CHAPTER 1

THE SINGAPORE ECONOMY

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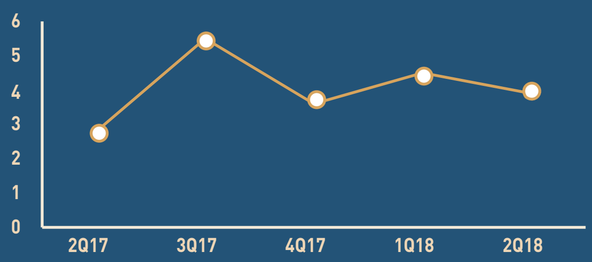
ECONOMIC PERFORMANCE

Real GDP grew by **3.9%** in 2Q18

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 2Q18

Manufacturing

1.9%-point contribution

Finance & Insurance

0.9%-point contribution

In total, these sectors accounted for **71%** of GDP growth

LABOUR MARKET

Resident Unemployment Rate

3.0% in 2Q18

Employment (Q-O-Q CHANGE)

+7,000 employed

Sectors with the Highest Employment Growth in 2Q18

2,900 employed — Business Services

2,800 employed — Transportation & Storage

2,700 employed — Information & Communications

PRODUCTIVITY

Value-added Per Worker grew by **3.4%** in 2Q18

Sectors with the highest Value-added per Worker Growth in 2Q18

12.2% — Manufacturing

4.0% — Finance & Insurance

COSTS

Overall Unit Labour Cost declined by

0.2% in 2Q18

Within the manufacturing sector

-1.2%
Unit Business Cost

-7.4%
Unit Labour Cost

PRICES

The Consumer Price Index (CPI) rose by

0.3% in 2Q18

Categories with Price Increases

Education	Health Care	Food
2.9%	2.2%	1.4%

Quarterly Growth (Year-on-Year)

INTERNATIONAL TRADE

Total Merchandise Exports rose by

9.4% in 2Q18

EXPORTS

Oil Domestic Exports	Non-Oil Domestic Exports	Re-exports
20.6%	9.4%	5.7%

Total Services Exports rose by

3.8% in 2Q18

Main Drivers of Services Export Growth were...

Transport Services	Charges for the use of Intellectual Property	Financial Services
4.1%	18.3%	5.9%

OVERVIEW

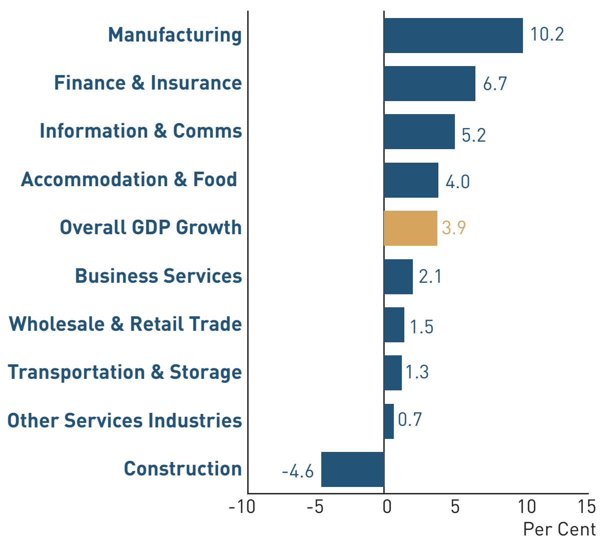
In the second quarter of 2018,

- The economy expanded by 3.9 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.
- Total employment rose by 7,000 on a quarter-on-quarter basis, higher than the 3,700 increase in the first quarter. Excluding foreign domestic workers, employment increased by 7,100 in the second quarter.
- The seasonally-adjusted overall, resident and citizen unemployment rates rose in June 2018 as compared to March 2018, but remained lower than that in the same period a year ago. Retrenchments, while slightly higher in the second quarter as compared to the first quarter, also remained lower than that recorded a year ago.
- The Consumer Price Index (CPI) rose by 0.3 per cent on a year-on-year basis, slightly faster than the 0.2 per cent increase in the previous quarter.

OVERALL PERFORMANCE

The economy grew by 3.9 per cent on a year-on-year basis in the second quarter, easing from the 4.5 per cent growth in the previous quarter (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 0.6 per cent, slower than the 2.2 per cent growth in the preceding quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 2Q 2018



The manufacturing sector grew at a robust pace of 10 per cent year-on-year in the second quarter, extending the 11 per cent growth in the previous quarter. Growth was broad-based, with all manufacturing clusters recording output expansions.

