CHAPTER 1
Economic Performance

CHAPTER 1

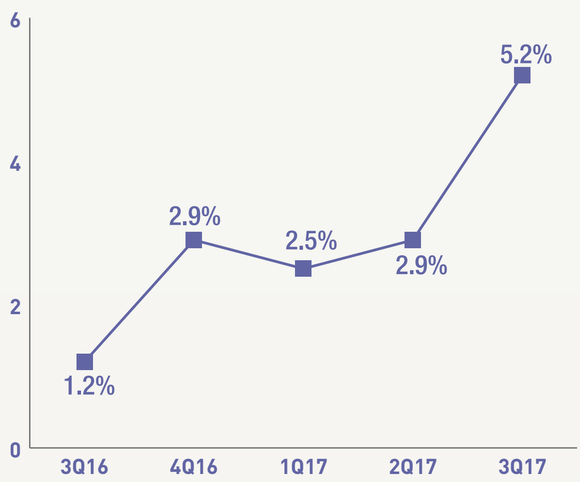
THE SINGAPORE ECONOMY

ECONOMIC PERFORMANCE

Real GDP grew by

5.2% in 3Q17

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 3Q17

MANUFACTURING

3.3%-point contribution

FINANCE & INSURANCE

0.8%-point contribution

In total, these sectors accounted for

77% of GDP growth

LABOUR MARKET

RESIDENT UNEMPLOYMENT RATE

3.1% in 3Q17

EMPLOYMENT (Q-O-Q CHANGE)

-700 employed

Sectors with the Highest Employment Growth in 3Q17

BSUINESS SERVICES	WHOLESALE & RETAIL TRADE	OTHER SERVICES INDUSTRIES
+3,800 employed	+3,200 employed	+3,000 employed

PRODUCTIVITY

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

+5.5%

Sectors with the highest Value-added per Worker Growth in 3Q17

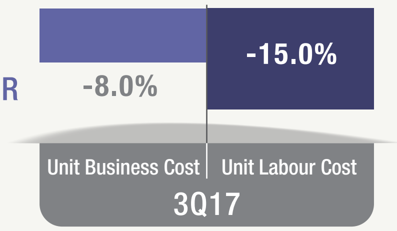
MANUFACTURING	TRANSPORTATION & STORAGE
+23.1%	+2.9%

COSTS

Overall Unit Labour Cost declined by

1.9% in 3Q17

WITHIN THE MANUFACTURING SECTOR



PRICES

The Consumer Price Index (CPI) rose by

0.4% in 3Q17

CATEGORIES WITH PRICE INCREASES

Quarterly Growth (Year-on-Year)

	Quarterly Growth (Year-on-Year)
EDUCATION	2.7%
HEALTH CARE	2.6%
CLOTHING & FOOTWEAR	1.6%

CATEGORY WITH PRICE DECLINES

	Quarterly Growth (Year-on-Year)
HOUSING & UTILITIES	-2.4%

INTERNATIONAL TRADE

Total Merchandise Exports rose by

10.1% in 3Q17

OIL DOMESTIC EXPORTS	RE-EXPORTS	NON-OIL DOMESTIC EXPORTS
+19.3%	+9.3%	+7.6%

Main Drivers of Services Export Growth were...

TRANSPORT SERVICES	FINANCIAL SERVICES	OTHER BUSINESS SERVICES
+4.8%	+8.9%	+4.0%

OVERVIEW

In the third quarter of 2017,

- The economy expanded by 5.2 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 overall and citizen unemployment rates declined in September 2017 as compared to June 2017, while the resident unemployment rate remained unchanged. The number of workers retrenched in the third quarter was similar to that in the previous quarter but lower compared to that in the same period a year ago.
- Total employment fell by 700 on a quarter-on-quarter basis, smaller than the declines of 6,800 and 7,300 recorded in the first and second quarters respectively. The fall in employment was mainly due to a decrease in Work Permit Holders in the manufacturing and construction sectors.
- The Consumer Price Index (CPI) rose by 0.4 per cent on a year-on-year basis, slower than the 0.8 per cent rise in the second quarter.

