CHAPTER 1

THE SINGAPORE ECONOMY

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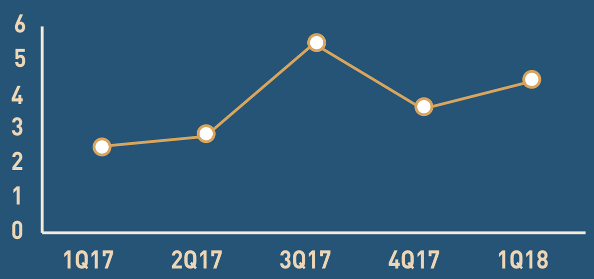
ECONOMIC PERFORMANCE

Real GDP grew by
4.4% in 1Q18

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 1Q18

Manufacturing
1.8%-point contribution

Finance & Insurance
1.2%-point contribution

In total, these sectors accounted for
68% of GDP growth

LABOUR MARKET

Resident Unemployment Rate
2.8% in 1Q18

Employment (Q-O-Q CHANGE)
1,200 employed

Sectors with the Highest Employment Growth in 1Q18

7,400 employed
Other Services Industries

2,100 employed
Financial & Insurance Services

2,000 employed
Information & Communications

PRODUCTIVITY

Value-added per Worker grew by
4.3% in 1Q18

Sectors with the highest Value-added per Worker Growth in 1Q18

12.2%
Manufacturing

6.4%
Finance & Insurance

COSTS

Overall Unit Labour Cost declined by

1.2% in 1Q18

Within the manufacturing sector

0.9%	-5.9%
Unit Business Cost	Unit Labour Cost

PRICES

The Consumer Price Index (CPI) rose by

0.2% in 1Q18

Categories with Price Increases

2.9%	2.3%	1.3%
Education	Healthcare	Food

Quarterly Growth (Year-on-Year)

INTERNATIONAL TRADE

Total Merchandise Exports rose by

2.3% in 1Q18

8.6%	1.0%	1.1%
Oil Domestic Exports	Re-exports	Non-Oil Domestic Exports

Total Services Exports rose by

6.1% in 1Q18

Main Drivers of Services Export Growth were...

11.5%	5.6%	20.2%
Financial Services	Transport Services	Charges for the use of Intellectual Property

OVERVIEW

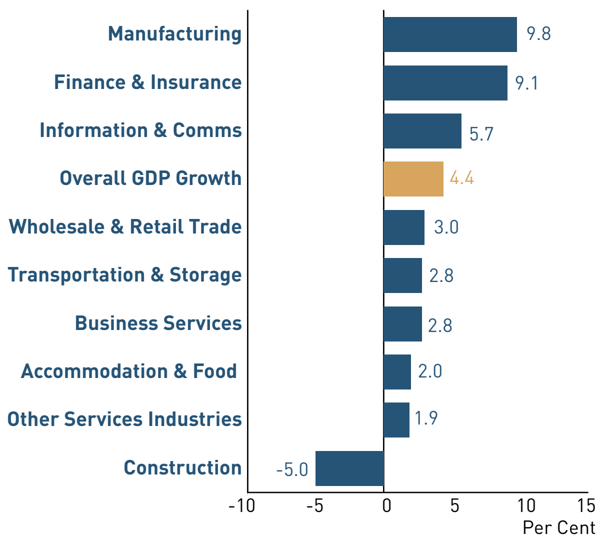
In the first quarter of 2018,

- The economy expanded by 4.4 per cent compared to the same period in 2017. The sectors that contributed the most to GDP growth were the manufacturing and finance & insurance sectors.
- The seasonally-adjusted overall and resident unemployment rates declined in March 2018 as compared to December 2017 and the same period a year ago. Retrenchments were also lower in the first quarter compared to the preceding quarter and the same period a year ago.
- Total employment rose by 1,200 on a quarter-on-quarter basis in the first quarter, compared to the decline of 6,800 registered in the same quarter a year ago. Excluding foreign domestic workers, employment declined by 2,100 in the first quarter, a smaller decline compared to the same period a year ago. The contraction was mainly due to a decrease in Work Permit Holders in the construction and marine shipyard[1] sectors.
- The Consumer Price Index rose by 0.2 per cent on a year-on-year basis, easing from the 0.5 per cent increase in the previous quarter.

