRANSPORT: 3.8%
- EDUCATION: 3.6%

CATEGORIES WITH PRICE DECLINES

Quarterly Growth (Year-on-Year)

- MISCELLANEOUS GOODS & SERVICES: -0.1%
- CLOTHING & FOOTWEAR: -0.9%
- HOUSING & UTILITIES: -3.2%

INTERNATIONAL TRADE

Total Merchandise Exports rose by

17.0% in 1Q17

- OIL DOMESTIC EXPORTS: +72.0%
- NON-OIL DOMESTIC EXPORTS: +15.2%
- RE-EXPORTS: +6.5%

Main Drivers of Services Export Growth were...

- TRAVEL: +11.1%
- TRANSPORT SERVICES: +3.7%
- OTHER BUSINESS SERVICES: +2.7%

OVERVIEW

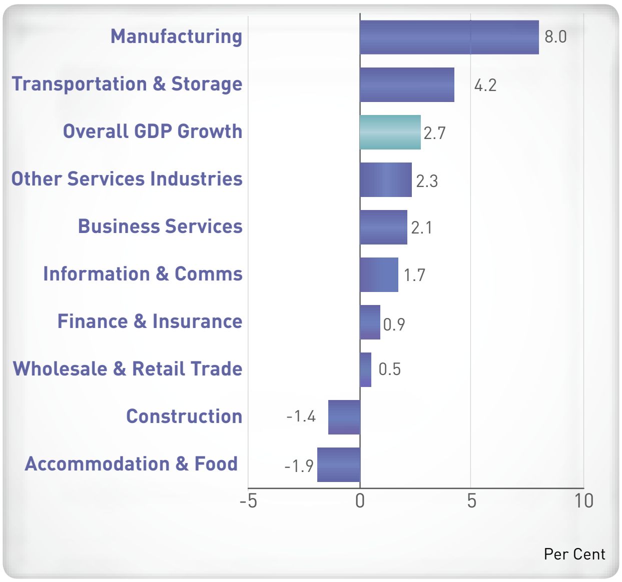
In the first quarter of 2017,

- The economy expanded by 2.7 per cent compared to the same period last year. The sectors that contributed the most to growth were the manufacturing, transportation & storage and business services sectors.
- The seasonally-adjusted unemployment rate was unchanged for residents (3.2 per cent) and citizens (3.5 per cent) in March 2017 as compared to December 2016. Total redundancies were lower compared to the previous quarter, but similar when compared to the same period a year ago.
- Total employment contracted by 8,500 on a quarter-on-quarter basis, compared to the gains of 13,000 in the same period a year ago. The contraction in employment was mainly due to a decrease in Work Permit Holders in the manufacturing and construction sectors.
- The Consumer Price Index increased by 0.6 per cent on a year-on-year basis.

OVERALL PERFORMANCE

The economy grew by 2.7 per cent on a year-on-year basis in the first quarter, slightly slower than the 2.9 per cent growth in the fourth quarter of 2016 (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted annualised basis, the economy contracted by 1.3 per cent, after posting a strong rebound of 12 per cent in the preceding quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 1Q 2017



The manufacturing sector expanded by 8.0 per cent, extending the 11 per cent expansion in the previous quarter. Growth was primarily driven by the electronics and precision engineering clusters, even as the transport engineering and general manufacturing clusters continued to contract.

The services producing industries grew by 1.6 per cent, higher than the 1.0 per cent growth in the previous quarter. Among the services sectors, the transportation & storage sector posted the strongest growth of 4.2 per cent, supported primarily by the water transport segment. This was followed by the "other services industries" (2.3 per cent), business services (2.1 per cent) and information & communications (1.7 per cent) sectors. The finance & insurance (0.9 per cent) and wholesale & retail trade (0.5 per cent) sectors similarly recorded expansions in the first quarter. On the other hand, the accommodation & food services sector contracted by 1.9 per cent, weighed down by the food & beverage segment.

Meanwhile, the construction sector shrank by 1.4 per cent, extending the 2.8 per cent contraction in the preceding quarter. The decline was due to continued weakness in private sector construction activities.

The sectors that contributed the most to GDP growth in the first quarter were the manufacturing, transportation & storage and business services sectors (Exhibit 1.2). Collectively, they accounted for 74 per cent of overall GDP growth in the quarter.

