CHAPTER 2
Sectoral Performance

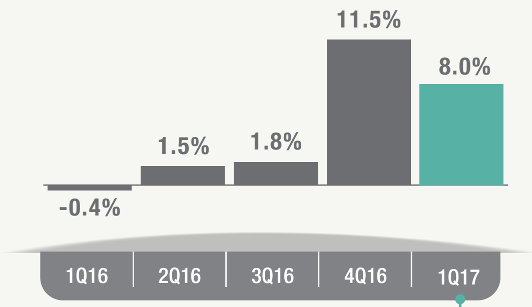
Image courtesy of Singapore Economic Development Board

CHAPTER 2

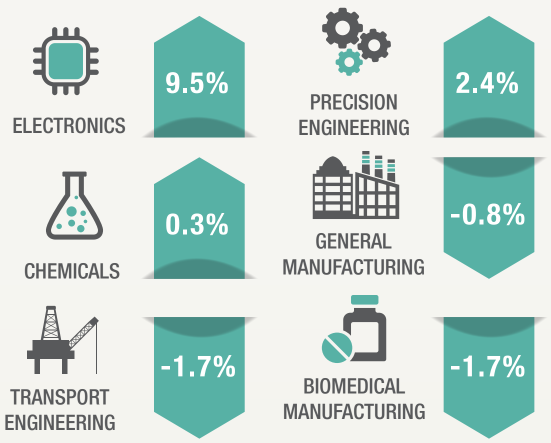
SECTORAL PERFORMANCE

MANUFACTURING

Real Growth

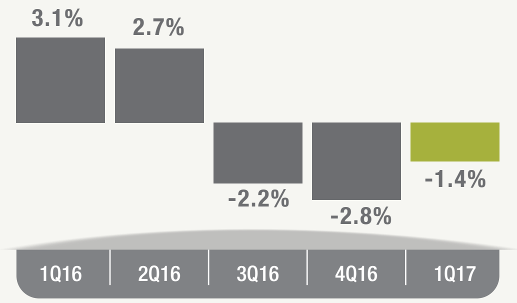


Clusters in Manufacturing Sector %-point contribution in 1Q17

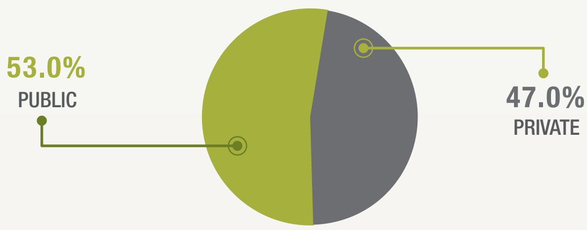


CONSTRUCTION

Real Growth



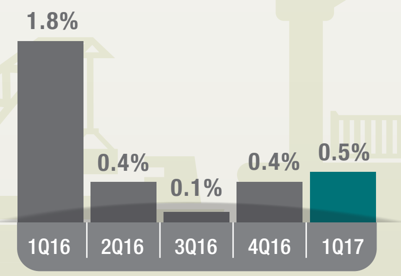
Certified Payments in 1Q17



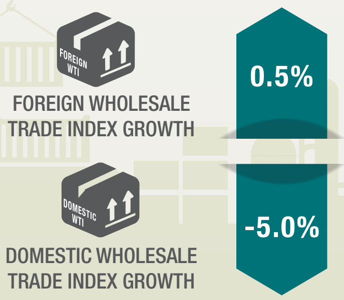
Contracts Awarded in 1Q17

WHOLESALE & RETAIL TRADE

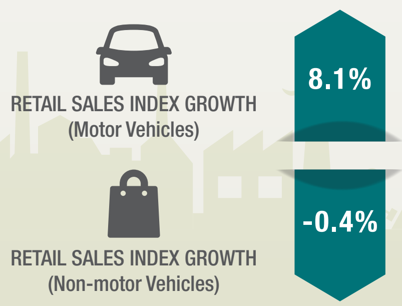
Real Growth



Wholesale Trade

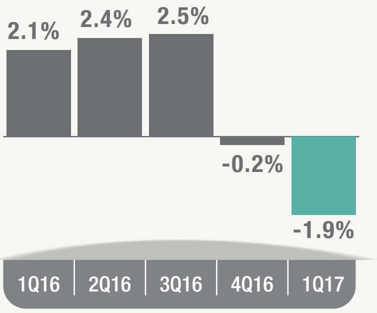


Retail Trade



ACCOMMODATION & FOOD SERVICES

Real Growth



Accommodation

Performance of hotels

LUXURY

UPSCALE

MID-TIER

ECONOMY

Gross lettings growth: -1.5%

Room revenue growth: -3.0%

Food Services

Performance of F&B (Sales growth)