OVERALL PERFORMANCE

The economy grew by 4.4 per cent on a year-on-year basis in the first quarter, faster than the 3.6 per cent growth in the previous quarter (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 1.7 per cent, slower than the 2.1 per cent growth in the preceding quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 1Q 2018



The manufacturing sector grew at a robust pace of 9.8 per cent on a year-on-year basis in the first quarter, accelerating from the 4.8 per cent growth in the previous quarter. Growth was broad-based, with all manufacturing clusters recording output expansions, except for the biomedical manufacturing cluster.

The services producing industries expanded by 4.1 per cent year-on-year, faster than the 3.5 per cent growth in the preceding quarter, with all services sectors registering expansions. The finance & insurance sector posted the strongest pace of growth (9.1 per cent), followed by the information & communications (5.7 per cent) and wholesale & retail trade (3.0 per cent) sectors. The transportation & storage, business services, accommodation & food services and other services sectors also recorded positive growth of 2.8 per cent, 2.8 per cent, 2.0 per cent and 1.9 per cent respectively.

By contrast, the construction sector shrank by 5.0 per cent, the same pace of decline as in the previous quarter. The decline was due to continued weakness in public sector and private sector construction activities.

The sectors that contributed the most to GDP growth in the first 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.

1 *This refers to shipbuilding and ship repairing within the transport equipment industry.*

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 1Q 2018 (By Industry)

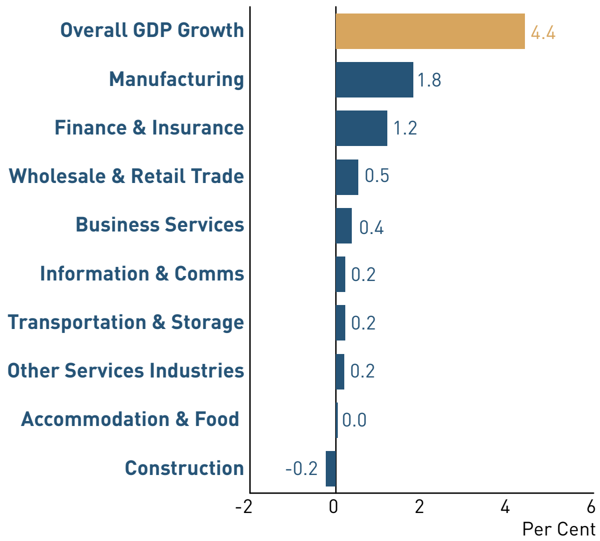


*Exhibit 1.3: Changes in Total Demand**

	2017				2018
	I	II	III	IV	I
Total Demand	3.7	3.7	5.5	4.9	**3.7**
External Demand	5.4	2.5	4.4	4.2	**3.8**
Total Domestic Demand	-0.6	7.3	8.5	6.6	**3.6**
Consumption Expenditure	0.3	3.2	5.7	4.4	**4.0**
Public	4.0	5.3	7.1	0.5	**9.6**
Private	-0.9	2.7	5.3	5.5	**2.0**
Gross Fixed Capital Formation	-3.2	-3.5	-2.7	2.2	**0.2**
Changes in Inventories	0.2	4.7	4.1	2.4	**0.7**

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

SOURCES OF GROWTH

Total demand rose by 3.7 per cent year-on-year in the first quarter, moderating from the 4.9 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 3.8 per cent, slightly slower than the 4.2 per cent growth in the previous quarter.

Domestic demand also rose at a slower pace of 3.6 per cent in the first quarter, compared to 6.6 per cent in the previous quarter. This was partly due to a smaller build-up in inventories, while the pace of increase of the other components of domestic demand also moderated.

Growth in gross fixed capital formation (GFCF) slowed to 0.2 per cent, from 2.2 per cent in the previous quarter. This came on the back of a 5.0 per cent decline in public GFCF, which was in turn largely weighed down by lower investment spending on public construction & works and transport equipment. On the other hand, private sector investments registered a 1.8 per cent increase, supported by robust growth in investment spending on private machinery & equipment and transport equipment, even as investment spending on private construction & works declined.

Meanwhile, consumption expenditure rose by 4.0 per cent in the first quarter, slightly slower than the 4.4 per cent growth in the previous quarter. Growth during the quarter was largely driven by a 9.6 per cent increase in public consumption, while private consumption growth was resilient, at 2.0 per cent.