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 1Q 2017 (By Industry)

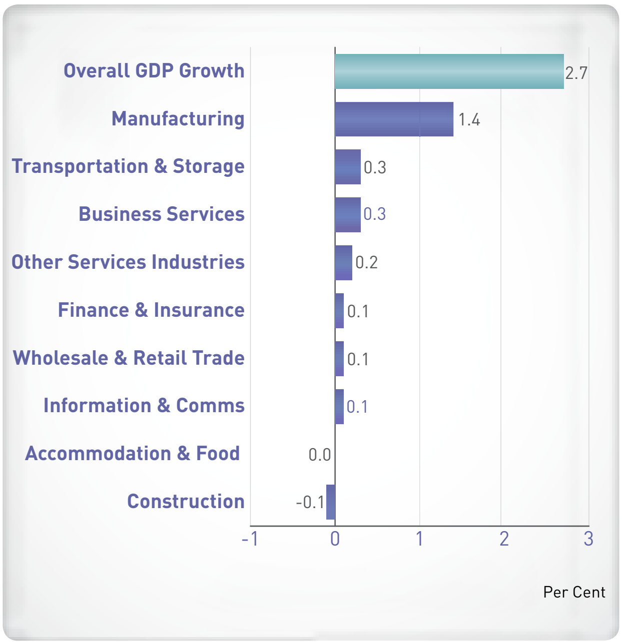


*Exhibit 1.3: Changes in Total Demand**

	2016				2017
	I	II	III	IV	I
Total Demand	1.1	1.4	-0.7	2.8	**4.1**
External Demand	-1.8	4.1	2.5	1.6	**5.1**
Total Domestic Demand	9.6	-5.9	-9.3	6.3	**1.2**
Consumption Expenditure	4.8	2.9	-0.1	-0.3	**1.1**
Public	9.6	10.1	-1.3	7.0	**5.5**
Private	3.3	1.2	0.2	-2.3	**-0.4**
Gross Fixed Capital Formation	-2.2	1.4	-4.3	-5.0	**-0.3**
Changes in Inventories	4.8	-5.9	-5.7	5.8	**0.4**

** For inventories, this refers instead to change as percentage of GDP in the previous year.*

SOURCES OF GROWTH

Total demand rose at a faster pace of 4.1 per cent in the first quarter, compared to 2.8 per cent in the fourth quarter of 2016, on the back of an improvement in external demand (Exhibit 1.3). In particular, external demand increased by 5.1 per cent, accelerating from the 1.6 per cent growth in the previous quarter.

By contrast, domestic demand rose at a slower pace of 1.2 per cent in the first quarter compared to 6.3 per cent in the previous quarter, primarily due to a smaller build-up in inventories. Gross fixed capital formation also remained weak, declining by 0.3 per cent following the 5.0 per cent contraction in the preceding quarter. In particular, private investments fell by 4.0 per cent, largely weighed down by the weakness in private construction works. On the other hand, public investments registered a 11 per cent increase, supported by an expansion in public construction works.

Meanwhile, consumption expenditure rose by 1.1 per cent in the first quarter, reversing the 0.3 per cent decline in the previous quarter. Growth was supported by a 5.5 per cent increase in public consumption.

LABOUR MARKET

Unemployment and Redundancy[1]

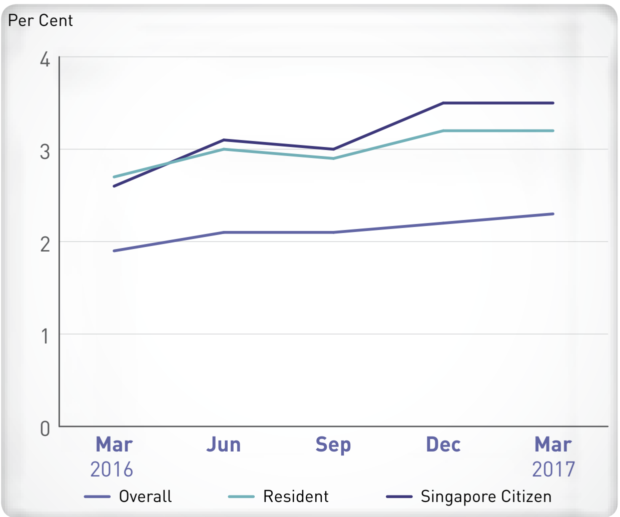
The seasonally-adjusted unemployment rate was unchanged for residents (3.2 per cent) and citizens (3.5 per cent) in March 2017 compared to December 2016, following an increase in December 2016 compared to September 2016. The overall unemployment rate rose slightly from 2.2 per cent in December 2016 to 2.3 per cent in March 2017 (Exhibit 1.4).