OVERALL PERFORMANCE

The economy grew by 5.2 per cent on a year-on-year basis in the third quarter, faster than the 2.9 per cent growth in the previous quarter (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 8.8 per cent, accelerating from the 2.2 per cent growth in the second quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 3Q 2017

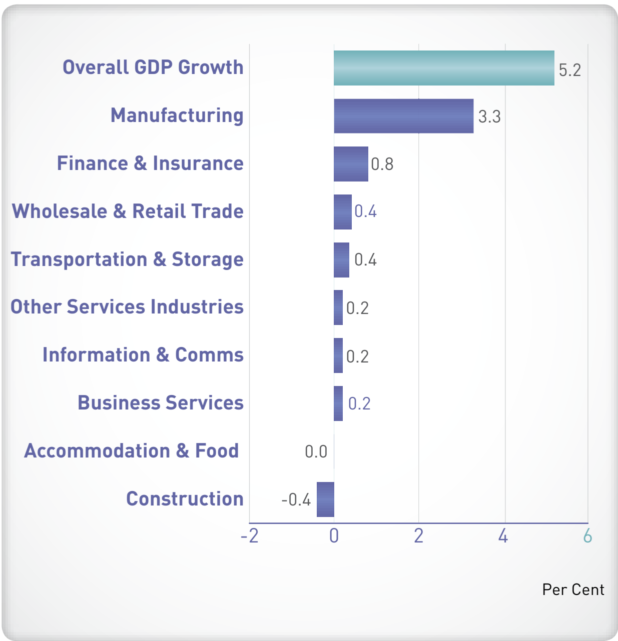
The manufacturing sector expanded at a robust pace of 18 per cent in the third quarter, extending the 8.4 per cent growth in the previous quarter. Growth was broad-based, with all manufacturing clusters recording output expansions, except for the transport engineering cluster, which continued to register a decline in output.

The services producing industries grew by 3.0 per cent, faster than the 2.5 per cent growth in the second quarter. Among the services sectors, the finance & insurance sector posted the strongest pace of growth (5.9 per cent), with growth largely supported by robust expansions in insurance, fund management and financial intermediation activities, as well as a turnaround in forex trading volumes. This was followed by the information & communications (4.9 per cent), transportation & storage (4.6 per cent) and wholesale & retail trade (2.2 per cent) sectors. The other services (2.0 per cent) and business services (1.4 per cent) sectors also recorded positive growth in the third quarter. On the other hand, the accommodation & food services sector contracted by 2.1 per cent, extending the 2.0 per cent contraction in the previous quarter, weighed down by the sluggish performance of both the accommodation and food services segments.

Meanwhile, the construction sector shrank by 7.6 per cent, extending the 9.1 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 third quarter were the manufacturing and finance & insurance sectors (Exhibit 1.2). Collectively, they accounted for 77 per cent of overall GDP growth during the quarter.

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 3Q 2017 (By Industry)



SOURCES OF GROWTH

Total demand rose by 6.3 per cent in the third quarter, higher than the 4.1 per cent growth in the previous quarter (Exhibit 1.3). The expansion in total demand was supported by both external and domestic demand. External demand rose by 4.6 per cent, accelerating from the 2.7 per cent increase in the previous quarter. Domestic demand also increased at a faster pace of 12 per cent compared to the 8.1 per cent growth in the preceding quarter.

In turn, domestic demand was driven primarily by a larger build-up in inventories. At the same time, consumption expenditure also supported the increase in domestic demand, rising by 3.7 per cent on the back of higher public and private consumption expenditure.

*Exhibit 1.3: Changes in Total Demand**

	2016		2017		
	III	IV	I	II	III
Total Demand	-0.7	2.8	3.9	4.1	**6.3**
External Demand	2.5	1.6	5.4	2.7	**4.6**
Total Domestic Demand	-9.3	6.3	-0.2	8.1	**11.6**
Consumption Expenditure	-0.1	-0.3	0.5	2.0	**3.7**
Public	-1.3	7.0	4.1	4.0	**6.4**
Private	0.2	-2.3	-0.8	1.5	**3.0**
Gross Fixed Capital Formation	-4.3	-5.0	-4.6	-9.4	**-4.5**
Changes in Inventories	-5.7	5.8	0.7	7.0	**7.1**

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

By contrast, gross fixed capital formation (GFCF) fell by 4.5 per cent, weighed down by declines in both private and public investments. In particular, private GFCF declined by 4.9 per cent, extending the 9.1 per cent contraction in the previous quarter. The fall in private GFCF could be largely attributed to lower investment spending on private construction & works and machinery & equipment. Meanwhile, public GFCF declined by 3.0 per cent, following the 11 per cent drop in the preceding quarter, weighed down by a decline in investment spending on public construction & works and transport equipment.