LABOUR MARKET

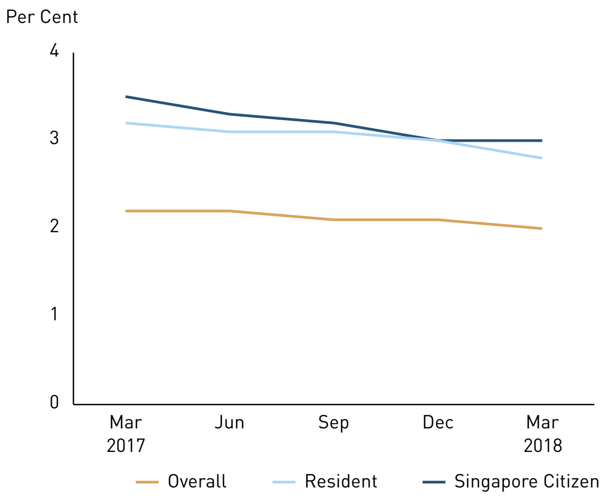
Unemployment and Retrenchment[2]

The seasonally-adjusted unemployment rate declined in March 2018 compared to December 2017 at the overall level (from 2.1 per cent in December 2017 to 2.0 per cent in March 2018) and for residents (from 3.0 per cent to 2.8 per cent), but remained unchanged for citizens (3.0 per cent) (Exhibit 1.4). The overall, resident and citizen unemployment rates in March 2018 were all lower when compared to the same period a year ago.

In March 2018, an estimated 64,800 residents, including 57,900 Singapore citizens, were unemployed. These were lower than the number of unemployed residents (68,500) and citizens (58,600) in December 2017.[3]

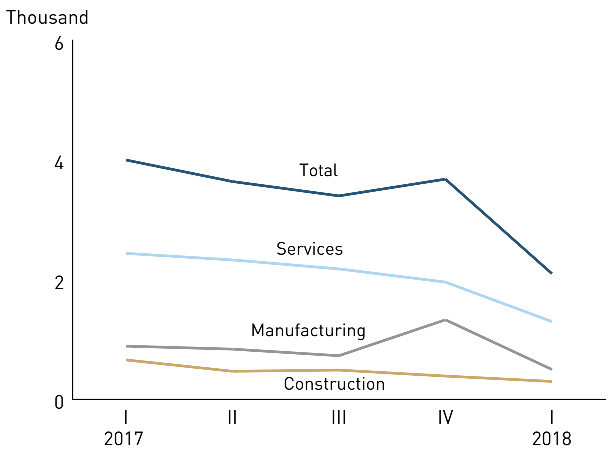
2 *Figures pertain to private sector establishments with at least 25 employees and the public sector.*
3 *Based on seasonally-adjusted data on the number of unemployed persons.*

Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)



Total retrenchments fell over the quarter. Around 2,100 workers were retrenched in the first quarter, down from 3,680 in the previous quarter and 4,000 in the same period a year ago (Exhibit 1.5). All broad sectors saw a decline in the number of retrenchments over the quarter. The number of retrenchments fell from 1,330 in the previous quarter to 500 in the first quarter for the manufacturing sector, from 390 to 300 for the construction sector, and from 1,960 to 1,300 for the services sector.

Exhibit 1.5: Retrenchments



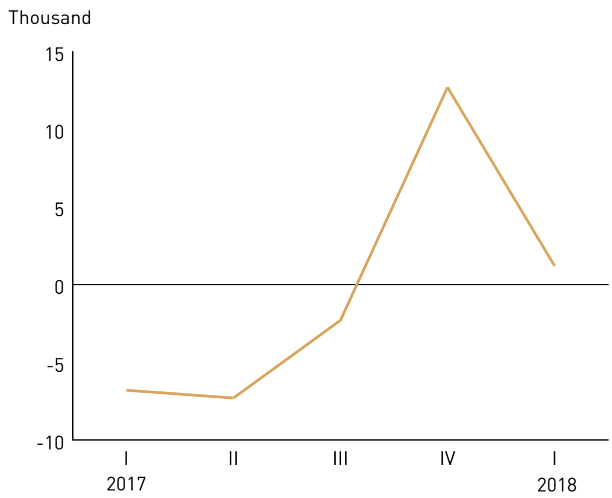
Employment[4]

Total employment rose by 1,200 on a quarter-on-quarter basis in the first quarter, compared to the decline of 6,800 registered in the same quarter a year ago (Exhibit 1.6). Excluding foreign domestic workers (FDWs), employment fell by 2,100 in the first quarter. This contraction was slower than the decline of 9,400 in the same period a year ago, largely due to a smaller fall in employment in the construction sector.