The services producing industries expanded by 2.8 per cent year-on-year, moderating from the 4.0 per cent growth in the preceding quarter. The finance & insurance sector posted the fastest pace of growth (6.7 per cent), followed by the information & communications (5.2 per cent) and accommodation & food services (4.0 per cent) sectors. The business services, wholesale & retail trade, transportation & storage and other services sectors also recorded positive growth of 2.1 per cent, 1.5 per cent, 1.3 per cent and 0.7 per cent respectively.

By contrast, the construction sector shrank by 4.6 per cent year-on-year, extending the 5.2 per cent decline in the previous quarter. The contraction was largely due to weakness in 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 71 per cent of GDP growth during the quarter.

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 2Q 2018 (By Industry)

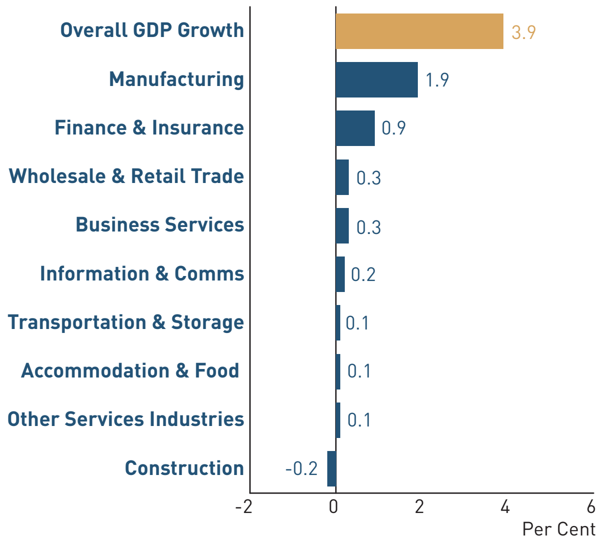


*Exhibit 1.3: Changes in Total Demand**

	2017			2018	
	II	III	IV	I	II
Total Demand	3.7	5.5	4.9	3.5	**3.4**
External Demand	2.5	4.4	4.2	3.5	**3.6**
Total Domestic Demand	7.3	8.5	6.6	3.6	**3.0**
Consumption Expenditure	3.2	5.7	4.4	4.8	**3.0**
Public	5.3	7.1	0.5	8.7	**2.2**
Private	2.7	5.3	5.5	3.4	**3.2**
Gross Fixed Capital Formation	-3.5	-2.7	2.2	-0.9	**3.3**
Changes in Inventories	4.7	4.1	2.4	0.6	**0.0**

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

SOURCES OF GROWTH

Total demand rose by 3.4 per cent year-on-year in the second quarter, extending the 3.5 per cent growth in the previous quarter (Exhibit 1.3). The increase in total demand was supported by both external and domestic demand.

External demand expanded by 3.6 per cent, similar to the 3.5 per cent growth in the previous quarter. Domestic demand rose at a slower pace of 3.0 per cent compared to 3.6 per cent in the previous quarter. This was due to a smaller build-up in inventories and a moderation in the pace of increase in consumption expenditure.

Consumption expenditure increased by 3.0 per cent, slower than the 4.8 per cent growth in the previous quarter. Growth in the second quarter was largely supported by a 3.2 per cent increase in private consumption, even as public consumption growth slowed to 2.2 per cent from 8.7 per cent in the first quarter.

Meanwhile, gross fixed capital formation (GFCF) grew by 3.3 per cent, a reversal from the 0.9 per cent contraction in the previous quarter. The expansion came on the back of a 5.6 per cent increase in private GFCF, which was in turn supported by higher investment spending on transport equipment and machinery & equipment. On the other hand, public GFCF declined by 6.7 per cent, largely weighed down by lower investment spending on public construction & works.