CATERING 0.2%

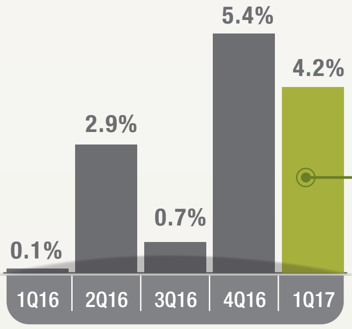
FAST FOOD 0.1%

OTHERS -0.9%

RESTAURANTS -10.2%

TRANSPORTATION & STORAGE

Real Growth



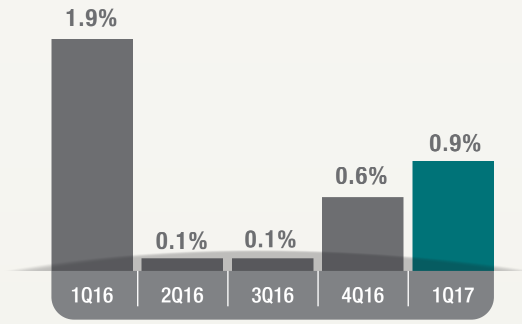
TOTAL SEA CARGO HANDLED GROWTH 7.3%

MOTOR-VEHICLE POPULATION GROWTH -0.2%

AIR PASSENGERS HANDLED GROWTH 4.6%

FINANCE & INSURANCE

Real Growth



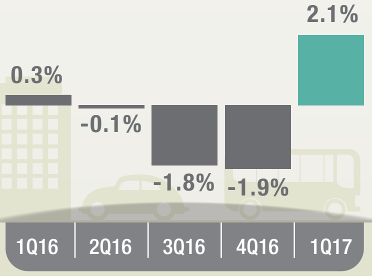
Growth of bank loans & advances to non-bank customers in 1Q17

+8.1% LOANS TO BUSINESSES

+3.8% CONSUMER LOANS

BUSINESS SERVICES

Real Growth



Private Residential Real Estate

82.7% UNITS TRANSACTED (Y-O-Y CHANGE)

-0.4% PRICE INDEX (Q-O-Q CHANGE)

OVERVIEW

In the first quarter of 2017,

- The manufacturing sector expanded by 8.0 per cent, extending the 11 per cent growth in the previous quarter. Growth was largely supported by higher output in the electronics and precision engineering clusters, while lower output levels in the biomedical manufacturing, transport engineering and general manufacturing clusters weighed on growth.

- The construction sector shrank by 1.4 per cent, extending the 2.8 per cent contraction in the preceding quarter. The drop in output came on the back of a decline in private sector construction activities, which was in turn pulled down by a fall in private industrial building works and private residential building works.

- The wholesale & retail trade sector grew by 0.5 per cent, similar to the 0.4 per cent growth in the previous quarter. The subdued growth of the sector can largely be attributed to the wholesale trade segment.

- The transportation & storage sector grew by 4.2 per cent, extending the 5.4 per cent expansion in the previous quarter. Growth was supported by the water transport and air transport segments, which were in turn bolstered by an increase in the volume of sea cargo handled and air passenger traffic respectively.

- The accommodation & food services sector contracted by 1.9 per cent, extending the 0.2 per cent decline recorded in the previous quarter, weighed down by the poor performance of the food services segment.

- The finance & insurance sector grew by 0.9 per cent, a modest increase from the 0.6 per cent growth in the preceding quarter. Stronger outturns in the financial intermediation and fund management segments contributed to the higher growth of the sector.

- The business services sector expanded by 2.1 per cent, rebounding from the 1.9 per cent contraction in the preceding quarter. Growth in the sector was supported primarily by the professional services and others segments. On the other hand, weakness in the real estate segment continued to pose a drag on the sector.

MANUFACTURING

In the first quarter, manufacturing output rose by 8.0 per cent, following the increase of 11 per cent in the previous quarter (Exhibit 2.1). The robust performance of the sector was underpinned by sustained growth in the electronics, precision engineering and chemicals clusters. On the other hand, declines in the output of the biomedical manufacturing, transport engineering and general manufacturing clusters weighed on growth (Exhibit 2.2).