By broad sectors, manufacturing employment declined (-4,300) for the fourteenth consecutive quarter, as weak demand for oil rigs continued to weigh on employment in the marine shipyard sector. Employment in the construction sector also fell (-5,900) for the seventh consecutive quarter, in tandem with the continued weakness in construction activities (Exhibit 1.7). Work Permit Holders constituted the bulk of the employment losses in the manufacturing and construction sectors.

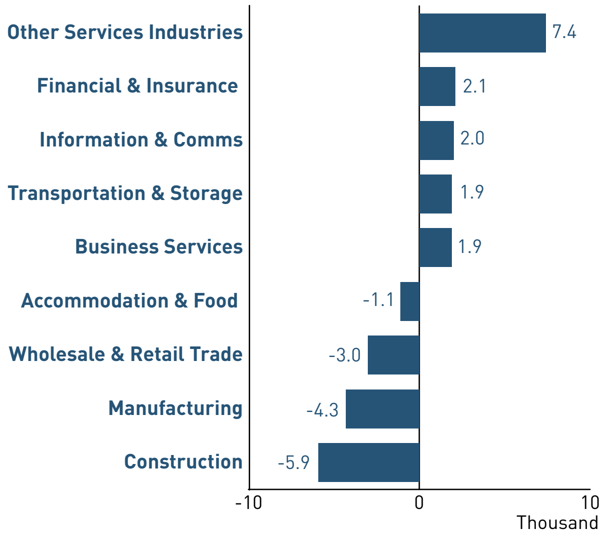
Nonetheless, the employment declines in these sectors were offset by employment gains in the services producing industries (11,200 including FDWs), particularly in sectors such as other services (7,400) and finance & insurance (2,100).

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



4 *Based on preliminary estimates.*

Exhibit 1.7: Changes in Employment by Industry in 1Q 2018



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 4 per cent of manufacturers expected to hire fewer workers in the second quarter of 2018 as compared to the first quarter. The weak hiring sentiments were largely due to the marine & offshore engineering segment, where a net weighted balance of 49 per cent of firms expected lower levels of hiring. By contrast, firms in the computer peripherals and semiconductors segments were the most optimistic, with a net weighted balance of 21 per cent and 16 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 3 per cent of services firms expected to increase hiring in the second quarter of 2018. In particular, a net weighted balance of 15 per cent of firms in the financial & insurance services segment and 9 per cent of firms in the business services (excluding real estate) segment expected to hire more workers in the second quarter.

COMPETITIVENESS

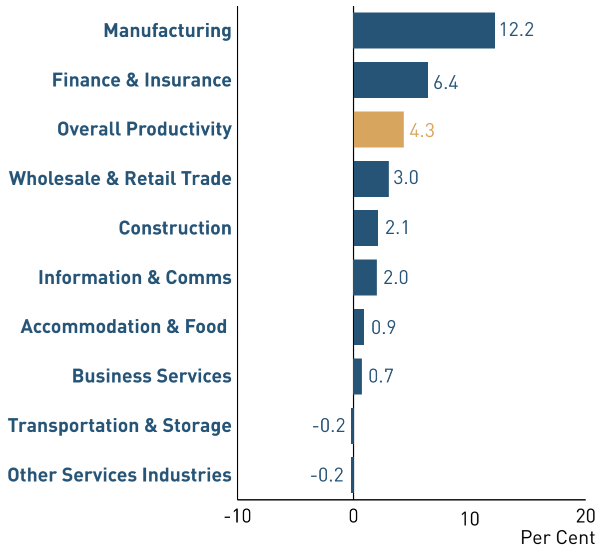
Productivity

Overall labour productivity, as measured by real value-added per worker[5], increased by 4.3 per cent in the first quarter compared to the same period a year ago (Exhibit 1.8). This was higher than the 3.8 per cent increase recorded in the previous quarter.