LABOUR MARKET

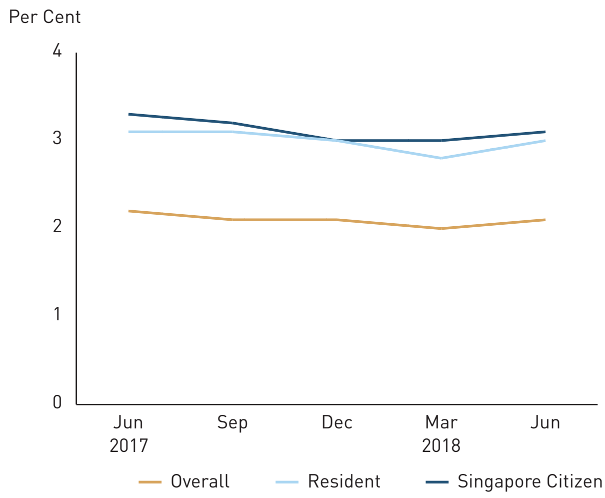
Unemployment and Retrenchment[1]

Unemployment rates rose over the quarter from March 2018 to June 2018, as more persons entered the labour force to look for work on the back of a continued expansion in economic activities.[2] Specifically, the seasonally-adjusted unemployment rates edged up at the overall level (from 2.0 per cent in March 2018 to 2.1 per cent in June 2018), as well as for residents (from 2.8 per cent to 3.0 per cent) and citizens (from 3.0 per cent to 3.1 per cent) (Exhibit 1.4). Nonetheless, the unemployment rates in June 2018 remained lower than that in the same period a year ago.

In June 2018, an estimated 69,500 residents, including 60,600 Singapore citizens, were unemployed. These were higher than the number of unemployed residents (64,800) and citizens (57,600) in March 2018.[3]

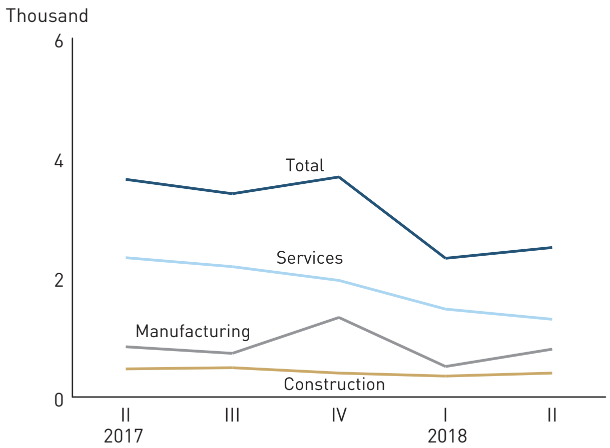
1 *Figures pertain to private sector establishments with at least 25 employees and the public sector.*
2 *Also commonly known as an "encouraged worker effect".*
3 *Based on seasonally-adjusted data on the number of unemployed persons.*

Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)



Total retrenchments came in at around 2,500 in the second quarter. This was up from the 2,320 in the previous quarter, but lower than the 3,640 recorded in the same period a year ago (Exhibit 1.5). By broad sectors, retrenchments in the services sector fell from 1,470 in the first quarter to 1,300 in the second quarter. On the other hand, retrenchments increased in both the manufacturing (from 510 to 800) and construction (from 350 to 400) sectors.

Exhibit 1.5: Retrenchments



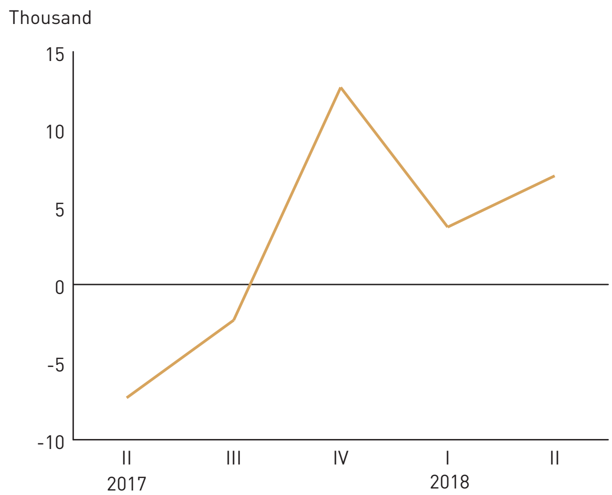
Employment[4]

Total employment rose by 7,000 on a quarter-on-quarter basis in the second quarter, higher than the 3,700 increase in the first quarter. This also represented a reversal from the decline of 7,300 registered in the same quarter a year ago (Exhibit 1.6). The improvement compared to a year ago came on the back of a larger increase in services employment, even as employment declines in the manufacturing and construction sectors moderated. Excluding foreign domestic workers (FDWs), employment rose by 7,100 in the second quarter.