In March 2017, an estimated 74,400 residents, including 67,100 Singapore citizens, were unemployed. These were broadly similar to the number of unemployed residents (73,900) and citizens (67,300) in December 2016.[2]

[1] *Figures pertain to private sector establishments with at least 25 employees and the public sector.*

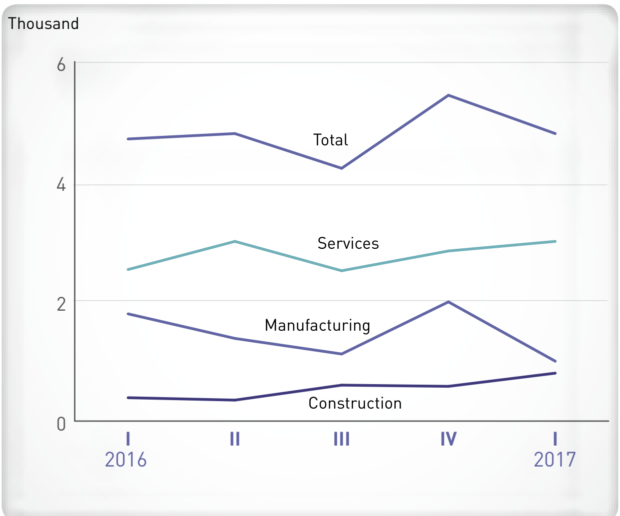
[2] *Based on seasonally-adjusted data on the number of unemployed persons.*

Exhibit 1.4: Unemployment Rate (Seasonally Adjusted)



Total redundancies fell over the quarter. Around 4,800 workers were made redundant in the first quarter, down from the 5,440 in the previous quarter, but similar when compared to the same period a year ago (Exhibit 1.5). By broad sectors, redundancies declined over the quarter in the manufacturing sector (from 1,990 to 1,000). On the other hand, redundancies rose over the quarter in the construction (from 580 to 800) and services (2,840 to 3,000) sectors.

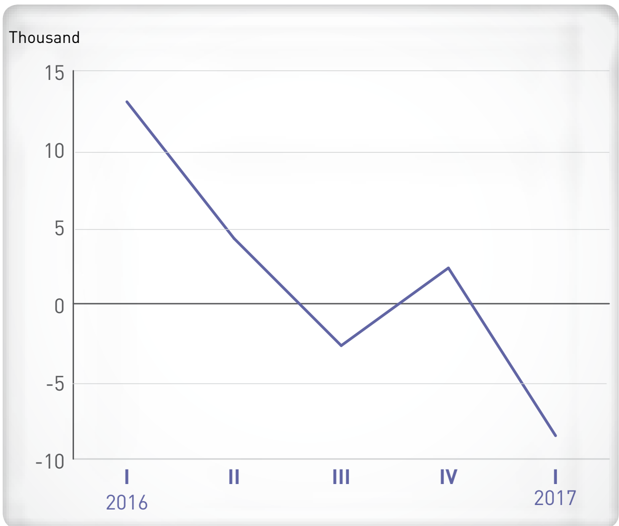
Exhibit 1.5: Total Redundancies



Employment[3]

Total employment declined by 8,500 on a quarter-on-quarter basis in the first quarter, compared to the growth of 13,000 registered in the same quarter a year ago (Exhibit 1.6).