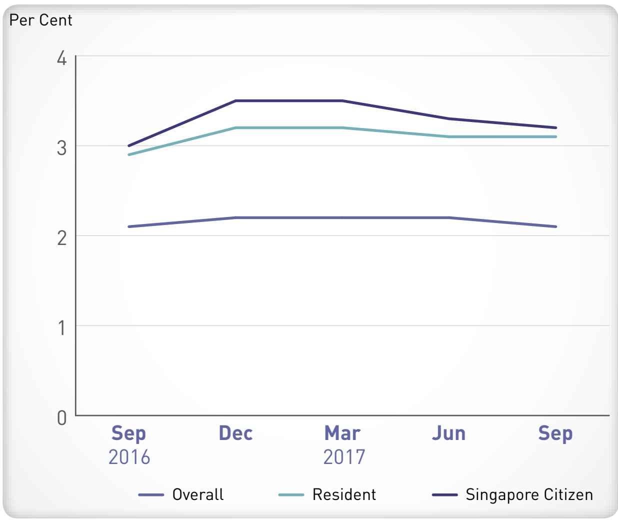
LABOUR MARKET

Unemployment and Retrenchment[1]

Based on preliminary estimates, the seasonally-adjusted overall unemployment rate declined to 2.1 per cent in September 2017 from 2.2 per cent in June 2017. Over the same period, the unemployment rate for citizens fell to 3.2 per cent from 3.3 per cent, while that for residents remained unchanged at 3.1 per cent (Exhibit 1.4). However, both the citizen and resident unemployment rates remained higher compared to the same period a year ago.

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

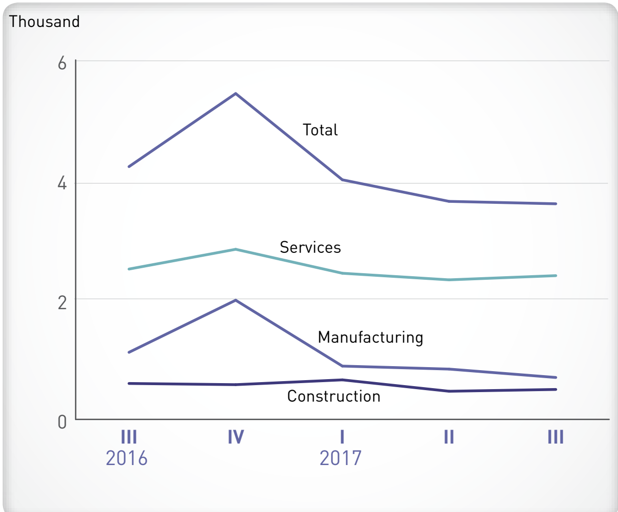
Exhibit 1.4: Unemployment Rate (Seasonally Adjusted)



As at September 2017, the estimated number of residents unemployed was 71,900, higher than the 70,800 in June 2017. However, the estimated number of unemployed citizens fell to 62,600 from 63,800.[2]

Around 3,600 workers were retrenched during the third quarter, similar to that in the second quarter (3,640) but lower than that in the same period a year ago (4,220). By broad sectors, retrenchments in the manufacturing sector fell (from 840 in the second quarter to 700 in the third quarter), while retrenchments in both the construction (from 470 to 500) and services (from 2,330 to 2,400) sectors increased (Exhibit 1.5).

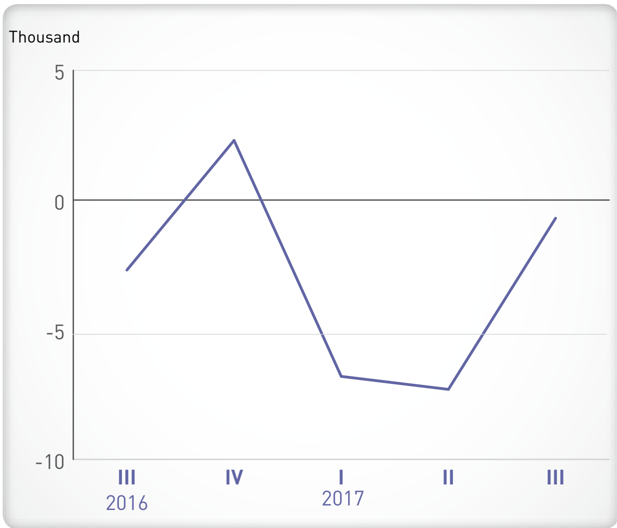
Exhibit 1.5: Retrenchments



Employment[3]

Total employment fell by 700 on a quarter-on-quarter basis in the third quarter, smaller than the declines of 6,800 and 7,300 recorded in the first and second quarters respectively (Exhibit 1.6). Excluding foreign domestic workers (FDWs), employment contracted by 2,500, easing from the declines of 9,400 and 7,900 in the first and second quarters respectively, and lower than the decline of 4,200 in the same period in 2016.