Exhibit 2.1: Manufacturing Sector's Growth Rates

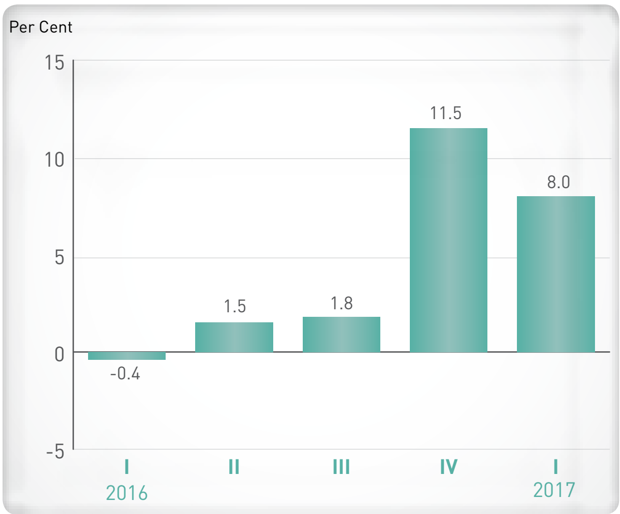
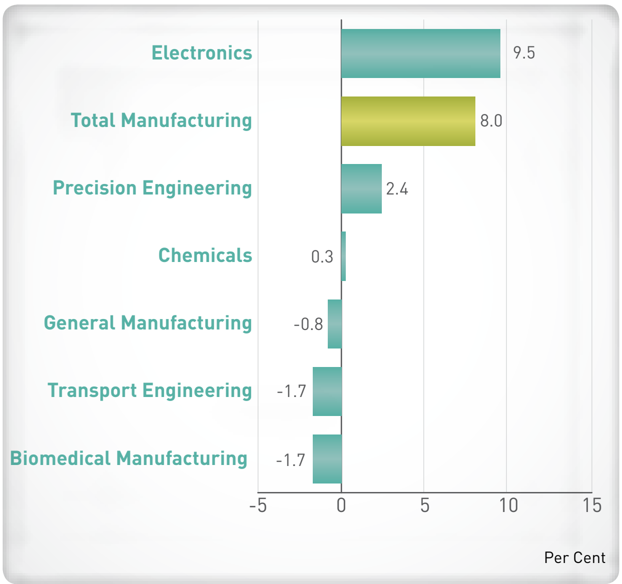


Exhibit 2.2: Percentage-Point Contribution to Manufacturing Sector's Growth in 1Q 2017



The output of the electronics cluster increased by 33 per cent in the first quarter, largely driven by the semiconductors segment, which saw its output surge by 50 per cent. The strong performance of the semiconductors segment can be attributed to the continued recovery in global semiconductors demand, driven in turn by healthy demand in key end markets such as smartphone and automotive applications. At the same time, the other electronic modules & components and computer peripherals segments grew by 9.0 per cent and 1.2 per cent respectively. On the other hand, output in the data storage and infocomms & consumer electronics segments declined by 12 per cent and 4.3 per cent respectively, amidst continued weakness in the PC devices market.

The precision engineering cluster expanded by 19 per cent in the first quarter, supported by both the machinery & systems (M&S) and precision modules & components (PMC) segments. Output in the M&S segment rose by 24 per cent on the back of robust export demand for semiconductor manufacturing equipment. Meanwhile, the PMC segment grew by 11 per cent due to an increase in the production of dies, moulds, tools, jigs & fixtures, optical instruments and metal precision components.

The output of the chemicals cluster increased by 2.9 per cent in the first quarter, supported primarily by growth in the petrochemicals (9.8 per cent) and specialty chemicals (2.9 per cent) segments. Growth in the petrochemicals segment was partly the result of a low base effect as production levels a year ago were weak due to plant maintenance shutdowns. Meanwhile, growth in the specialty chemicals segment was underpinned by a higher level of production of mineral oil additives due to stronger export demand. On the other hand, the other chemicals segment contracted by 5.6 per cent on account of a lower level of production of fragrances.

The general manufacturing industries shrank by 6.7 per cent in the first quarter. In particular, the output of the miscellaneous industries segment fell by 12 per cent due to a decline in the production of fibreglass products and construction-related products & materials. The printing segment contracted by 21 per cent, as demand for commercial printing remained weak. On the other hand, the food, beverage & tobacco segment expanded by 3.2 per cent, supported by healthy export demand.

The output of the transport engineering cluster fell by 11 per cent in the first quarter, as continued weakness in the marine & offshore engineering (M&OE) segment placed a drag on the cluster. Output in the M&OE segment declined by 26 per cent on account of a lower level of offshore rig-building activity and soft demand for oilfield & gasfield equipment. This more than offset expansions in the aerospace (10 per cent) and land (7.0 per cent) segments. The aerospace segment, in particular, was supported by an increase in demand for aircraft and engine maintenance work.

