CHAPTER 1
Economic Performance

CHAPTER 1

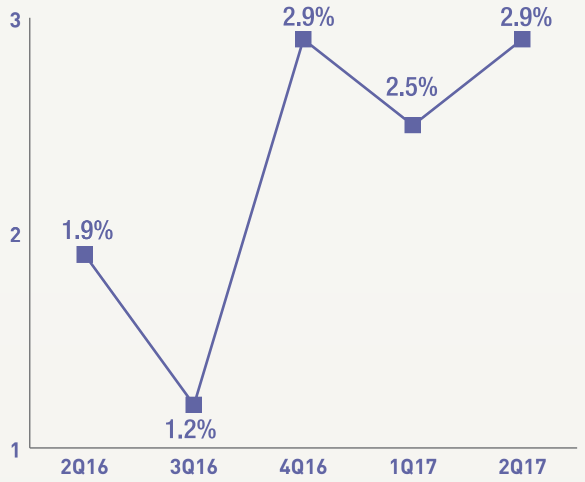
THE SINGAPORE ECONOMY

ECONOMIC PERFORMANCE

Real GDP grew by

2.9% in 2Q17

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 2Q17

MANUFACTURING

1.5%-point contribution

FINANCE & INSURANCE

0.5%-point contribution

In total, these sectors accounted for

68% of GDP growth

LABOUR MARKET

RESIDENT UNEMPLOYMENT RATE

3.1% in 2Q17

EMPLOYMENT (Q-O-Q CHANGE)

-7,800 employed

Sectors with the Highest Employment Growth in 2Q17

OTHER SERVICES INDUSTRIES	TRANSPORTATION & STORAGE	INFORMATION & COMMUNICATIONS
+5,900 employed	+3,000 employed	+1,200 employed

PRODUCTIVITY

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

+3.2%

Sectors with the highest Value-added per Worker Growth in 2Q17

MANUFACTURING	WHOLESALE & RETAIL TRADE
+11.8%	+2.6%

COSTS

Overall Unit Labour Cost declined by

0.1% in 2Q17

WITHIN THE MANUFACTURING SECTOR

2Q17	Unit Business Cost	Unit Labour Cost
	1.9%	-6.6%

PRICES

The Consumer Price Index (CPI) rose by

0.8% in 2Q17

CATEGORIES WITH PRICE INCREASES

Quarterly Growth (Year-on-Year)

- TRANSPORT: 3.4%
- EDUCATION: 3.2%
- HEALTH CARE: 2.7%

CATEGORY WITH PRICE DECLINES

Quarterly Growth (Year-on-Year)

- HOUSING & UTILITIES: -2.2%

INTERNATIONAL TRADE

Total Merchandise Exports rose by

8.3% in 2Q17

- +26.9% OIL DOMESTIC EXPORTS
- +7.1% RE-EXPORTS
- +2.7% NON-OIL DOMESTIC EXPORTS

Main Drivers of Services Export Growth were...

- +6.6% TRANSPORT SERVICES
- +11.2% TRAVEL
- +2.7% OTHER BUSINESS SERVICES

OVERVIEW

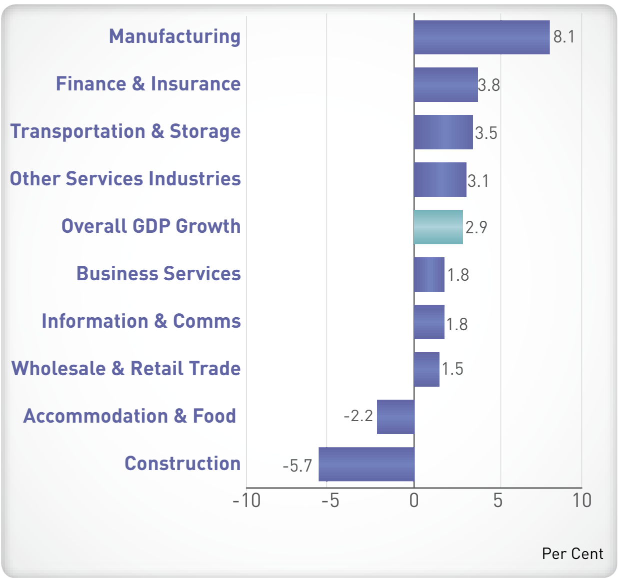
In the second quarter of 2017,

- The economy expanded by 2.9 per cent compared to the same period in 2016. The sectors that contributed the most to GDP growth were the manufacturing and finance & insurance sectors.
- In the labour market, the seasonally-adjusted unemployment rate for residents and citizens declined in June 2017 as compared to March 2017. Total retrenchments in the second quarter were also lower compared to the previous quarter and the same period a year ago.
- However, total employment contracted by 7,800 on a quarter-on-quarter basis, compared to the 4,200 increase 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 rose by 0.8 per cent on a year-on-year basis, slightly faster than the 0.6 per cent increase in the previous quarter.