The manufacturing (12 per cent), finance & insurance (6.4 per cent) and wholesale & retail trade (3.0 per cent) sectors saw the highest productivity growth rates in the first quarter. By contrast, the other services (-0.2 per cent) and transportation & storage (-0.2 per cent) sectors experienced declines in productivity.

Outward-oriented sectors as a whole achieved stronger productivity growth than domestically-oriented sectors. Compared to the same period last year, the productivity of outward-oriented sectors rose by 5.8 per cent in the first quarter, picking up from the 5.0 per cent growth in the previous quarter.[6] For domestically-oriented sectors, productivity rose by 0.8 per cent, higher than the 0.2 per cent increase in the previous quarter.

Exhibit 1.8: Changes in Value-added per Worker for the Overall Economy and Sectors in 1Q 2018

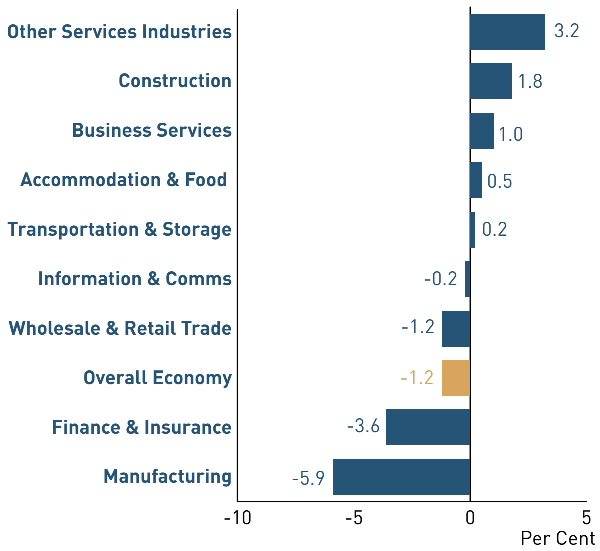


5 *Real value-added per actual hour worked is currently only available on an annual basis.*
6 *Based on MTI estimates. Outward-oriented sectors refer to manufacturing, wholesale trade, transportation & storage, accommodation, information & communications, finance & insurance and professional services. 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 1.2 per cent on a year-on-year basis in the first quarter, a reversal from the 0.9 per cent increase in the previous quarter (Exhibit 1.9). The decline in the overall ULC 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 1Q 2018



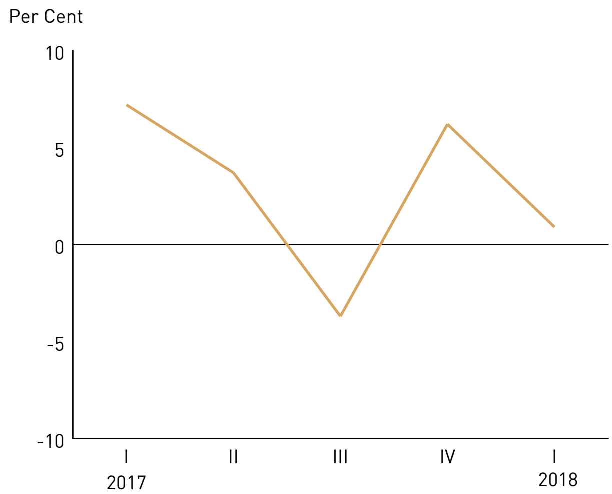
By sectors, the ULC for the manufacturing sector fell by 5.9 per cent year-on-year, the ninth consecutive quarter of decline, on the back of strong productivity gains in the sector.

On the other hand, the ULC for services producing industries was unchanged compared to a year ago, a moderation from the 1.5 per cent increase in the previous quarter. Most services sectors saw increases in their ULCs. Exceptions were the wholesale & retail trade, information & communications and finance & insurance sectors, which experienced a decline in their ULCs.

Meanwhile, construction ULC rose by 1.8 per cent, slightly slower than the 2.0 per cent increase in the preceding quarter, as the rise in total labour cost per worker outpaced labour productivity growth in the sector.

Unit business cost (UBC) for the manufacturing sector edged up by 0.9 per cent in the first quarter, a moderation from the 6.2 per cent increase in the previous quarter (Exhibit 1.10). The smaller rise in the manufacturing UBC was mainly due to a slower 3.3 per cent increase in the unit services cost (which includes royalties, utilities and other services costs such as professional and advertising fees), as compared to the 8.6 per cent increase in the preceding quarter. The decline in the manufacturing ULC also continued to dampen the increase in the UBC.