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



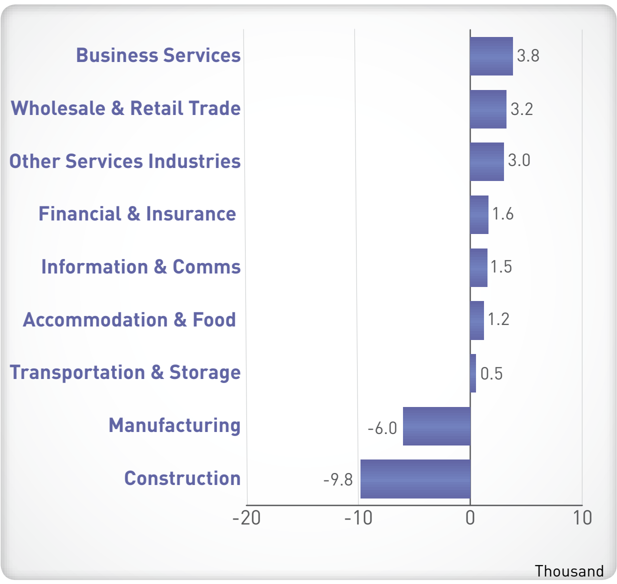
The decline in employment in the third quarter was mainly due to the continued shedding of Work Permit Holders in the manufacturing and construction sectors. Employment in the manufacturing sector declined by 6,000 in the third quarter, the twelfth consecutive quarter of decline. Manufacturing employment continued to be weighed down by weakness in the marine & offshore engineering segment, which was adversely affected by the sluggish demand for oil rigs and oilfield equipment amidst low global oil prices. Employment in the construction sector also fell (-9,800) for the fifth 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 (14,900). Among the services sectors, the business services (3,800), wholesale & retail trade (3,200) and other services (3,000) sectors saw the strongest employment gains.

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

[3] *Based on preliminary estimates.*

Exhibit 1.7: Changes in Employment by Industry in 3Q 2017



Hiring Expectations

Hiring expectations in the manufacturing sector continued to be negatively affected by firms in the marine & offshore engineering segment. According to EDB's latest Business Expectations Survey for the Manufacturing Sector, a net weighted balance of 11 per cent of manufacturers expected to hire fewer workers in the fourth quarter of 2017 as compared to the third quarter. The weak hiring sentiment was largely due to the marine & offshore engineering segment, where a net weighted balance of 52 per cent of firms expected lower levels of hiring. By contrast, firms in the petrochemicals and aerospace segments were the most optimistic, with a net weighted balance of 24 per cent and 15 per cent of firms in the respective segments expecting to increase hiring in the fourth quarter.

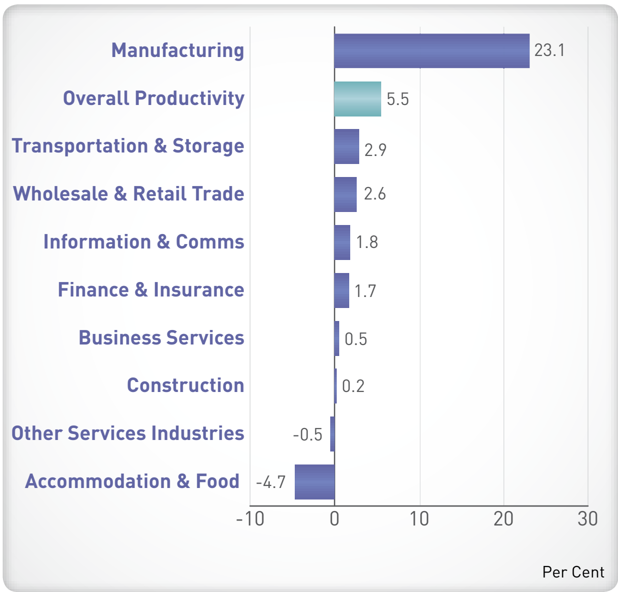
On the other hand, hiring expectations in the services sector remained positive. According to DOS' latest Business Expectations Survey for the Services Sector, a net weighted balance of 7 per cent of services firms expected to increase hiring in the fourth quarter of 2017 as compared to the third quarter. In particular, a net weighted balance of 23 per cent of firms in the accommodation segment and 17 per cent of firms in the retail trade segment expected to hire more workers in the fourth quarter, likely due to the year-end festivities.