OVERALL PERFORMANCE

The economy grew by 2.9 per cent on a year-on-year basis in the second quarter, faster than the 2.5 per cent growth in the previous quarter (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 2.2 per cent, a reversal from the 2.1 per cent contraction in the preceding quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 2Q 2017



The manufacturing sector continued to grow at a robust pace of 8.1 per cent, extending the 8.5 per cent expansion in the previous quarter. Growth was supported by 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 placed a drag on growth.

The services producing industries grew by 2.4 per cent, faster than the 1.4 per cent growth in the first quarter. Among the services sectors, the finance & insurance sector posted the strongest growth of 3.8 per cent, underpinned by the robust performance of the financial intermediation, fund management and insurance segments. This was followed by the transportation & storage (3.5 per cent) and "other services" (3.1 per cent) sectors. The business services (1.8 per cent), information & communications (1.8 per cent) and wholesale & retail trade (1.5 per cent) sectors similarly recorded expansions in the second quarter. On the other hand, the accommodation & food services sector contracted by 2.2 per cent, weighed down primarily by the food services segment.

Meanwhile, the construction sector shrank by 5.7 per cent, extending the 6.3 per cent contraction in the preceding quarter. The sector's poor performance was due to a weakness in both private sector and public sector construction activities.

The sectors that contributed the most to GDP growth in the second quarter were the manufacturing and finance & insurance sectors (Exhibit 1.2). Collectively, they accounted for 68 per cent of overall GDP growth during the quarter.

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 2Q 2017 (By Industry)

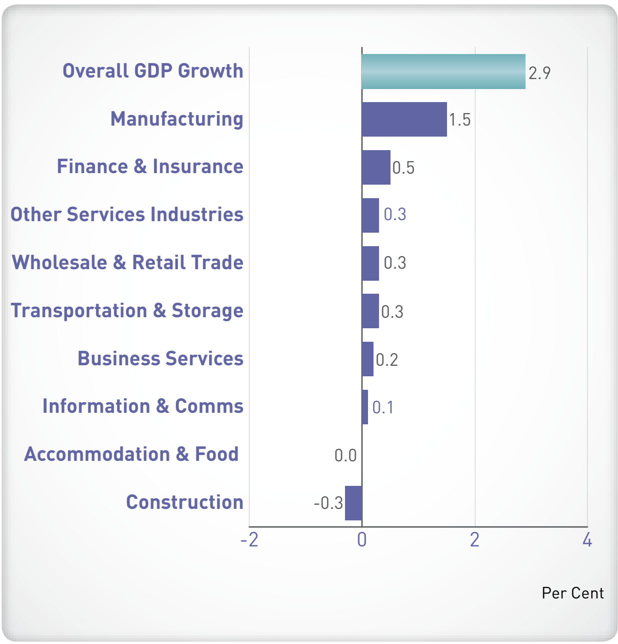


*Exhibit 1.3: Changes in Total Demand**

	2016			2017	
	II	III	IV	I	II
Total Demand	1.4	-0.7	2.8	3.9	4.2
External Demand	4.1	2.5	1.6	5.3	3.1
Total Domestic Demand	-5.9	-9.3	6.3	0.1	7.6
Consumption Expenditure	2.9	-0.1	-0.3	0.7	1.1
Public	10.1	-1.3	7.0	4.9	5.3
Private	1.2	0.2	-2.3	-0.7	0.1
Gross Fixed Capital Formation	1.4	-4.3	-5.0	-3.8	-7.3
Changes in Inventories	-5.9	-5.7	5.8	0.7	6.5

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

SOURCES OF GROWTH

Total demand rose by 4.2 per cent in the second quarter, higher than the 3.9 per cent growth in the first quarter (Exhibit 1.3). The expansion in total demand was supported by both external and domestic demand. External demand rose by 3.1 per cent, moderating from the 5.3 per cent increase in the previous quarter. On the other hand, domestic demand increased at a faster pace of 7.6 per cent compared to the 0.1 per cent growth in the preceding quarter.