By broad sectors, employment in services producing industries rose by 7,700 (including FDWs) on a quarter-on-quarter basis in the second quarter, with the business services (2,900), transportation & storage (2,800) and information & communications (2,700) sectors contributing the most to the increase.

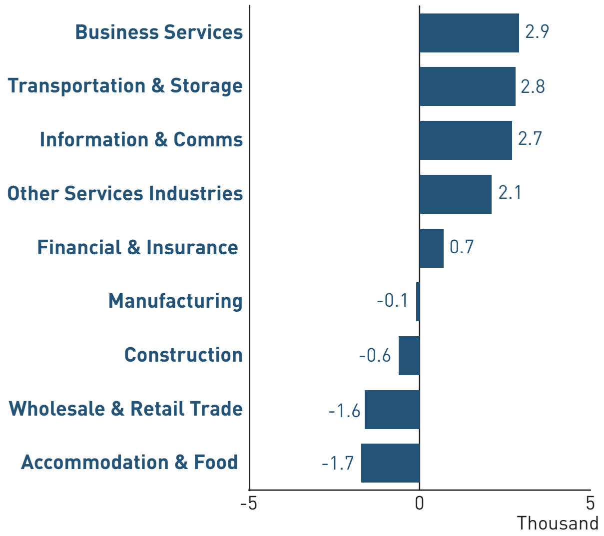
However, the employment gains in the services producing industries were partially offset by employment declines in the manufacturing (-100) and construction (-600) sectors. Manufacturing employment contracted for the fifteenth consecutive quarter, weighed down by employment losses in the marine & offshore engineering segment due to challenging business conditions in the segment. Construction employment fell for the eighth consecutive quarter, in tandem with the continued weakness in construction activities.

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



4 *Based on preliminary estimates.*

Exhibit 1.7: Changes in Employment by Industry in 2Q 2018



Hiring Expectations

According to EDB's Business Expectations Survey for the Manufacturing Sector, a net weighted balance of 2 per cent of manufacturers expected to hire fewer workers in the third quarter of 2018 as compared to the second quarter. Firms in the semiconductors and infocomms & consumer electronics segments had the weakest hiring sentiments, with a net weighted balance of 21 per cent and 14 per cent of firms in the respective segments expecting lower levels of hiring in the third quarter. By contrast, firms in the pharmaceuticals and computer peripherals segments were the most optimistic, as a net weighted balance of 26 per cent and 21 per cent of firms in the respective segments expected to increase hiring in the third 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 10 per cent of services firms expected to increase hiring in the third quarter of 2018. In particular, a net weighted balance of 16 per cent of firms in the business services (excluding real estate) segment and 15 per cent of firms in the recreation, community & personal services segment expected to hire more workers in the third quarter.

COMPETITIVENESS

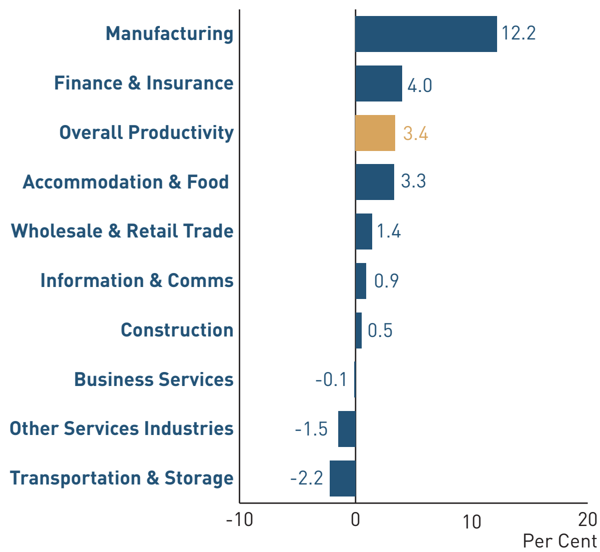
Productivity

Overall labour productivity, as measured by real value-added per worker[5], increased by 3.4 per cent in the second quarter compared to the same period a year ago (Exhibit 1.8). This was lower than the 4.4 per cent increase recorded in the first quarter.

The manufacturing (12 per cent), finance & insurance (4.0 per cent) and accommodation & food services (3.3 per cent) sectors saw the highest productivity growth rates in the second quarter. By contrast, the transportation & storage (-2.2 per cent) and other services (-1.5 per cent) sectors experienced declines in productivity.