Exhibit 1.6: Change in Total Employment, Quarter-on-Quarter

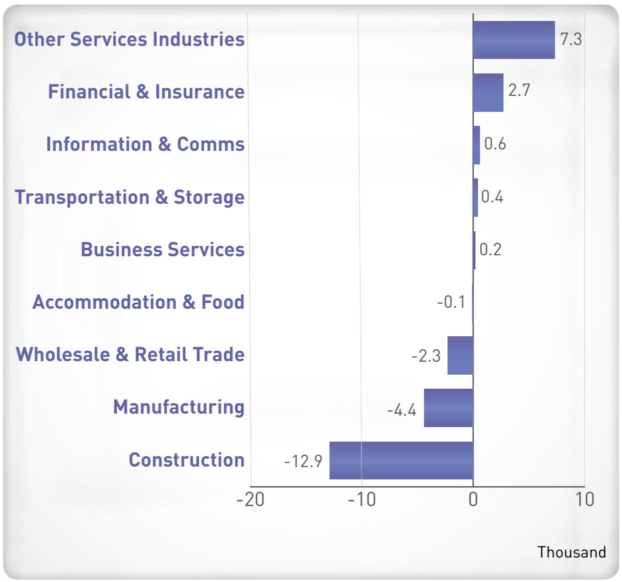


The decline in employment in the first quarter was mainly due to a fall in Work Permit Holders in the manufacturing and construction sectors. Employment in the manufacturing sector fell by 4,400 in the first quarter, the tenth consecutive quarter of decline, although this was a moderation from the contraction seen in the fourth quarter of 2016 (-6,500). In particular, employment in the marine & offshore engineering segment continued to be weighed down by the sluggish demand for oil rigs and oilfield equipment amidst low oil prices. Meanwhile, employment in the construction sector declined (-12,900) for the third consecutive quarter, due to continued weakness in private sector construction works (Exhibit 1.7).

Nonetheless, the declines in these sectors were partially offset by employment gains in the services industries (8,700), largely due to stronger employment growth in sectors such as other services industries (7,300) and financial & insurance services (2,700).

[3] *Based on preliminary estimates.*

Exhibit 1.7: Changes in Employment by Industry in 1Q 2017



Hiring Expectations

The hiring outlook of the manufacturing sector continued to be negatively affected by firms in the oil-related segments. According to EDB's Business Expectations Survey for the Manufacturing Sector, a net weighted balance of 5 per cent of manufacturers expected to hire fewer workers in the second quarter of 2017 as compared to the first quarter. The weak hiring sentiment was largely due to the marine & offshore engineering segment, where a net weighted balance of 38 per cent of firms expected lower levels of hiring. By contrast, firms in the other electronic modules & components and land engineering segments were the most optimistic, with a net weighted balance of 32 per cent and 23 per cent of firms in the respective segments expecting to increase hiring in the second quarter.

Hiring expectations for firms in the services sector were positive. According to DOS' Business Expectations Survey for the Services Sector, a net weighted balance of 1 per cent of services firms expected to increase hiring in the second quarter of 2017. In particular, a net weighted balance of 10 per cent of firms in the recreation, community & personal services segment and 6 per cent of firms in the wholesale trade segment expected to hire more workers.

COMPETITIVENESS

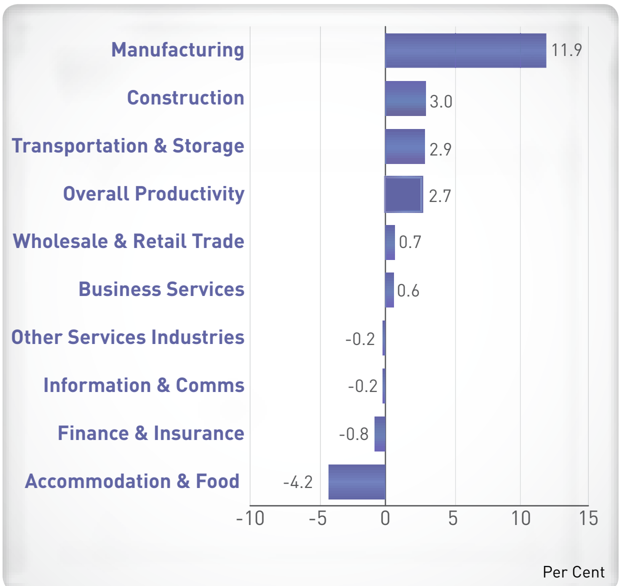
Productivity

Overall labour productivity, as measured by value-added per worker, grew by 2.7 per cent in the first quarter compared to the same period a year ago (Exhibit 1.8).

The manufacturing (12 per cent), construction (3.0 per cent) and transportation & storage (2.9 per cent) sectors saw the highest productivity growth rates. By contrast, the accommodation & food (-4.2 per cent) and finance & insurance (-0.8 per cent) sectors experienced the sharpest declines in productivity.