Domestic demand was driven primarily by a larger build-up in inventories. By contrast, gross fixed capital formation (GFCF) declined by 7.3 per cent, weighed down by declines in both private and public investments. In particular, private GFCF fell by 7.6 per cent, extending the 6.6 per cent contraction in the previous quarter. The fall in private GFCF was largely due to a decrease in investment spending on private construction & works and machinery & equipment. Meanwhile, public GFCF declined by 6.4 per cent, a reversal from the 5.2 per cent growth in the preceding quarter, weighed down primarily by a weakness in public construction & works.

In contrast to GFCF, consumption expenditure rose by 1.1 per cent in the second quarter, higher than the 0.7 per cent expansion in the previous quarter. Growth was supported by a 5.3 per cent increase in public consumption.

LABOUR MARKET

Unemployment and Retrenchment[1]

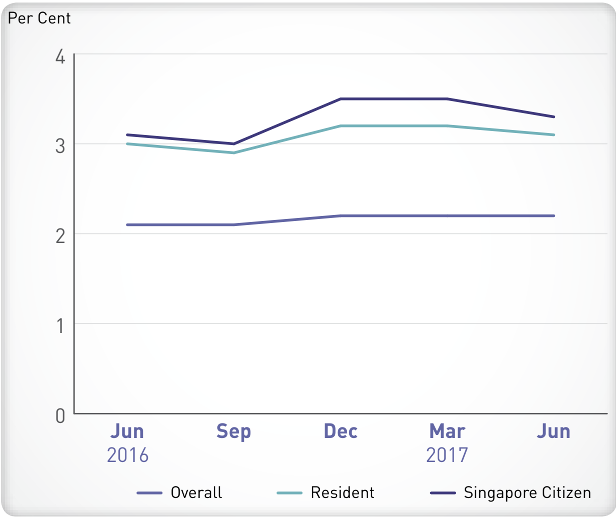
The seasonally-adjusted unemployment rate for residents fell to 3.1 per cent in June 2017 from 3.2 per cent in March 2017, while that for citizens declined to 3.3 per cent from 3.5 per cent. Over the same period, the overall unemployment rate remained unchanged at 2.2 per cent (Exhibit 1.4).

As at June 2017, an estimated 69,800 residents, including 62,800 Singapore citizens, were unemployed, lower than the number of unemployed residents (74,400) and citizens (67,100) in March 2017.[2]

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

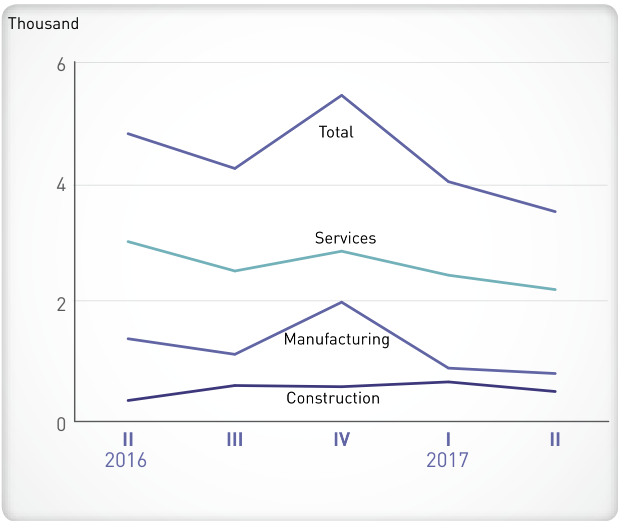
[2] *Based on seasonally-adjusted data on number of unemployed persons.*

Exhibit 1.4: Unemployment Rate (Seasonally Adjusted)



Total retrenchments fell in the second quarter. Around 3,500 workers were retrenched during the quarter, fewer than that in the first quarter (4,000) and the same period a year ago (4,800). The decline seen over the quarter was broad-based, with retrenchments falling in the manufacturing (from 890 in the first quarter to 800 in the second quarter), construction (from 660 to 500) and services (from 2,440 to 2,200) sectors (Exhibit 1.5).