Outward-oriented sectors as a whole continued to achieve stronger productivity growth than domestically-oriented sectors. Compared to the same period last year, the productivity of outward-oriented sectors rose by 4.1 per cent in the second quarter, slower than the 5.6 per cent growth in the previous quarter.[6] For domestically-oriented sectors, productivity rose by 0.5 per cent, lower than the 1.2 per cent increase in the preceding quarter.

Exhibit 1.8: Changes in Value-added per Worker for the Overall Economy and Sectors in 2Q 2018

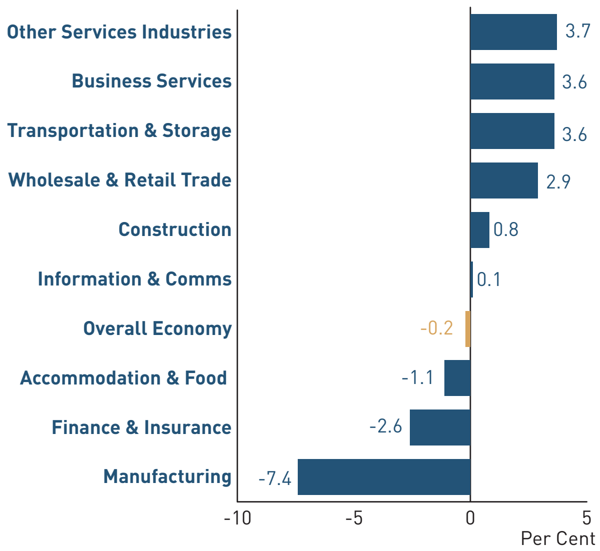


5 *Real value-added per actual hour worked is currently only available on an annual basis.*
6 *Based on MTI estimates. Outward-oriented sectors refer to manufacturing, wholesale trade, transportation & storage, accommodation, information & communications, finance & insurance and professional services. 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 0.2 per cent on a year-on-year basis in the second quarter, moderating from the 0.8 per cent decline in the previous quarter (Exhibit 1.9). The fall 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 2Q 2018



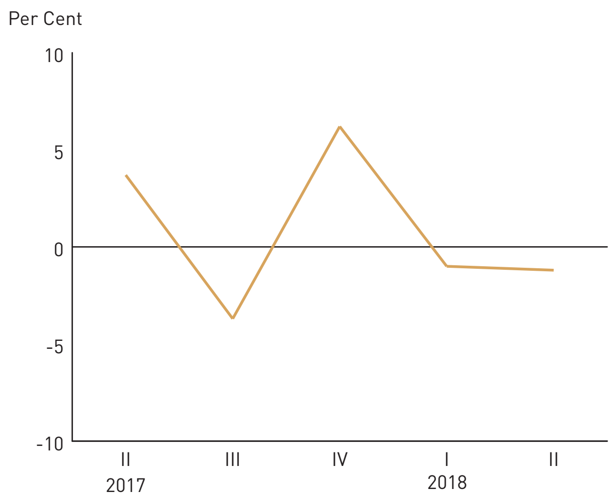
By sectors, the ULC for the manufacturing sector fell by 7.4 per cent year-on-year, the tenth consecutive quarter of decline, on the back of strong productivity gains in the sector.

On the other hand, the ULC for services producing industries rose by 1.9 per cent, faster than the 0.7 per cent increase in the previous quarter. Most services sectors saw increases in their ULCs. The only exceptions were the accommodation & food services and finance & insurance sectors, where productivity gains outweighed the rise in total labour cost per worker.

Meanwhile, construction ULC rose by 0.8 per cent, slightly higher than the 0.6 per cent increase in the preceding quarter, as the rise in total labour cost per worker outpaced productivity growth in the sector.

Unit business cost (UBC) for the manufacturing sector fell by 1.2 per cent year-on-year in the second quarter, extending the 1.0 per cent decline in the previous quarter (Exhibit 1.10). The decrease in manufacturing UBC was on account of the 7.4 per cent decline in manufacturing ULC, which was able to more than offset the 0.6 per cent increase in unit services cost (which includes royalties, utilities and other services costs such as professional and advertising fees).