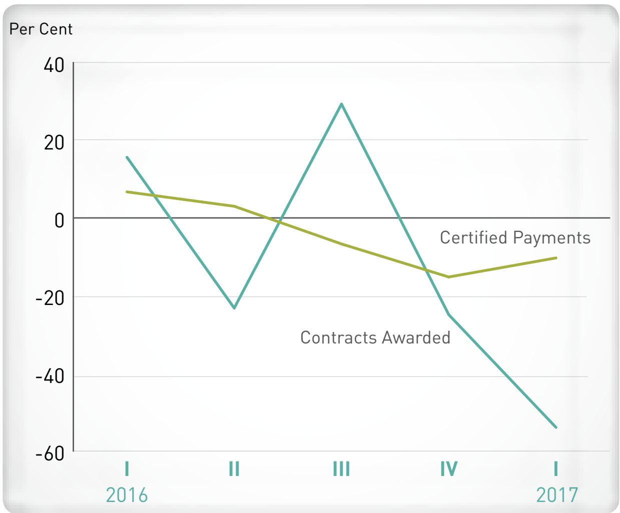
The biomedical manufacturing cluster contracted by 7.5 per cent in the first quarter. Within the cluster, the medical technology segment recorded robust growth of 14 per cent, supported by higher export demand for medical instruments. However, this was outweighed by a 14 per cent decline in the output of the pharmaceuticals segment as the production of active pharmaceutical ingredients fell.

CONSTRUCTION

The construction sector contracted by 1.4 per cent in the first quarter, extending the 2.8 per cent decline recorded in the previous quarter. This was primarily due to the weakness in private sector construction activities, which was in turn pulled down by lower levels of private industrial building works and private residential building works.

Nominal certified progress payments (a proxy for construction output) fell by 10 per cent in the first quarter, extending the 15 per cent drop in the preceding quarter (Exhibit 2.3). The decline was due to a 24 per cent contraction in private certified progress payments, led by a slowdown in private industrial building works (-37 per cent) and private residential building works (-22 per cent). The fall in private sector construction works was partially offset by an increase in public sector construction works. Specifically, public certified progress payments rose by 7.2 per cent, following the expansion in public institutional & other building works (43 per cent) and public industrial building works (102 per cent).

Exhibit 2.3: Changes in Contracts Awarded and Certified Payments



Construction demand in terms of contracts awarded weakened in the first quarter, decreasing by 54 per cent, extending the 25 per cent decline in the previous quarter (Exhibit 2.3). The contraction was due to a drop in public sector construction demand (-69 per cent), led by segments such as public civil engineering contracts (-94 per cent) and public institutional & other building contracts (-71 per cent). However, public industrial building contracts helped to cushion the fall in public construction demand, with contracts awarded for the construction of a fourth desalination plant at Marina East and HDB's Defu Industrial City. Meanwhile, private sector construction demand (14 per cent) grew on the back of an increase in private industrial building contracts (32 per cent) and private commercial building contracts (29 per cent).

Notwithstanding the decline in contracts awarded in the first quarter, BCA expects construction demand to come in at $28 billion to $35 billion for the full year. At the mid-point of the range, a 21 per cent increase in construction demand from 2016's level is expected. The public sector is expected to account for approximately 70 per cent of total construction demand.

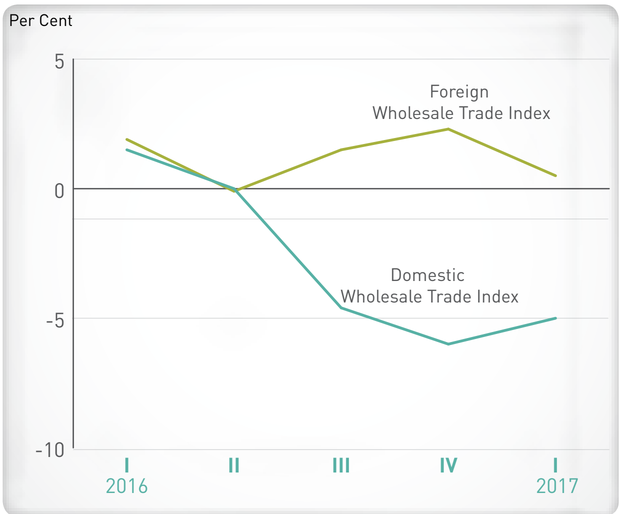
WHOLESALE & RETAIL TRADE

The wholesale & retail trade sector grew by 0.5 per cent in the first quarter, similar to the 0.4 per cent growth in the previous quarter.