COMPETITIVENESS

Productivity

Overall labour productivity, as measured by value-added per worker, increased by 5.5 per cent in the third quarter compared to the same period a year ago (Exhibit 1.8). This was higher than the 3.2 per cent increase achieved in the second quarter.

Exhibit 1.8: Changes in Value-added per Worker for the Overall Economy and Sectors in 3Q 2017



The manufacturing (23 per cent), transportation & storage (2.9 per cent) and wholesale & retail trade (2.6 per cent) sectors saw the highest productivity growth rates in the third quarter. By contrast, the accommodation & food services (-4.7 per cent) and other services (-0.5 per cent) sectors experienced declines in productivity.

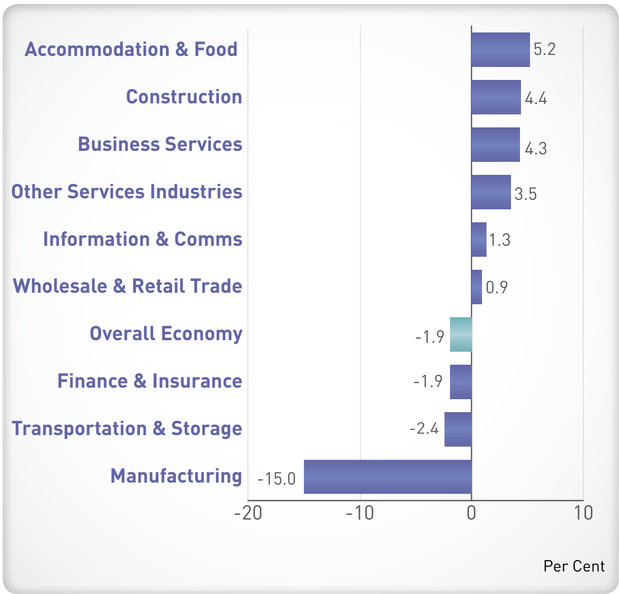
Outward-oriented sectors as a whole registered higher productivity growth than domestically-oriented sectors. Compared to the same period last year, the productivity of outward-oriented sectors rose by 8.7 per cent in the third quarter, picking up from the 5.5 per cent growth in the second quarter.[4] On the other hand, the productivity of domestically-oriented sectors fell by 0.5 per cent, similar to the 0.6 per cent decline in the previous quarter.

[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 1.9 per cent in the third quarter, a larger decline compared to the 0.1 per cent fall in the previous quarter (Exhibit 1.9). The decline in the overall ULC in the third quarter was due to labour productivity gains that exceeded the increase in total labour cost per worker.

Exhibit 1.9: Changes in Unit Labour Cost in 3Q 2017

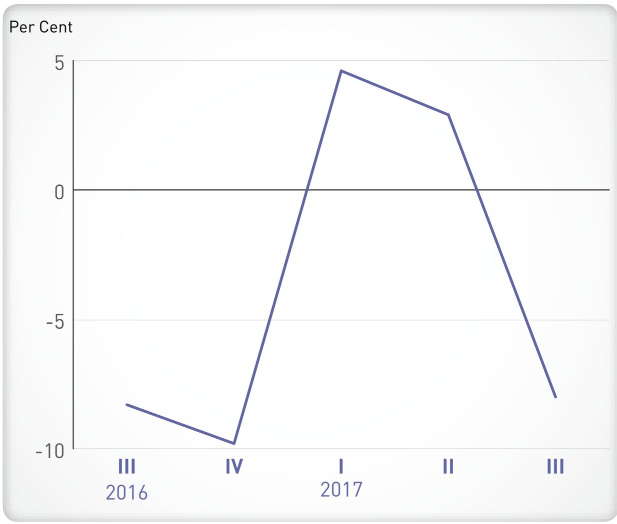


By sectors, the ULC for the manufacturing sector fell by 15 per cent, the seventh consecutive quarter of decline, on the back of strong productivity gains.

On the other hand, the ULC for services producing industries rose by 1.4 per cent, slightly higher than the 1.3 per cent increase in the previous quarter. All services sectors, with the exception of finance & insurance and transportation & storage, saw increases in their respective ULCs. Construction ULC also edged up by 4.4 per cent, as the rise in total labour cost per worker outpaced labour productivity growth in the sector.