Exhibit 1.10: Changes in Unit Business Cost for Manufacturing

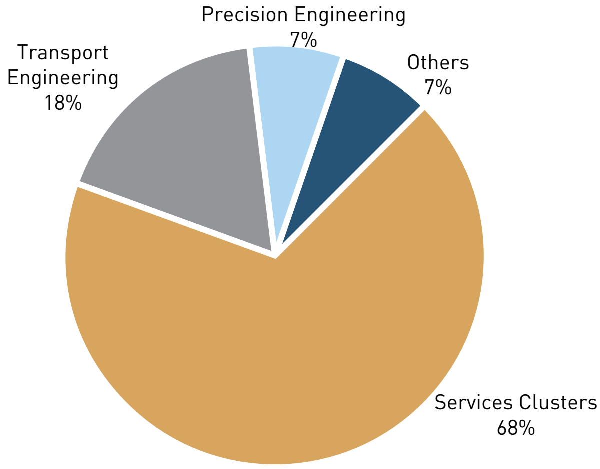


Investment Commitments

Investment commitments in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $840 million and $777 million respectively in the first quarter (Exhibit 1.11 and Exhibit 1.12).

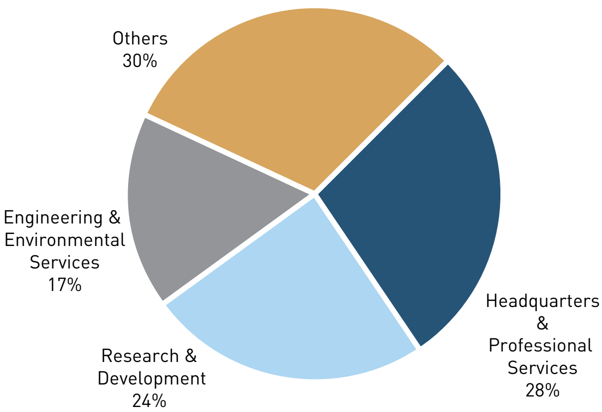
In terms of FAI, the largest contribution came from the services clusters, which garnered $572 million in commitments, mainly from the engineering & environmental services cluster. This was followed by the transport engineering cluster, which attracted $147 million in commitments. Investors from Singapore were the largest contributor to total FAI (42 per cent). In terms of foreign contributors, investors from the United States were the top contributor, accounting for $193 million (23 per cent) of total FAI commitments.

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 1Q 2018



In terms of TBE, the headquarters & professional services cluster attracted the highest amount of commitments, at $219 million, followed by the research & development cluster with $188 million. Investors from the United States contributed the most to total TBE, at $266 million (34 per cent), followed by investors from Asia Pacific (ex-Japan) at $175 million (23 per cent).

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 1Q 2018



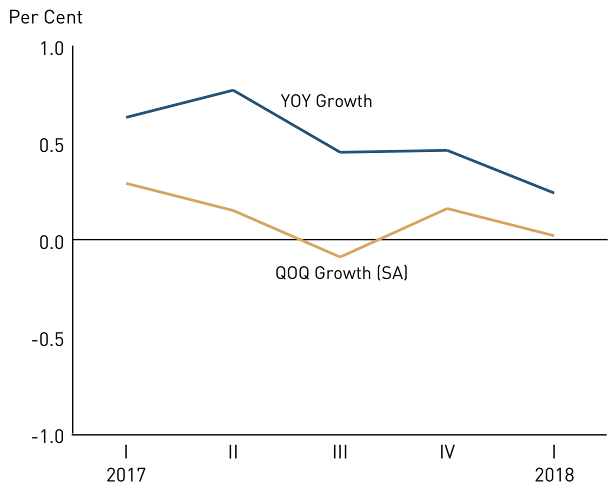
When fully realised, these commitments are expected to generate value-added of $2.6 billion and more than 2,600 jobs.

PRICES

Consumer Price Index

The Consumer Price Index (CPI) rose by 0.2 per cent on a year-on-year basis in the first quarter, easing from the 0.5 per cent increase in the preceding quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, the CPI was unchanged in the first quarter, easing from the increase of 0.2 per cent in the previous quarter.