Growth in the wholesale trade segment was weighed down by the weakness in domestic wholesale trade sales volume. In particular, the domestic wholesale trade index declined by 5.0 per cent in the first quarter, extending the 6.0 per cent contraction in the previous quarter (Exhibit 2.4). The weak performance in domestic wholesale trade can be largely attributed to a decline in the sales volume of petroleum & petroleum products (-9.3 per cent) and telecommunications & computers (-8.2 per cent).

By contrast, the foreign wholesale trade index expanded marginally by 0.5 per cent, moderating from the 2.3 per cent growth in the previous quarter. The increase in the index was largely driven by a rise in the sales volume of telecommunications & computers (29 per cent) and metals, timber & construction materials (29 per cent). On the other hand, a 10 per cent contraction in the sales volume of petroleum & petroleum products weighed on overall foreign wholesale trade sales volume.

Exhibit 2.4: Changes in Wholesale Trade Index at Constant Prices



For the retail trade segment, overall retail sales volume rose by 1.2 per cent in the first quarter, accelerating from the 0.5 per cent growth in the preceding quarter (Exhibit 2.5). Growth was supported by an 8.1 per cent increase in the volume of motor vehicle sales, in tandem with an on-year increase in the supply of Certificate of Entitlements in the first quarter. Excluding motor vehicle sales, retail sales volume contracted by 0.4 per cent in the first quarter, moderating from the 1.6 per cent decline recorded in the previous quarter. Specifically, retail sales volume (excluding motor vehicle sales) was weighed down by the poor performance of department stores (-4.6 per cent), optical goods & books (-2.5 per cent), and computer & telecommunications equipment (-1.9 per cent).

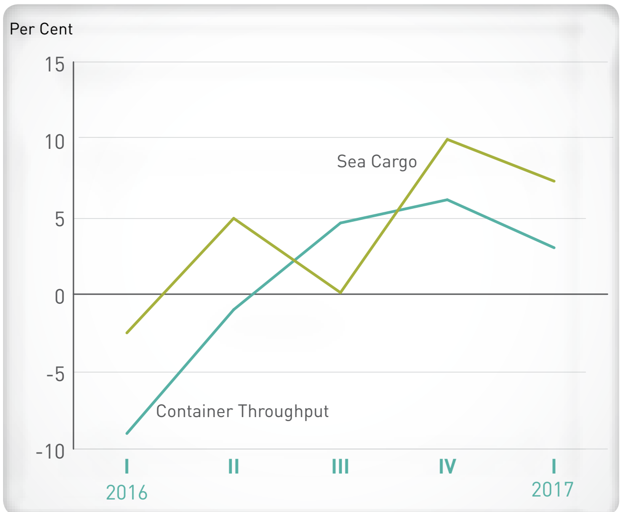
Exhibit 2.5: Changes in Retail Sales Index at Constant Prices

TRANSPORTATION & STORAGE

Growth in the transportation & storage sector came in at 4.2 per cent in the first quarter, easing from the 5.4 per cent expansion in the previous quarter.

The water transport segment remained resilient during the quarter, as the volume of sea cargo handled grew by 7.3 per cent, extending the 10 per cent rise in the previous quarter (Exhibit 2.6). The increase in the volume of sea cargo handled in the first quarter was driven by a rise in oil-in-bulk cargo (18 per cent) and container throughput handled (3.0 per cent) at Singapore's ports.

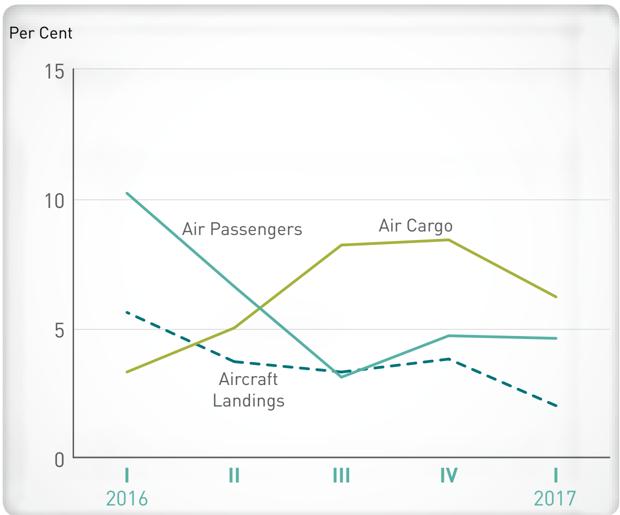
Exhibit 2.6: Changes in Container Throughput and Sea Cargo Handled



Similarly, the air transport segment was supported by an increase in air passenger volume handled at Changi Airport. Specifically, the volume of air passenger traffic passing through Changi Airport rose by 4.6 per cent in the first quarter, similar to the 4.7 per cent increase in the previous quarter (Exhibit 2.7). The increase in air passenger traffic was underpinned by robust growth on the Singapore-China and Singapore-Indonesia routes. At the same time, total air cargo shipments handled at Changi Airport expanded by 6.3 per cent in the first quarter, easing from the 8.4 per cent growth in the preceding quarter.