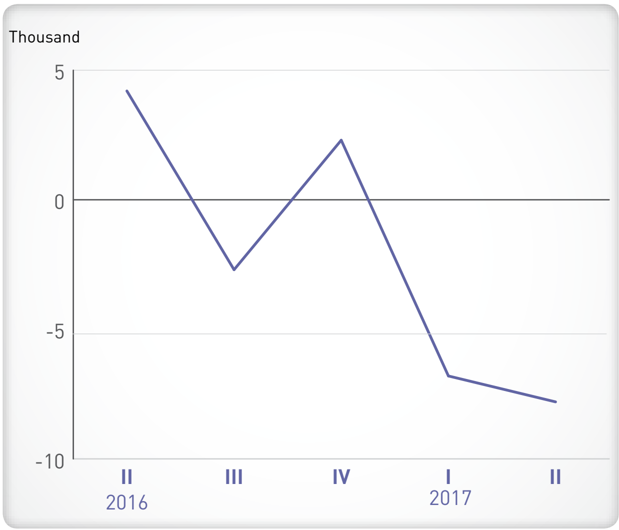
Exhibit 1.5: Retrenchments



Employment[3]

Total employment declined by 7,800 on a quarter-on-quarter basis in the second quarter, compared to the growth of 4,200 in the same period a year ago (Exhibit 1.6). Excluding foreign domestic workers (FDWs), employment declined by 8,400 in the second quarter, a reversal from the growth of 2,100 in the same period in 2016.

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

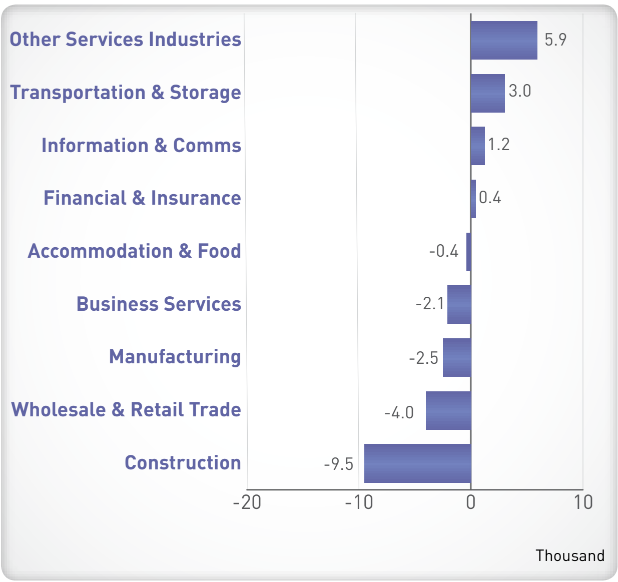


The decline in employment in the second quarter was mainly due to a continued decrease in Work Permit Holders in the manufacturing and construction sectors. Employment in the manufacturing sector fell by 2,500 in the second quarter, the eleventh consecutive quarter of decline, although this was a smaller contraction as compared to the previous quarter (-4,300). The weakness in manufacturing employment can primarily be attributed to the marine & offshore engineering segment, which continued to be weighed down by sluggish demand for oil rigs and oilfield equipment amidst low global oil prices. Employment in the construction sector also declined (-9,500) for the fourth consecutive quarter, due to continued weakness in construction activities (Exhibit 1.7).

The employment declines in the manufacturing and construction sectors were partially offset by employment gains in the services sectors (4,100). Among the services sectors, the other services (5,900), transportation & storage (3,000) and information & communications (1,200) sectors saw the strongest employment gains.

[3] *Based on preliminary estimates.*

Exhibit 1.7: Changes in Employment by Industry in 2Q 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 latest Business Expectations Survey for the Manufacturing Sector, a net weighted balance of 5 per cent of manufacturers expected to hire fewer workers in the third quarter of 2017 as compared to the second quarter. The weak hiring sentiment was largely due to the marine & offshore engineering segment, where a net weighted balance of 26 per cent of firms expected lower levels of hiring. By contrast, firms in the machinery & systems and specialty chemicals segments were the most optimistic, with a net weighted balance of 10 per cent and 8 per cent of firms in the respective segments expecting to increase hiring in the third quarter.

Unlike the manufacturing sector, hiring expectations in the services sector were positive. According to DOS' latest Business Expectations Survey for the Services Sector, a net weighted balance of 6 per cent of services firms expected to increase hiring in the third quarter of 2017 as compared to the second quarter. In particular, a net weighted balance of 50 per cent of firms in the fund management segment and 29 per cent of firms in the other financial services as well as the food & beverage services segments expected to hire more workers.