Exhibit 1.10: Changes in Unit Business Cost for Manufacturing

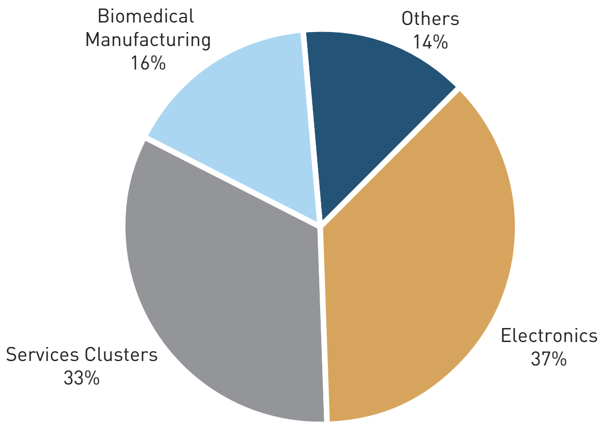


Investment Commitments

Investment commitments in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $4.5 billion and $2.8 billion respectively in the second quarter (Exhibit 1.11 and Exhibit 1.12).

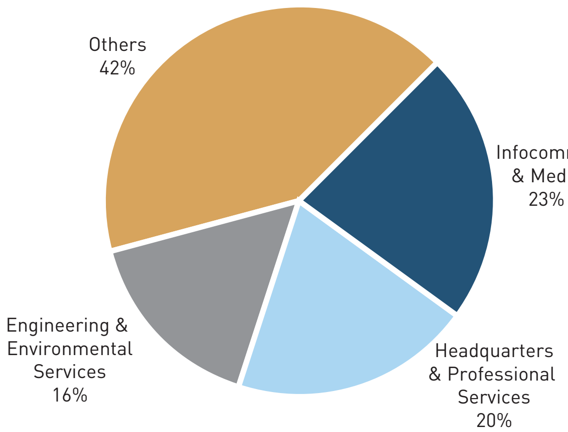
In terms of FAI, the biggest contribution came from the manufacturing sector. Within the manufacturing sector, the electronics cluster garnered the largest amount of commitments, at $1.7 billion. This was followed by the biomedical manufacturing cluster, which attracted $712 million in commitments. Investors from the United States were the largest contributor to total FAI commitments (45 per cent). They were followed by investors from Europe who accounted for about $1.2 billion of the FAI commitments (27 per cent).

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 2Q 2018



In terms of TBE, the infocomms & media cluster attracted the highest amount of commitments, at $643 million, followed by the headquarters & professional services cluster with $552 million. Investors from Europe contributed the most to TBE, at $889 million (32 per cent). They were followed by investors from Singapore who accounted for $870 million (31 per cent).

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 2Q 2018



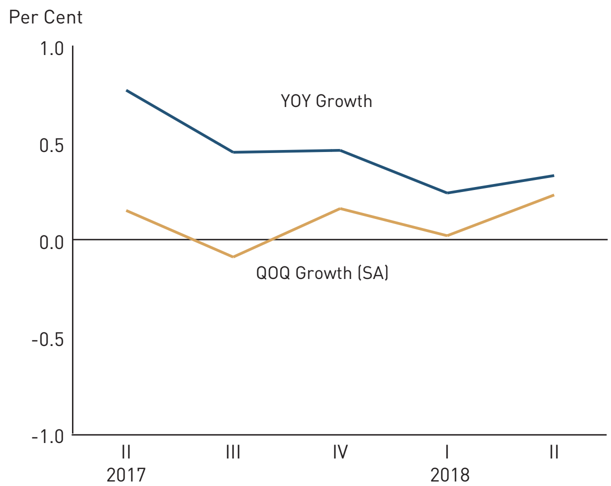
When fully realised, these commitments are expected to generate a value-added of $6.6 billion and more than 7,600 jobs.

PRICES

Consumer Price Index

The Consumer Price Index (CPI) rose by 0.3 per cent on a year-on-year basis in the second quarter, slightly faster than the 0.2 per cent increase in the preceding quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, the CPI edged up by 0.2 per cent in the second quarter, after remaining unchanged in the first quarter.

Exhibit 1.13: Changes in CPI



Among the CPI categories, food was the largest positive contributor to inflation in the second quarter, with prices rising by 1.4 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 bread & cereals (Exhibit 1.14). Meanwhile, education costs rose by 2.9 per cent on account of higher fees at kindergartens & childcare centres, commercial institutions, universities and polytechnics.