Exhibit 1.13: Changes in CPI



Among the CPI categories, food was the largest positive contributor to headline inflation in the first quarter, with prices rising by 1.3 per cent on a year-on-year basis on the back of price increases for food servicing services like hawker food and restaurant meals, as well as non-cooked food items such as fish & seafood and vegetables (Exhibit 1.14). Meanwhile, education costs rose by 2.9 per cent due to higher fees at kindergartens & childcare centres, commercial institutions, universities and polytechnics.

Healthcare costs increased by 2.3 per cent as a result of more expensive hospital services and outpatient services. Recreation & culture costs rose by 1.0 per cent on the back of higher costs of holiday travel. Transport costs edged up by 0.3 per cent on account of higher petrol prices, which had more than offset the effect of lower car prices and bus & train fares. Prices of household durables & services increased by 0.9 per cent as a rise in the salaries of foreign maids more than offset a dip in the prices of household durables. Prices of miscellaneous goods & services went up by 0.6 per cent as an increase in the prices of cigarettes outweighed the effect of cheaper personal care items. Clothing & footwear costs rose by 1.0 per cent due to more expensive footwear and ready-made garments.

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

Per Cent

	2017				2018
	I	II	III	IV	I
All items	0.6	0.8	0.4	0.5	**0.2**
Food	1.5	1.4	1.3	1.4	**1.3**
Clothing & Footwear	-0.9	1.4	1.6	0.4	**1.0**
Housing & Utilities	-3.2	-2.2	-2.4	-2.4	**-2.6**
Household Durables & Services	1.7	0.6	1.0	1.0	**0.9**
Health Care	2.7	2.7	2.6	2.0	**2.3**
Transport	3.8	3.4	1.5	1.7	**0.3**
Communication	0.3	0.4	0.6	1.0	**-0.1**
Recreation & Culture	0.4	0.0	0.2	0.6	**1.0**
Education	3.6	3.2	2.7	2.6	**2.9**
Miscellaneous Goods & Services	-0.1	0.1	0.4	0.2	**0.6**

The price gains in these CPI categories were partially offset by declines in other categories. Housing & utilities costs posed the largest drag on CPI-All Items inflation, declining by 2.6 per cent as a fall in accommodation costs and housing maintenance charges more than offset a rise in electricity tariffs and water prices. Communications costs fell by 0.1 per cent due to cheaper telecommunication services.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade rose by 2.5 per cent year-on-year in the first quarter, following the 7.8 per cent increase in the preceding quarter (Exhibit 1.15). The increase came on the back of a rise in both oil and non-oil trade. Total oil trade increased by 5.1 per cent in nominal terms on the back of higher oil prices compared to a year ago, while non-oil trade rose by 1.9 per cent.

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

Per Cent

	2017					2018
	I	II	III	IV	Ann	I
Merchandise Trade	16.3	9.5	11.6	7.8	11.1	**2.5**
Merchandise Exports	16.9	8.3	10.1	6.6	10.3	**2.3**
Domestic Exports	29.1	9.6	11.0	15.3	15.8	**3.5**
Oil	72.0	26.9	19.3	26.1	33.4	**8.6**
Non-Oil	15.0	3.0	7.6	10.4	8.8	**1.1**
Re-Exports	6.5	7.0	9.3	-1.3	5.2	**1.0**
Merchandise Imports	15.5	11.0	13.4	9.1	12.1	**2.8**
Oil	89.8	33.0	26.3	30.5	41.6	**3.7**
Non-Oil	3.0	6.2	10.4	4.0	5.8	**2.6**

Total merchandise exports rose by 2.3 per cent in the first quarter, following the 6.6 per cent increase in the preceding quarter. This marked the sixth consecutive quarter of growth, and was supported by increases in both domestic exports (3.5 per cent) and re-exports (1.0 per cent).

The increase in domestic exports was due to a rise in both oil and non-oil domestic exports. In particular, oil domestic exports grew by 8.6 per cent, supported by higher oil prices compared to levels observed a year ago. In volume terms, oil domestic exports declined by 1.5 per cent.

Non-oil domestic exports (NODX) grew by 1.1 per cent in the first quarter, a moderation from the 10 per cent growth in the previous quarter. Growth in NODX was driven by an increase in non-electronics NODX which outweighed the decline in electronics NODX.