Outward-oriented sectors as a whole registered higher productivity growth than domestically-oriented sectors. Compared to the same period last year, the productivity of outward-oriented sectors grew by 3.9 per cent in the first quarter, while that of domestically-oriented sectors improved by 0.3 per cent.[4]

Exhibit 1.8: Changes in Value-added per Worker for the Overall Economy and Sectors in 1Q 2017



[4] *Based on MTI estimates. Outward-oriented sectors refer to manufacturing, wholesale trade, transportation & storage, accommodation, information & communications, finance & insurance and professional services. Domestically-oriented sectors refer to construction, retail trade, food & beverage services, other business services and other services industries.*

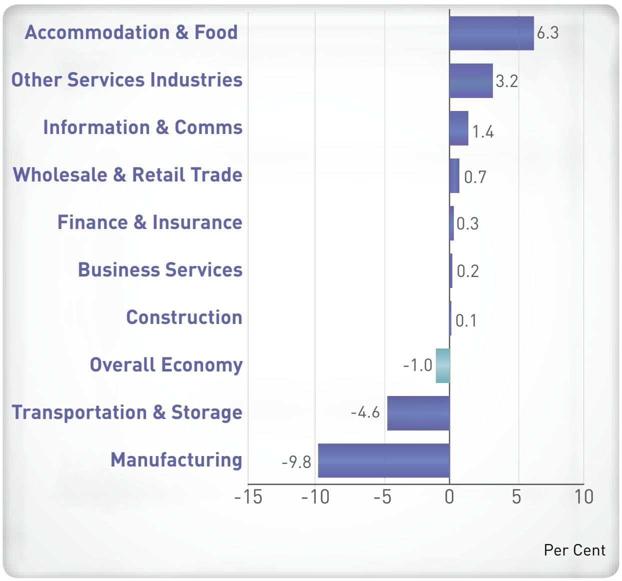
Unit Labour Cost and Unit Business Cost

Overall unit labour cost (ULC) for the economy fell by 1.0 per cent in the first quarter, a reversal from the 0.7 per cent increase in the fourth quarter of 2016 (Exhibit 1.9). The decline in overall ULC was due to positive labour productivity growth that exceeded the increase in labour cost per worker.

By sectors, the ULC for the manufacturing sector declined by 9.8 per cent, the fifth consecutive quarter of decline, on the back of strong productivity gains.

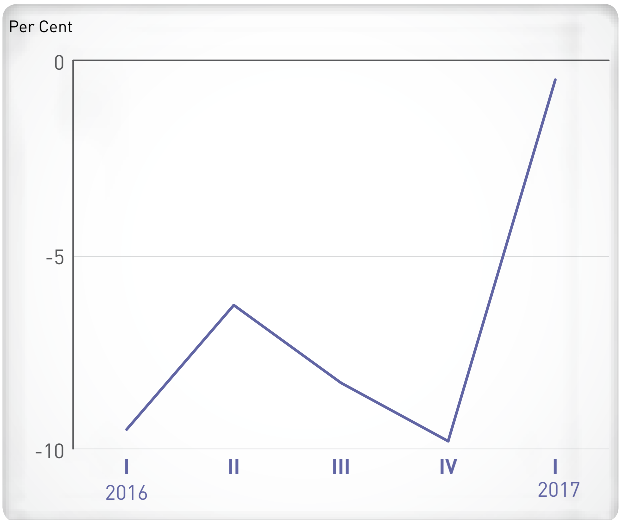
On the other hand, the services ULC increased by 1.2 per cent. All the services sectors, with the exception of transportation & storage, saw increases in their respective ULCs. Construction ULC also edged up by 0.1 per cent, as the rise in total labour cost per worker outpaced labour productivity growth for the sector.

Exhibit 1.9: Changes in Unit Labour Cost in 1Q 2017



Unit business cost (UBC) for the manufacturing sector fell by 0.5 per cent in the first quarter, a slower pace of decline as compared to the 9.8 per cent fall in the previous quarter (Exhibit 1.10). The smaller decline in manufacturing UBC was mainly driven by a 3.8 per cent increase in the unit services cost (which includes utilities cost), a reversal from the 9.3 per cent decline in the preceding quarter.

Exhibit 1.10: Changes in Unit Business Cost for Manufacturing

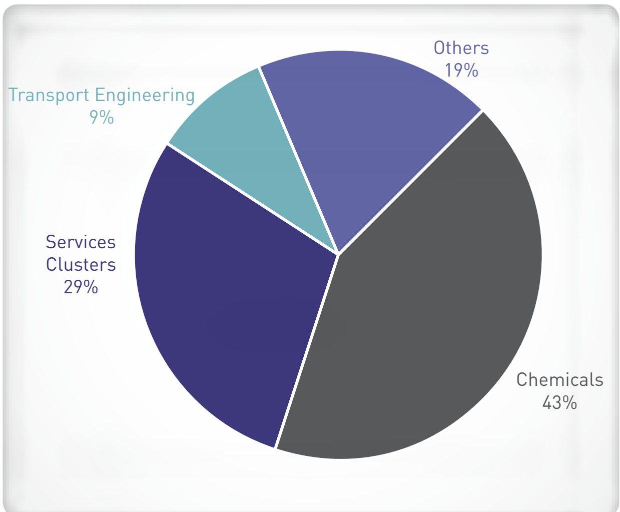


Investment Commitments

Investment commitments in terms of total Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $1.8 billion and $1.1 billion respectively in the first quarter (Exhibit 1.11 and Exhibit 1.12).