COMPETITIVENESS

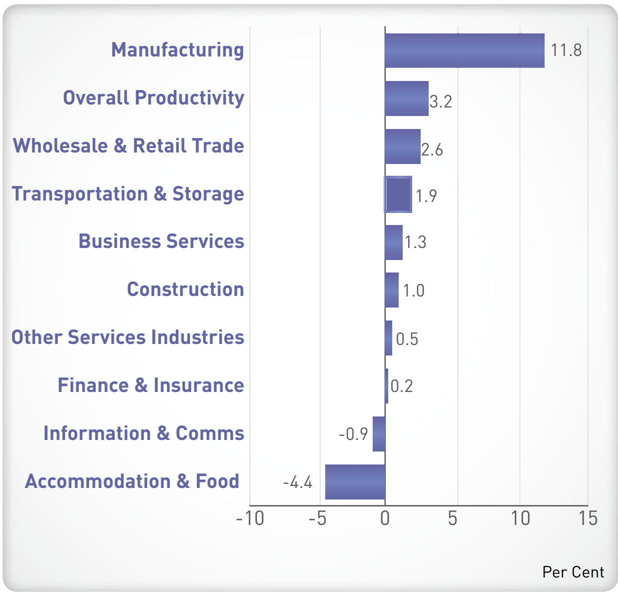
Productivity

Overall labour productivity, as measured by value-added per worker, increased by 3.2 per cent in the second quarter compared to the same period a year ago (Exhibit 1.8).

The manufacturing (12 per cent), wholesale & retail trade (2.6 per cent) and transportation & storage (1.9 per cent) sectors saw the highest productivity growth rates. By contrast, the accommodation & food (-4.4 per cent) and information & communications (-0.9 per cent) sectors experienced 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 5.2 per cent in the second quarter, while that of domestically-oriented sectors improved by 0.4 per cent.[4]

Exhibit 1.8: Changes in Value-added per Worker for the Overall Economy and Sectors in 2Q 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.*

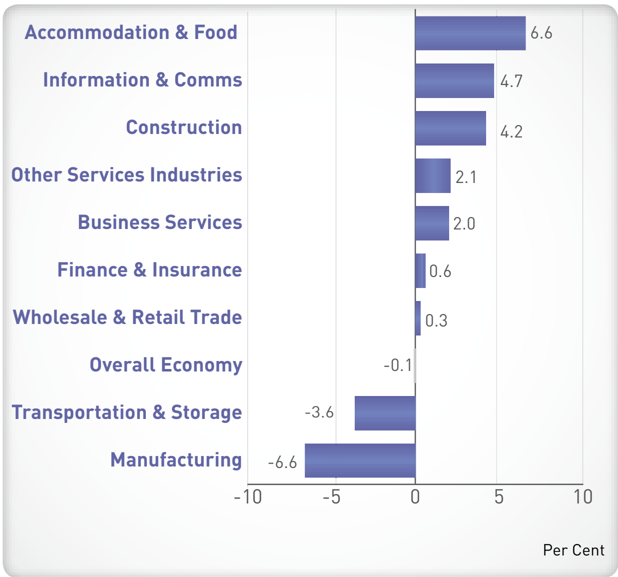
Unit Labour Cost and Unit Business Cost

Overall unit labour cost (ULC) for the economy fell by 0.1 per cent in the second quarter, unchanged from the previous quarter (Exhibit 1.9). The decline in the 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 fell by 6.6 per cent, the sixth consecutive quarter of decline, on the back of strong productivity gains.

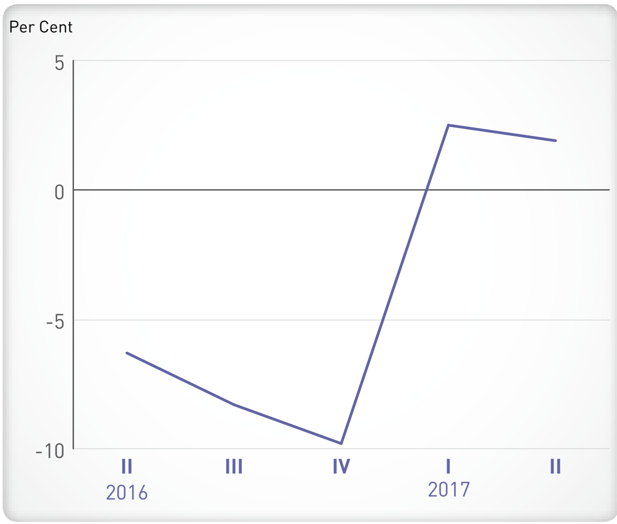
On the other hand, the ULC for services producing industries increased by 1.4 per cent. All the services sectors, with the exception of transportation & storage, saw increases in their respective ULCs. Construction ULC also edged up by 4.2 per cent, as the rise in total labour cost per worker outpaced labour productivity growth for the sector.