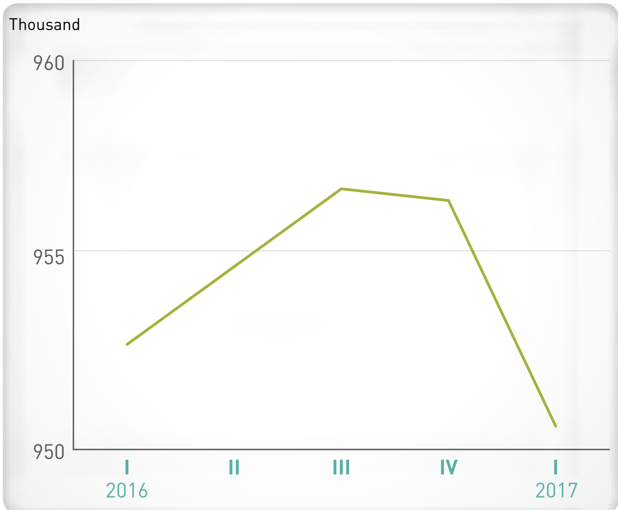
The number of aircraft landings rose by 2.0 per cent in the first quarter to reach 45,282, lower than the 3.8 per cent expansion in the previous quarter.

Exhibit 2.7: Changes in Air Transport



As of March 2017, the total number of motor vehicles registered with the Land Transport Authority fell slightly by 0.2 per cent to a total of 950,582 (Exhibit 2.8). These comprised 547,024 private and company cars, 58,027 rental cars, 26,734 taxis, 18,569 buses, 142,704 motorcycles and scooters, and 157,524 goods vehicles & other vehicle types.

Exhibit 2.8: Motor Vehicles Registered

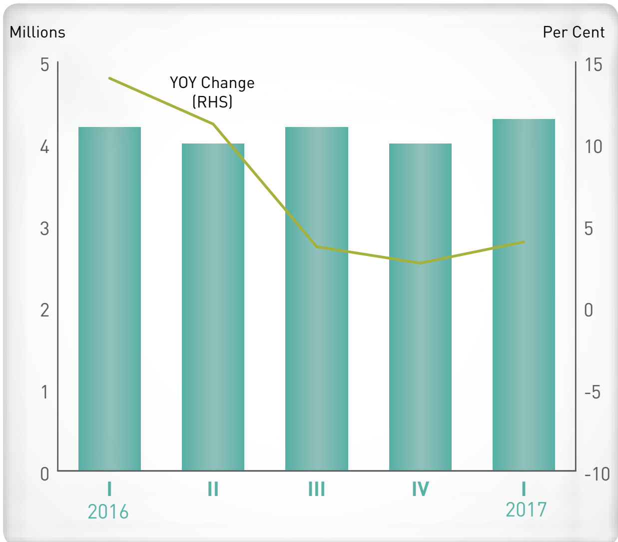


ACCOMMODATION & FOOD SERVICES

The accommodation & food services sector contracted by 1.9 per cent in the first quarter, extending the marginal 0.2 per cent decline recorded in the previous quarter. The sector's performance was weighed down by the food services segment.

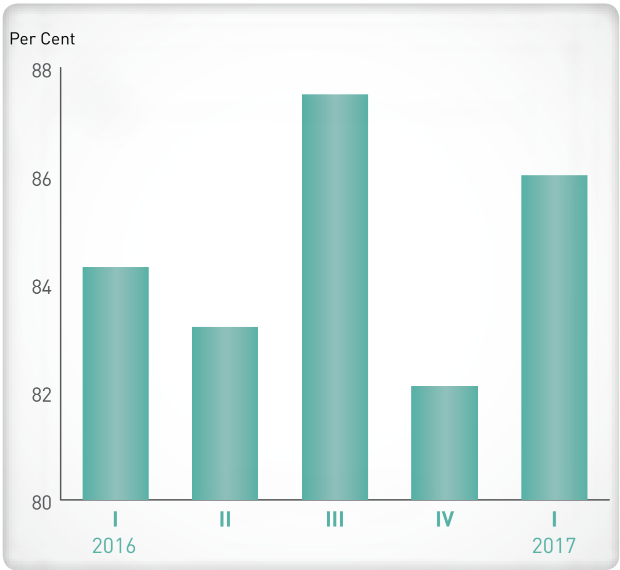
The accommodation segment was supported by healthy visitor arrivals in the first quarter. Specifically, total visitor arrivals rose by 4.0 per cent, improving from the 2.7 per cent increase in the previous quarter (Exhibit 2.9). Visitor arrivals in the first quarter was largely supported by buoyant travel demand from the Chinese source market as Chinese arrivals rose by 14 per cent, extending the 20 per cent growth in the previous quarter.