In terms of FAI, the largest contribution came from the chemicals cluster, which garnered $0.8 billion in commitments, mainly from the petrochemicals segment. This was followed by the services clusters, which attracted $0.5 billion in commitments. Investors from the United States contributed the most to FAI commitments, accounting for $0.9 billion (49 per cent) of total FAI commitments.

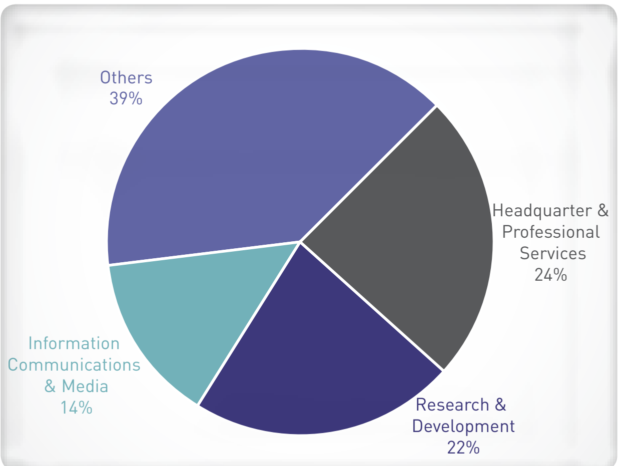
Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 1Q 2017



In terms of TBE, the headquarters & professional services cluster garnered the highest amount of commitments at $0.3 billion, followed by the research & development cluster, at $0.2 billion. Similarly, investors from the United States were the largest source of TBE, accounting for $0.4 billion (36 per cent) of total TBE committed.

When fully realised, these commitments are expected to generate value-added of $3.8 billion and more than 3,900 jobs.

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 1Q 2017

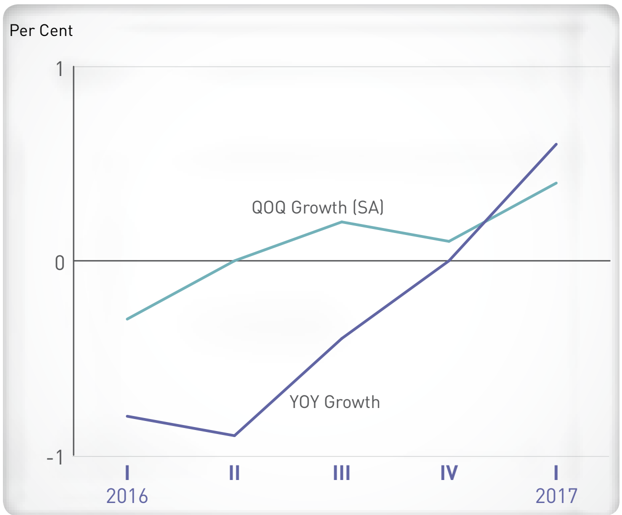


PRICES

Consumer Price Index

The Consumer Price Index (CPI) increased by 0.6 per cent on a year-on-year basis in the first quarter after remaining unchanged in the previous quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, the CPI rose by 0.4 per cent, faster than the 0.1 per cent increase in the preceding quarter.

Exhibit 1.13: Changes in CPI



Among the CPI categories, the largest positive contributor to headline inflation in the first quarter was transport costs, which rose by 3.8 per cent on a year-on-year basis (Exhibit 1.14). In particular, while bus & train fares fell, private road transport costs picked up on the back of higher petrol prices, the expiry of the road tax rebate, as well as the rise in parking charges and car prices. Food prices rose by 1.5 per cent due to price increases for hawker food and restaurant meals, as well as non-cooked food items such as fish & seafood and vegetables.