Exhibit 1.9: Changes in Unit Labour Cost in 2Q 2017



Unit business cost (UBC) for the manufacturing sector rose by 1.9 per cent in the second quarter, lower than the 2.5 per cent increase in the previous quarter (Exhibit 1.10). The smaller rise in manufacturing UBC was mainly due to a slower 5.1 per cent increase in the unit services cost (which includes utilities and rental costs), as compared to the 8.1 per cent increase in the preceding quarter.

Exhibit 1.10: Changes in Unit Business Cost for Manufacturing

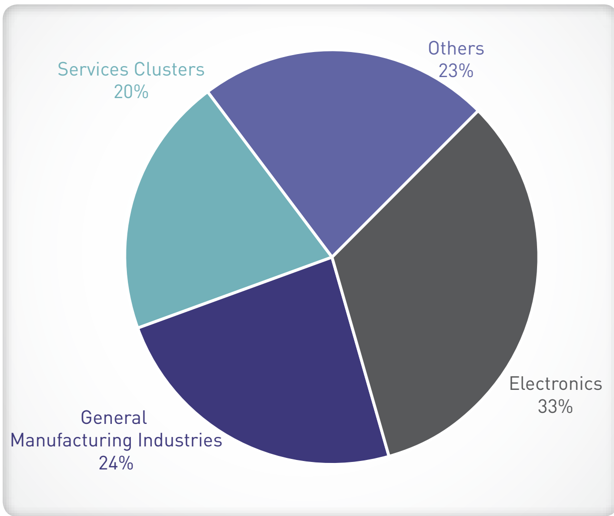


Investment Commitments

Investment commitments in terms of total Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $4.0 billion and $2.4 billion respectively in the second quarter (Exhibit 1.11 and Exhibit 1.12).

In terms of FAI, the largest contribution came from the electronics cluster, which garnered $1.3 billion in commitments, mainly from the semiconductors segment. This was followed by the general manufacturing industries cluster, which attracted $0.9 billion in commitments. Investors from Europe contributed the most to FAI commitments, accounting for $1.6 billion (40 per cent) of total FAI commitments.

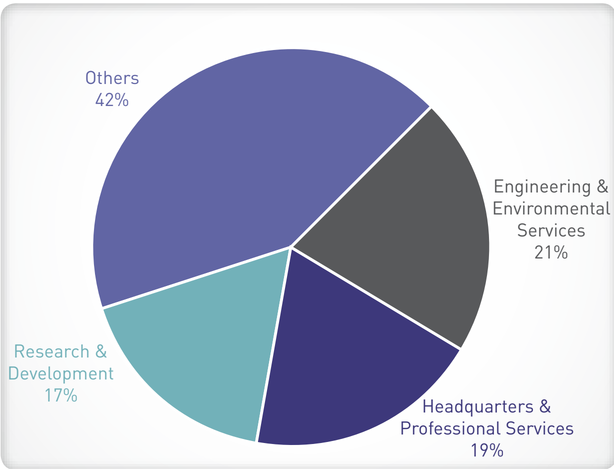
Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 2Q 2017



In terms of TBE, the engineering & environmental services cluster attracted the highest amount of commitments at $507 million, followed by the headquarters & professional services cluster at $452 million. Investors from the United States were the largest source of TBE, accounting for $0.9 billion (40 per cent) of total TBE committed.

When fully realised, these commitments are expected to generate value-added of $5.7 billion and more than 8,100 jobs.

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 2Q 2017

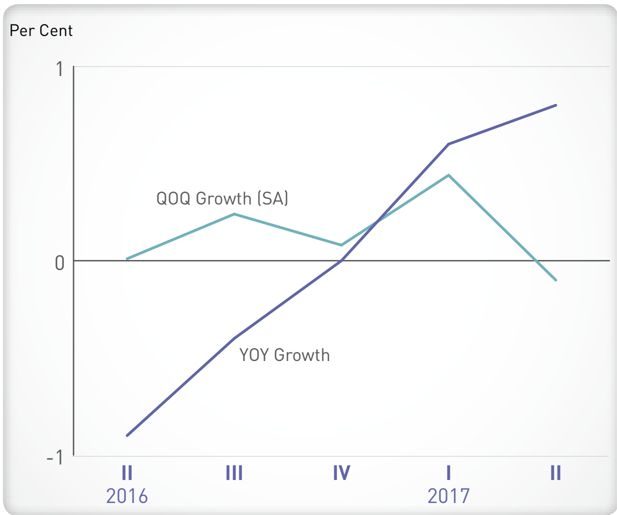


PRICES

Consumer Price Index

The Consumer Price Index (CPI) increased by 0.8 per cent on a year-on-year basis in the second quarter, slightly faster than the 0.6 per cent increase in the first quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, the CPI edged down by 0.1 per cent, after increasing by 0.4 per cent in the preceding quarter.