Exhibit 2.9: Visitor Arrivals



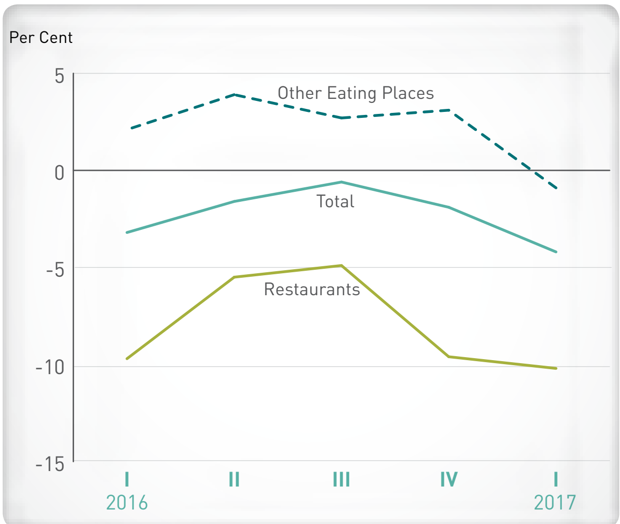
In tandem with the increase in visitor arrivals, the overall average occupancy rate of gazetted hotels rose by 1.8 percentage-points from a year ago to reach 86 per cent in the first quarter (Exhibit 2.10). The improvement was broad-based, with occupancy rates rising across most hotel tiers. In particular, the average occupancy rate at economy, mid-tier and upscale hotels rose by 4.1 percentage-points, 1.1 percentage-points and 2.5 percentage-points respectively as compared to the same period a year ago.

Exhibit 2.10: Overall Average Occupancy Rate



On the other hand, the volume of food & beverage sales declined at a sharper pace of 4.2 per cent in the first quarter, compared to the 1.9 per cent contraction in the previous quarter (Exhibit 2.11). The food & beverage sales volume was primarily weighed down by restaurant sales, which shrank by 10 per cent, extending the 9.6 per cent decline in the preceding quarter. The sales volume in other eating places also dipped by 0.9 per cent, reversing the 3.1 per cent increase in the previous quarter.

Exhibit 2.11: Changes in Food & Beverage Services Index at Constant Prices

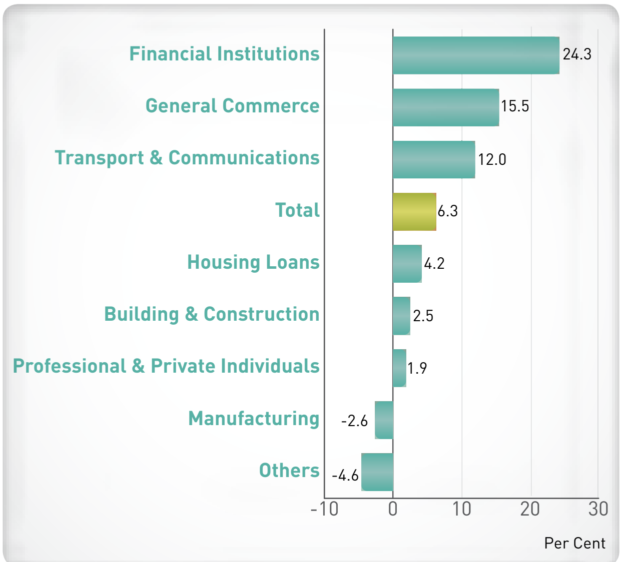


FINANCE & INSURANCE

The finance & insurance sector expanded by 0.9 per cent in the first quarter, extending the 0.6 per cent growth in the preceding quarter.