Education costs increased by 3.6 per cent on account of higher fees at commercial institutions, universities, polytechnics, childcare centres and kindergartens. Healthcare costs went up by 2.7 per cent due to more expensive hospital and outpatient services. The prices of household durables & services rose by 1.7 per cent as a result of higher salaries for foreign domestic workers. Recreation & culture costs edged up by 0.4 per cent on account of a rise in the costs of holiday travel and newspapers. Communications costs rose by 0.3 per cent because of the higher cost of telecommunication services.

Exhibit 1.14: Percentage Changes in CPI over Corresponding Quarter of Previous Year

					Per Cent
	2016				2017
	I	II	III	IV	I
All items	-0.8	-0.9	-0.4	0.0	0.6
Food	2.0	2.2	2.1	2.0	1.5
Clothing & Footwear	2.1	0.6	-1.6	-0.2	-0.9
Housing & Utilities	-4.1	-4.2	-4.3	-3.8	-3.2
Household Durables & Services	-0.8	2.3	3.1	2.6	1.7
Health Care	0.7	0.9	0.6	2.1	2.7
Transport	-2.9	-5.2	-1.6	0.1	3.8
Communication	-1.1	-0.5	0.8	-0.6	0.3
Recreation & Culture	0.4	1.2	1.1	0.9	0.4
Education	2.5	3.2	3.4	3.2	3.6
Miscellaneous Goods & Services	0.5	0.4	0.0	0.1	-0.1

The price gains in these CPI categories were partially offset by declines in other categories. In particular, housing & utilities posed the largest drag on headline inflation, with prices declining by 3.2 per cent as the fall in accommodation costs outweighed the rise in electricity tariffs, housing maintenance charges and refuse collection fees. Clothing & footwear costs fell by 0.9 per cent due to cheaper footwear and ready-made garments. The prices of miscellaneous goods & services dipped by 0.1 per cent on account of the lower cost of personal care items.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade expanded by 16 per cent year-on-year in the first quarter of 2017, extending the 4.0 per cent increase in the preceding quarter (Exhibit 1.15). This was mainly due to the 77 per cent increase in total oil trade in nominal terms on the back of a rise in oil prices from levels a year ago.

Exhibit 1.15: Growth Rates of Total Merchandise Trade, Merchandise Exports and Merchandise Imports (In Nominal Terms)

						Per Cent
	2016					2017
	I	II	III	IV	Ann	I
Merchandise Trade	-11.0	-6.0	-6.6	4.0	-4.9	16.3
Merchandise Exports	-13.1	-4.8	-4.5	2.1	-5.1	17.0
Domestic Exports	-16.9	-5.0	-8.0	7.6	-5.8	29.2
Oil	-33.3	-18.0	-13.7	20.2	-12.6	72.0
Non-Oil	-9.6	1.2	-5.4	2.7	-2.8	15.2
Re-Exports	-9.5	-4.6	-1.0	-2.4	-4.4	6.5
Merchandise Imports	-8.5	-7.4	-9.1	6.1	-4.7	15.6
Oil	-37.6	-29.2	-23.9	16.8	-20.6	89.8
Non-Oil	-0.6	-0.7	-4.9	3.9	-0.6	3.0

Total merchandise exports rose by 17 per cent in the first quarter, following the 2.1 per cent increase in the preceding quarter. This marked the second consecutive quarter of growth, and was due to an increase in both domestic exports and re-exports of 29 per cent and 6.5 per cent respectively.

The increase in domestic exports was due to an expansion in both oil and non-oil domestic exports. In particular, oil domestic exports grew by 72 per cent in the first quarter, extending the 20 per cent growth in the previous quarter, mainly due to higher oil prices compared to a year ago. In volume terms, oil domestic exports rose by 14 per cent.

Non-oil domestic exports (NODX) expanded by 15 per cent in the first quarter, extending the 2.7 per cent increase in the previous quarter. The expansion was due to the growth in both electronics and non-electronics NODX.

Total merchandise imports rose by 16 per cent in the first quarter, following the 6.1 per cent increase posted in the previous quarter. This was due to an increase in both oil and non-oil imports. Specifically, oil imports increased by 90 per cent on the back of higher oil prices and higher import volumes. Meanwhile, non-oil imports rose by 3.0 per cent, driven by an increase in both electronics and non-electronics imports.