Exhibit 1.13: Changes in CPI



Among the CPI categories, the largest positive contributor to headline inflation in the second quarter was transport costs, which rose by 3.4 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, car & motorcycle prices and vehicle repair & maintenance fees, as well as the expiry of the road tax rebate and the rise in parking charges. Food prices rose by 1.4 per cent due to price increases for hawker food and restaurant meals, as well as non-cooked food items such as fruits and fish & seafood.

At the same time, education costs increased by 3.2 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. Clothing & footwear costs rose by 1.4 per cent because of price increases for ready-made garments and footwear. The prices of household durables & services picked up by 0.6 per cent as a result of higher salaries for foreign domestic workers. Communications costs edged up by 0.4 per cent due to the higher cost of telecommunication services. Lastly, the prices of miscellaneous goods & services increased slightly by 0.1 per cent on account of a rise in the cost of personal effects items.

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

	2016			2017	Per Cent
	II	III	IV	I	II
All items	-0.9	-0.4	0.0	0.6	0.8
Food	2.2	2.1	2.0	1.5	1.4
Clothing & Footwear	0.6	-1.6	-0.2	-0.9	1.4
Housing & Utilities	-4.2	-4.3	-3.8	-3.2	-2.2
Household Durables & Services	2.3	3.1	2.6	1.7	0.6
Health Care	0.9	0.6	2.1	2.7	2.7
Transport	-5.2	-1.6	0.1	3.8	3.4
Communication	-0.5	0.8	-0.6	0.3	0.4
Recreation & Culture	1.2	1.1	0.9	0.4	0.0
Education	3.2	3.4	3.2	3.6	3.2
Miscellaneous Goods & Services	0.4	0.0	0.1	-0.1	0.1

The price gains in these CPI categories were partially offset by the 2.2 per cent fall in the cost of housing & utilities. The fall in housing & utilities cost in turn came on the back of a decline in accommodation costs which outweighed the rise in the cost of electricity & gas, housing maintenance charges and refuse collection fees.

On the other hand, the cost of recreation & culture was unchanged as the higher cost of holiday travel was fully offset by the fall in the prices of audio-visual & information processing equipment.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade increased by 9.5 per cent year-on-year in the second quarter, slower than the 16 per cent expansion in the preceding quarter (Exhibit 1.15). The expansion in trade was due to growth in both oil and non-oil trade. Total oil trade increased by 28 per cent in nominal terms on the back of a rise in oil prices from levels a year ago, while non-oil trade rose by 5.9 per cent.

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

	2016				2017	Per Cent
	II	III	IV	Ann	I	II
Merchandise Trade	-6.0	-6.6	4.0	-4.9	16.4	9.5
Merchandise Exports	-4.8	-4.5	2.1	-5.1	17.1	8.3
Domestic Exports	-5.0	-8.0	7.6	-5.8	29.3	9.4
Oil	-18.0	-13.7	20.2	-12.6	72.0	26.9
Non-Oil	1.2	-5.4	2.7	-2.8	15.3	2.7
Re-Exports	-4.6	-1.0	-2.4	-4.4	6.7	7.1
Merchandise Imports	-7.4	-9.1	6.1	-4.7	15.7	11.0
Oil	-29.2	-23.9	16.8	-20.6	89.8	33.0
Non-Oil	-0.7	-4.9	3.9	-0.6	3.2	6.2

Total merchandise exports rose by 8.3 per cent in the second quarter, extending the 17 per cent increase in the preceding quarter. This marked the third consecutive quarter of growth, and was due to an increase in domestic exports and re-exports of 9.4 per cent and 7.1 per cent respectively.

The increase in domestic exports was in turn due to an expansion in both oil and non-oil domestic exports. In particular, oil domestic exports grew by 27 per cent in the second quarter amidst higher oil prices as compared to a year ago. In volume terms, oil domestic exports also rose, but by a smaller 5.1 per cent.

Non-oil domestic exports (NODX) expanded by 2.7 per cent in the second quarter, slowing from the robust 15 per cent growth in the previous quarter. The expansion was due to the growth in electronics NODX which outweighed the decline in non-electronics NODX.