Unit business cost (UBC) for the manufacturing sector fell by 8.0 per cent in the third quarter, a reversal from the 2.9 per cent increase in the previous quarter (Exhibit 1.10). The fall in the manufacturing UBC was driven by declines in unit non-labour production taxes (-18 per cent), manufacturing ULC (-15 per cent) and unit services cost (-5.6 per cent).

Exhibit 1.10: Changes in Unit Business Cost for Manufacturing

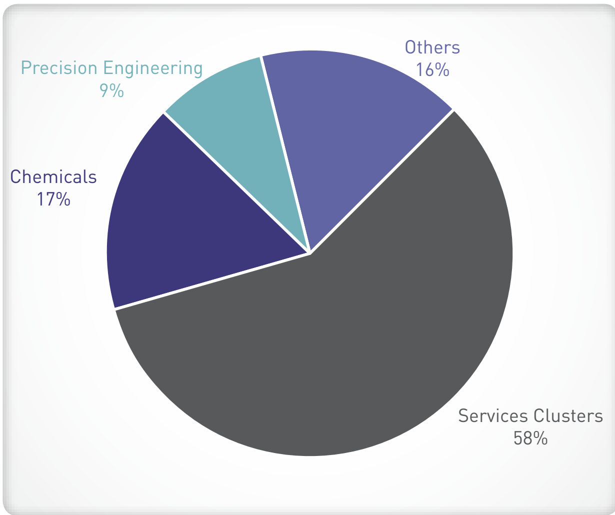


Investment Commitments

Investment commitments in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $1.2 billion and $1.0 billion respectively in the third quarter (Exhibit 1.11 and Exhibit 1.12).

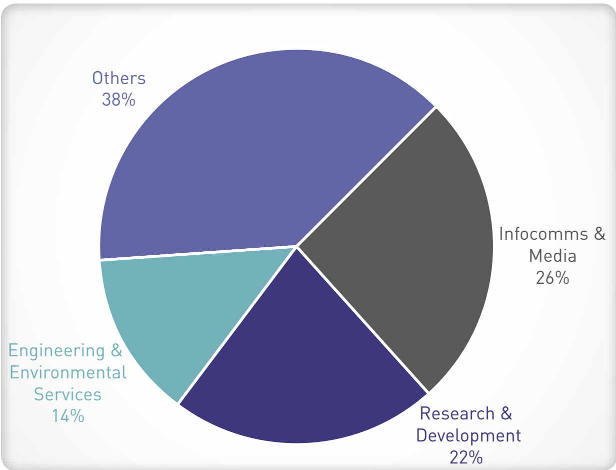
In terms of FAI, the largest contribution came from the services clusters, which garnered $683 million in commitments, mainly from the research & development sub-cluster. This was followed by the chemicals cluster, which attracted $195 million in commitments. Investors from Asia Pacific & Others contributed the most to FAI commitments, accounting for $359 million (31 per cent) of total FAI commitments.

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 3Q 2017



In terms of TBE, the infocomms & media cluster attracted the highest amount of commitments at $256 million, followed by the research & development cluster at $212 million. Investors from Europe were the largest source of TBE, accounting for $296 million (30 per cent) of total TBE committed.

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 3Q 2017



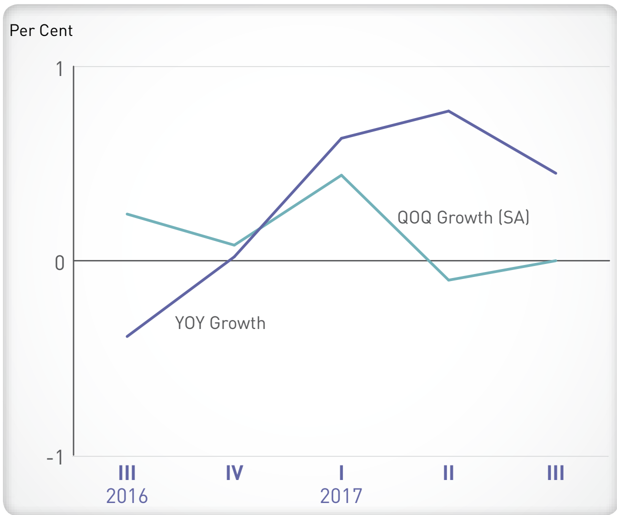
When fully realised, these commitments are expected to generate value-added of $1.8 billion and more than 4,300 jobs.