Total merchandise imports rose by 2.8 per cent in the first quarter, easing from the 9.1 per cent increase in the previous quarter. Both oil and non-oil merchandise imports expanded. Specifically, oil imports increased by 3.7 per cent on the back of higher oil prices. Meanwhile, non-oil imports rose by 2.6 per cent, driven by an increase in both electronics and non-electronics imports.

Services Trade

Total services trade expanded by 4.7 per cent year-on-year in the first quarter, picking up from the 4.1 per cent growth in the previous quarter (Exhibit 1.16). Services exports grew by 6.1 per cent, up from the 3.2 per cent growth in the fourth quarter of last year. The increase in services exports was largely attributable to a rise in financial and transport services exports, as well as receipts from charges for the use of intellectual property. Meanwhile, services imports grew by 3.4 per cent, easing from the 5.0 per cent increase in the previous quarter. The growth in services imports was mainly due to increases in the imports of other business services, as well as insurance and transport services.

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

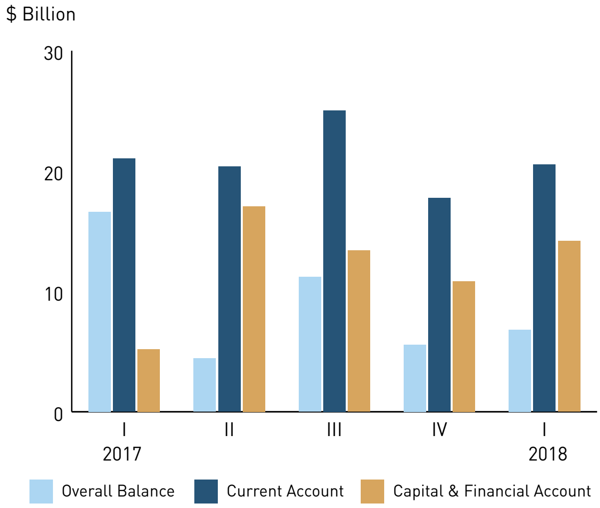
Per Cent

	2017					2018
	I	II	III	IV	Ann	I
Total Services Trade	4.1	3.9	6.6	4.1	4.7	**4.7**
Services Exports	4.8	3.7	5.3	3.2	4.2	**6.1**
Services Imports	3.5	4.0	7.9	5.0	5.1	**3.4**

BALANCE OF PAYMENTS

The overall balance of payments recorded a larger surplus of $6.8 billion in the first quarter, compared to $5.6 billion in the previous quarter (Exhibit 1.17).

Exhibit 1.17: Balance of Payments[7]



Current Account

The current account surplus rose to $21 billion in the first quarter, from $18 billion in the preceding quarter. This was due to an increase in the goods surplus as well as smaller deficits in the services, primary income and secondary income balances.

The surplus in the goods balance increased by $1.2 billion in the first quarter, as goods imports fell by more than exports. At the same time, the deficit in the services balance halved from $2.4 billion to $1.2 billion. Although net payments for insurance and transport services rose and net receipts for financial services fell, these were more than offset by lower net payments for travel services, charges for the use of intellectual property and other business services.

Meanwhile, the deficit in primary income balance narrowed slightly to $5.1 billion in the first quarter from $5.4 billion in the previous quarter, as primary income receipts rose more than payments.

7 *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 $14 billion in the first quarter, from $11 billion a quarter before. Net inflows of direct investment fell and net outflows of other investment increased, outweighing the reduction in net outflows of portfolio investment and the reversal in financial derivatives from net outflows to net inflows.

Net inflows of direct investment fell by $1.5 billion to $11 billion in the first quarter, as foreign direct investment into Singapore declined by more than the decline in residents' direct investment abroad.

At the same time, net outflows from the "other investment" account rose by $18 billion to $24 billion in the first quarter. This largely reflected the reversal from a net inflow to a net outflow position by deposit-taking corporations.

In comparison, net outflows of portfolio investment decreased by $9.9 billion to $6.2 billion in the first quarter. This was mainly due to a switch by domestic deposit-taking corporations from net purchases of overseas securities to net sales. Meanwhile, financial derivatives turned from net outflows of $1.3 billion in the fourth quarter of last year to net inflows of $4.6 billion in the first quarter.