Total merchandise imports rose by 11 per cent in the second quarter, following the 16 per cent increase in the previous quarter. This was due to an increase in both oil and non-oil imports. Specifically, oil imports increased by 33 per cent on the back of higher oil prices and higher import volumes. Meanwhile, non-oil imports rose by 6.2 per cent, driven by an increase in both electronics and non-electronics imports.

Services Trade

Total services trade increased by 4.9 per cent in the second quarter, up from the 4.1 per cent growth in the previous quarter (Exhibit 1.16). Services exports rose by 4.9 per cent, higher than the 3.9 per cent growth in the preceding quarter. The gains in services exports can be attributed to an increase in transport, travel, and other business services exports. Services imports also grew by 4.9 per cent, picking up from the 4.3 per cent growth in the previous quarter. The rise 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.

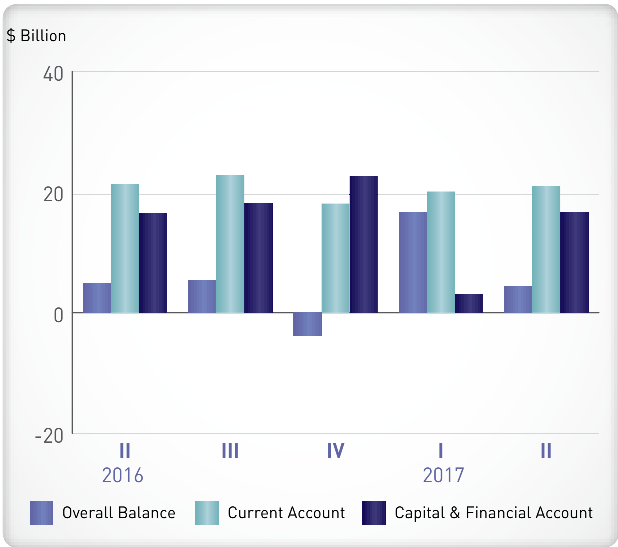
Exhibit 1.16: Growth Rates of Total Services Trade, Services Exports and Services Imports (In Nominal Terms)

						Per Cent
		2016			2017	
	II	III	IV	Ann	I	II
Total Services Trade	1.4	0.4	3.4	1.2	4.1	**4.9**
Services Exports	2.0	0.6	3.1	1.2	3.9	**4.9**
Services Imports	0.9	0.2	3.7	1.2	4.3	**4.9**

BALANCE OF PAYMENTS

The overall balance of payments recorded a smaller surplus of $4.4 billion in the second quarter, compared to $17 billion in the first quarter (Exhibit 1.17). This occurred as the increase in net outflows from the capital and financial account outweighed the increase in the current account surplus.

Exhibit 1.17: Balance of Payments[5]



Current Account

The current account surplus rose to $21 billion in the second quarter, from $20 billion in the previous quarter. This was due to an increase in the goods surplus, which more than offset higher deficits in both the primary and secondary income accounts. Meanwhile, the services balance deficit was relatively stable.

The surplus in the goods balance increased by $1.8 billion to $29 billion in the second quarter, as goods exports rose more than imports.

By contrast, the deficit in the primary income balance widened from $1.5 billion to $2.1 billion in the second quarter, largely reflecting a rise in income payments abroad.

At the same time, the deficit in the services balance was stable at around $2.4 billion. Although net receipts from financial and insurance services rose, these were largely offset by higher net payments for travel, transport, other business services, as well as charges for the use of intellectual property.

[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 rose to $17 billion in the second quarter, from $3.1 billion in the preceding quarter. Portfolio investment turned from net inflows to net outflows, while net inflows of direct investment and financial derivatives declined. These outweighed the decrease in the net outflows of "other investment".

The portfolio investment account recorded $18 billion of net outflows in the second quarter, a reversal from the $0.5 billion of net inflows in the preceding quarter. This largely reflected the increase in domestic deposit-taking corporations' net purchases of foreign securities, as well as the switch by the non-bank private sector from net divestments to net acquisitions of foreign securities.

Meanwhile, net inflows of direct investment fell by $7.1 billion to $13 billion in the second quarter, as the decrease in foreign direct investment into Singapore exceeded the decline in residents' investment abroad.

In comparison, net outflows from the "other investment" account fell to $19 billion in the second quarter from $34 billion in the previous quarter. This was mainly driven by the decrease in net outflows from both domestic deposit-taking corporations and the non-bank private sector.


SHOP