PRICES

Consumer Price Index

The Consumer Price Index (CPI) increased by 0.4 per cent on a year-on-year basis in the third quarter, slower than the 0.8 per cent rise in the second quarter (Exhibit 1.13). On a seasonally-adjusted quarter-on-quarter basis, the CPI was unchanged in the third quarter, following the 0.1 per cent decline in the previous quarter.

Exhibit 1.13: Changes in CPI



Among the CPI categories, food was the largest positive contributor to inflation in the third quarter, with prices rising by 1.3 per cent on a year-on-year basis on the back of price increases for hawker food and restaurant meals, as well as non-cooked food items such as fish & seafood and fruits (Exhibit 1.14). Transport costs rose by 1.5 per cent on account of higher petrol prices and parking charges as well as the expiry of the road tax rebate, which more than offset the effect of lower car prices and bus & train fares.

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

	2016		2017		
Per Cent	III	IV	I	II	III
All items	-0.4	0.0	0.6	0.8	0.4
Food	2.1	2.0	1.5	1.4	1.3
Clothing & Footwear	-1.6	-0.2	-0.9	1.4	1.6
Housing & Utilities	-4.3	-3.8	-3.2	-2.2	-2.4
Household Durables & Services	3.1	2.6	1.7	0.6	1.0
Health Care	0.6	2.1	2.7	2.7	2.6
Transport	-1.6	0.1	3.8	3.4	1.5
Communication	0.8	-0.6	0.3	0.4	0.6
Recreation & Culture	1.1	0.9	0.4	0.0	0.2
Education	3.4	3.2	3.6	3.2	2.7
Miscellaneous Goods & Services	0.0	0.1	-0.1	0.1	0.4

Meanwhile, education costs increased by 2.7 per cent as a result of higher fees at commercial institutions, universities, polytechnics, childcare centres and kindergartens. Healthcare costs went up by 2.6 per cent due to more expensive hospital and outpatient services. Prices of household durables & services picked up by 1.0 per cent as a rise in the salaries of foreign domestic workers more than offset the fall in the prices of household durables. Clothing & footwear costs rose by 1.6 per cent because of an increase in the prices of ready-made garments and footwear. Communications costs edged up by 0.6 per cent due to the higher cost of telecommunication services. The prices of miscellaneous goods & services increased by 0.4 per cent on account of a rise in the cost of personal effects items. Lastly, recreation & culture costs rose by 0.2 per cent due to an increase in admission charges to places of interest.

The price gains in these CPI categories were partially offset by a 2.4 per cent fall in the cost of housing & utilities. In turn, the fall in housing & utilities cost came on the back of a decline in accommodation costs which outweighed the increase in electricity tariffs, water price and housing maintenance charges.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade increased by 12 per cent year-on-year in the third quarter, extending the 9.5 per cent growth 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 22 per cent in nominal terms on the back of higher oil prices compared to a year ago, while non-oil trade rose by 9.6 per cent.

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

	2016			2017		
Per Cent	III	IV	Ann	I	II	III
Merchandise Trade	-6.6	4.0	-4.9	16.3	9.5	11.7
Merchandise Exports	-4.5	2.1	-5.1	16.9	8.3	10.1
Domestic Exports	-8.0	7.6	-5.8	29.1	9.6	11.0
Oil	-13.7	20.2	-12.6	72.0	26.9	19.3
Non-Oil	-5.4	2.7	-2.8	15.0	3.0	7.6
Re-Exports	-1.0	-2.4	-4.4	6.5	7.0	9.3
Merchandise Imports	-9.1	6.1	-4.7	15.5	10.9	13.5
Oil	-23.9	16.8	-20.6	89.8	33.0	26.3
Non-Oil	-4.9	3.9	-0.6	3.0	6.1	10.7

Total merchandise exports rose by 10 per cent in the third quarter, extending the 8.3 per cent increase in the preceding quarter. This marked the fourth consecutive quarter of growth, and could be attributed to an increase in both domestic exports (11 per cent) and re-exports (9.3 per cent).

The increase in domestic exports was in turn due to an expansion in oil and non-oil domestic exports. In particular, oil domestic exports grew by 19 per cent in the third quarter on the back of higher oil prices compared to levels observed a year ago. In volume terms, oil domestic exports declined by 1.2 per cent.

Non-oil domestic exports (NODX) grew by 7.6 per cent in the third quarter, following the 3.0 per cent growth in the previous quarter, supported by an increase in both electronics and non-electronics NODX.