Services Trade

Total services trade grew at a faster rate of 4.3 per cent in the first quarter, as compared to the 3.4 per cent growth in the previous quarter (Exhibit 1.16). Services exports rose by 3.9 per cent, faster than the 3.1 per cent growth recorded in the preceding quarter. The growth in services exports can be attributed to an increase in travel, transport, and other business services exports. Services imports grew by 4.6 per cent, picking up from the 3.7 per cent growth in the previous quarter. The growth in services imports was mainly due to increases in the imports of transport and other business services as well as payments for the use of intellectual property.

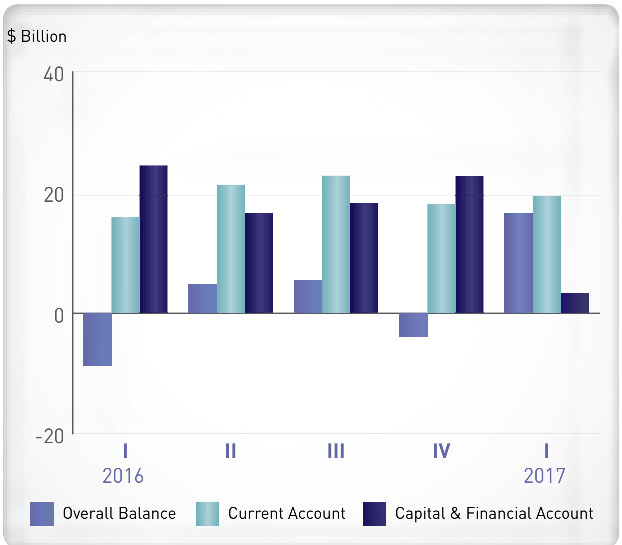
Exhibit 1.16: Growth Rates of Total Services Trade, Services Exports and Services Imports (In Nominal Terms)

						Per Cent
			2016			2017
	I	II	III	IV	Ann	I
Total Services Trade	-0.5	1.4	0.4	3.4	1.2	**4.3**
Services Exports	-1.0	2.0	0.6	3.1	1.2	**3.9**
Services Imports	0.0	0.9	0.2	3.7	1.2	**4.6**

BALANCE OF PAYMENTS

The overall balance of payments recorded a surplus of $17 billion in the first quarter, a reversal from the deficit of $3.9 billion in the previous quarter. This arose as net outflows from the financial account shrank substantially, while the surplus in the current account increased.

Exhibit 1.17: Balance of Payments[5]



Current Account

The current account surplus rose to $19 billion in the first quarter, from $18 billion in the preceding quarter. Although the surplus in the goods balance narrowed, this was more than offset by the decline in the primary income deficit. Meanwhile, the deficits in the services and secondary income balances were broadly stable.

The surplus in the goods balance declined by $0.9 billion to $27 billion in the first quarter, from $28 billion in the previous quarter.

By contrast, the deficit in the primary income balance narrowed from $3.7 billion to $1.7 billion in the first quarter, as primary income receipts rose while income payments decreased slightly.

At the same time, the deficit in the services balance remained broadly unchanged at around $2.5 billion. Although net payments for travel, transport and other business services, as well as charges for the use of intellectual property fell, these were largely matched by declines in net receipts from financial, insurance, as well as maintenance and repair services.

[5] *Decrease in assets and liabilities, and net inflows in net balances, are indicated by a minus (-) sign. For more details regarding the change in sign convention to the financial account, please refer to DOS's information paper on "Singapore's International Accounts: Methodological Updates and Recent Developments".*

Capital and Financial Account

Net outflows from the capital and financial account shrank to $3.3 billion in the first quarter, from $23 billion a quarter ago. Financial derivatives turned from net outflows to net inflows, while net outflows of portfolio investment fell over this period. These outweighed the decrease in the net inflows of direct investment and the increase in net outflows of "other investment".

The financial derivatives account recorded $8.3 billion of net inflows in the first quarter of the year after registering net outflows of $3.4 billion in the preceding quarter. Meanwhile, net outflows of portfolio investment decreased by $11 billion to $2.9 billion. This largely reflected the reversal of portfolio investment in the non-bank private sector to net inflows, as foreigners switched from net divestments to net acquisition of local securities.

In comparison, net inflows of direct investment fell by $2.1 billion to $17 billion in the first quarter of the year, as residents' direct investment abroad increased by more than foreign direct investment into Singapore.

At the same time, net outflows from the "other investment" account picked up to $25 billion in the first quarter from $24 billion in the previous quarter. This was driven by the reversal from net inflows to net outflows from domestic deposit-taking corporations, which more than offset the reduction in net outflows from the non-bank private sector.


SHOP