The improvement largely resulted from the robust performance of the financial intermediation segments. Domestic Banking Unit (DBU) non-bank lending expanded by 6.3 per cent in the first quarter, with firmer loan demand recorded across the general commerce, transport, storage & communication, business services and non-bank financial institutions segments (Exhibit 2.12). Asian Currency Unit (ACU) non-bank lending also grew by 1.1 per cent in the quarter, a turnaround from the 4.7 per cent decline in the previous quarter. On a year-ago basis, non-bank lending to Europe and the Americas picked up, while the fall in lending to East Asia eased. Furthermore, banks registered strong growth in net fees and commissions earned, amidst an uptick in demand for services such as underwriting and portfolio management.

Exhibit 2.12: Growth of DBU Loans & Advances to Non-Bank Customers by Industry in 1Q 2017



The sentiment-sensitive cluster saw mixed performances. While average daily forex turnover contracted by 8.1 per cent in the quarter, this was mitigated by gains in the fund management segment. Net fees and commissions received by fund managers saw robust growth, supported by investor expectations of improving macroeconomic conditions globally. In particular, hedge funds that invested in emerging Asia saw strong performances in early 2017.

BUSINESS SERVICES

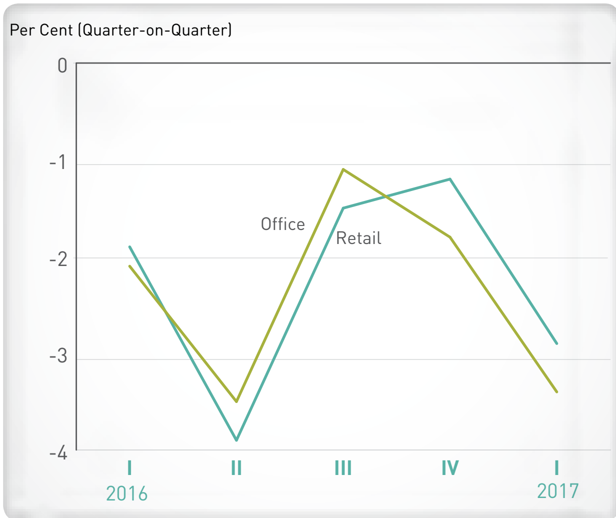
The business services sector grew by 2.1 per cent in the first quarter, a reversal from the 1.9 per cent decline recorded in the previous quarter.

Growth in the business services sector was supported by both the professional services and others segments.[1] However, the real estate segment continued to contract on the back of sustained weakness in private residential property prices, even though sales transactions had seen a recovery. Notably, private residential property prices deteriorated by 0.4 per cent on a quarter-on-quarter basis in the first quarter, the fourteenth consecutive quarter of decline. By contrast, the sales transactions of private residential units rose as the residential property market continued to adjust to lower prices, supported by the launch of new condominiums such as Grandeur Park Residences and Clement Canopy. Specifically, private home sales rose by 83 per cent year-on-year in the first quarter, faster than the 37 per cent growth registered in the preceding quarter (Exhibit 2.13).

Exhibit 2.13: Total Sales Transactions for Private Residential Units and Private Residential Property Price Index

For the private retail space segment, rentals shrank by 2.9 per cent on a quarter-on-quarter basis in the first quarter, extending the 1.2 per cent decline registered in the previous quarter (Exhibit 2.14). This came about as retailers continued to face challenging operating conditions, contributed by labour cost pressures and lacklustre consumer demand, even as the supply of retail space continued to increase. Reflecting the sluggish retail space market, occupancy rates deteriorated slightly, reaching an average of 91 per cent in the first quarter, lower than the 92 per cent in the preceding quarter.

Exhibit 2.14: Changes in Rentals of Private Sector Office and Retail Spaces



Similarly, the private office space segment weakened on the back of slowing demand and rising supply. In particular, rentals contracted by 3.4 per cent on a quarter-on-quarter basis, extending the 1.8 per cent fall in the previous quarter. Occupancy rates also weakened slightly to reach an average of 87 per cent in the first quarter as compared to the 88 per cent in the previous quarter.

[1] *The others segment consists of (i) rental & leasing, (ii) other professional, scientific & technical services and (iii) other administrative & support services. Rental & leasing activities include rental & leasing of motor vehicles, rental & leasing of other machinery, equipment and tangible goods and the leasing of non-financial intangible assets.*

In the private industrial space market, overall rentals dropped by 0.9 per cent on a quarter-on-quarter basis, similar to the 0.5 per cent decline in the previous quarter. The occupancy rate in the private sector multiple-user factory space segment stood at 87 per cent, unchanged from the previous quarter (Exhibit 2.15). Likewise, the occupancy rate for private sector warehouse space was unchanged at 90 per cent in the first quarter.

Exhibit 2.15: Occupancy Rate and Rental Growth of Private Sector Industrial Space