Total merchandise imports rose by 14 per cent in the third quarter, following the 11 per cent increase in the previous quarter. This was due to a rise in both oil and non-oil imports. Specifically, oil imports increased by 26 per cent on the back of higher oil prices and higher import volumes. Meanwhile, non-oil imports rose by 11 per cent, driven by an increase in both electronics and non-electronics imports.

Services Trade

Total services trade expanded by 6.4 per cent in the third quarter, picking up from the 4.7 per cent growth in the previous quarter (Exhibit 1.16). Services exports grew by 5.3 per cent, up from the 4.4 per cent growth in the preceding quarter. The rise in services exports was largely attributable to increases in transport, financial and other business services exports. Similarly, services imports grew by 7.4 per cent, faster than the 5.1 per cent increase 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.

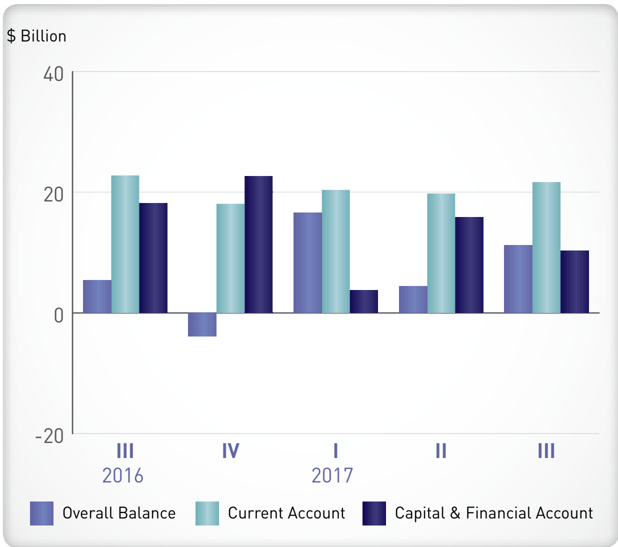
Exhibit 1.16: Growth Rates of Total Services Trade, Services Exports and Services Imports (In Nominal Terms)

	2016			2017		Per Cent
	III	IV	Ann	I	II	III
Total Services Trade	0.4	3.4	1.2	4.5	4.7	**6.4**
Services Exports	0.6	3.1	1.2	4.7	4.4	**5.3**
Services Imports	0.2	3.7	1.2	4.4	5.1	**7.4**

BALANCE OF PAYMENTS

The overall balance of payments recorded a larger surplus of $11 billion in the third quarter, compared to $4.4 billion in the second quarter (Exhibit 1.17). This occurred as net outflows from the capital and financial account decreased, and the current account surplus increased.

Exhibit 1.17: Balance of Payments[5]



Current Account

The current account surplus rose to $22 billion in the third quarter, from $20 billion in the previous quarter. This was due to an increase in the goods surplus as well as lower deficits in both the services and primary income accounts. Meanwhile, the deficit in the secondary income account was broadly stable.

The surplus in the goods balance increased by $0.8 billion to $30 billion in the third quarter, as goods exports rose more than imports. At the same time, the deficit in the services balance narrowed from $2.8 billion to $2.6 billion in the third quarter, as lower net payments for travel services more than offset higher net payments for transport services, other business services, and for the use of intellectual property.

The deficit in the primary income balance decreased by $0.8 billion to $2.1 billion in the third quarter as primary income receipts rose more than primary income payments.

[5] *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' information paper on "Singapore's International Accounts: Methodological Updates and Recent Developments".*

Capital and Financial Account

Net outflows from the capital and financial account fell to $10 billion in the third quarter, from $16 billion in the preceding quarter. This was driven by larger net inflows of direct investment as well as smaller net outflows of portfolio and other investments. These outweighed the decline in net inflows of financial derivatives.

Net inflows of direct investment increased by $4.1 billion to $18 billion in the third quarter of the year, as foreign direct investment into Singapore rose while residents' direct investment abroad fell.

At the same time, net outflows of portfolio investment fell by $5.8 billion to $11 billion in the third quarter. This largely reflected a switch by domestic deposit-taking corporations from net acquisitions to net divestments of foreign securities, which more than offset the non-bank private sector's switch from net divestments to net acquisitions of foreign securities.

Meanwhile, net outflows from the "other investment" account declined slightly by $0.9 billion to $24 billion in the third quarter. In comparison, net inflows of financial derivatives fell to $6.4 billion in the third quarter from $12 billion in the second quarter.