Healthcare costs increased by 2.2 per cent due to more expensive hospital services and outpatient services. Recreation & culture costs rose by 1.1 per cent because of the higher costs of holiday travel. Prices of miscellaneous goods & services picked up by 0.9 per cent as an increase in the price of cigarettes more than offset a fall in the prices of personal care items. The cost of household durables & services increased by 0.8 per cent as a rise in the salaries of foreign maids outweighed a dip in the prices of household durables. 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	
	II	III	IV	I	II
All items	0.8	0.4	0.5	0.2	**0.3**
Food	1.4	1.3	1.4	1.3	**1.4**
Clothing & Footwear	1.4	1.6	0.4	1.0	**1.0**
Housing & Utilities	-2.2	-2.4	-2.4	-2.6	**-2.0**
Household Durables & Services	0.6	1.0	1.0	0.9	**0.8**
Health Care	2.7	2.6	2.0	2.3	**2.2**
Transport	3.4	1.5	1.7	0.3	**-0.1**
Communication	0.4	0.6	1.0	-0.1	**-0.7**
Recreation & Culture	0.0	0.2	0.6	1.0	**1.1**
Education	3.2	2.7	2.6	2.9	**2.9**
Miscellaneous Goods & Services	0.1	0.4	0.2	0.6	**0.9**

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 2.0 per cent as a fall in accommodation costs more than offset higher water prices and electricity tariffs, as well as housing maintenance charges. Likewise, communication costs fell by 0.7 per cent due to cheaper telecommunication services. Transport costs edged down by 0.1 per cent as lower car prices and bus & train fares more than offset higher petrol prices.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade expanded by 10 per cent year-on-year in the second quarter, accelerating from the 2.5 per cent increase in the preceding quarter (Exhibit 1.15). The expansion came on the back of a rise in both oil and non-oil trade. Total oil trade increased by 23 per cent in nominal terms on the back of higher oil prices compared to a year ago, while non-oil trade rose by 7.1 per cent.

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

Per Cent

	2017				2018	
	II	III	IV	Ann	I	II
Merchandise Trade	9.5	11.6	7.8	11.1	2.5	**10.2**
Merchandise Exports	8.3	10.1	6.6	10.3	2.3	**9.4**
Domestic Exports	9.6	11.0	15.3	15.8	3.5	**13.0**
Oil	26.9	19.3	26.1	33.4	8.6	**20.6**
Non-Oil	3.0	7.6	10.4	8.8	1.1	**9.4**
Re-Exports	7.0	9.3	-1.3	5.2	0.9	**5.7**
Merchandise Imports	11.0	13.4	9.1	12.1	2.8	**11.1**
Oil	33.0	26.3	30.5	41.6	3.7	**26.3**
Non-Oil	6.2	10.4	4.0	5.8	2.6	**7.0**

Total merchandise exports rose by 9.4 per cent in the second quarter, faster than the 2.3 per cent rise in the preceding quarter. This also marked the seventh consecutive quarter of growth, and was supported by an increase in both domestic exports (13 per cent) and re-exports (5.7 per cent).

The growth in domestic exports was due to a rise in both oil and non-oil domestic exports. In particular, oil domestic exports expanded by 21 per cent, supported by higher oil prices compared to levels a year ago. In volume terms, oil domestic exports declined by 7.4 per cent.

Non-oil domestic exports (NODX) grew by 9.4 per cent, up from the 1.1 per cent increase 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 expanded by 11 per cent in the second quarter, higher than the 2.8 per cent increase in the previous quarter. Both oil and non-oil merchandise imports increased. Specifically, oil imports rose by 26 per cent on the back of higher oil prices, while non-oil imports grew by 7.0 per cent, driven by an increase in both electronics and non-electronics imports.

Services Trade

Total services trade increased by 3.0 per cent year-on-year in the second quarter, following the 4.3 per cent growth in the previous quarter (Exhibit 1.16). Services exports grew by 3.8 per cent, moderating from the 5.2 per cent growth in the first quarter. The increase in services exports was largely attributable to a rise in exports of transport services, as well as receipts from charges for the use of intellectual property. Meanwhile, services imports rose by 2.1 per cent, moderating from the 3.5 per cent increase in the previous quarter. The rise in services imports was mainly due to higher imports of other business services, financial services and insurance services.

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

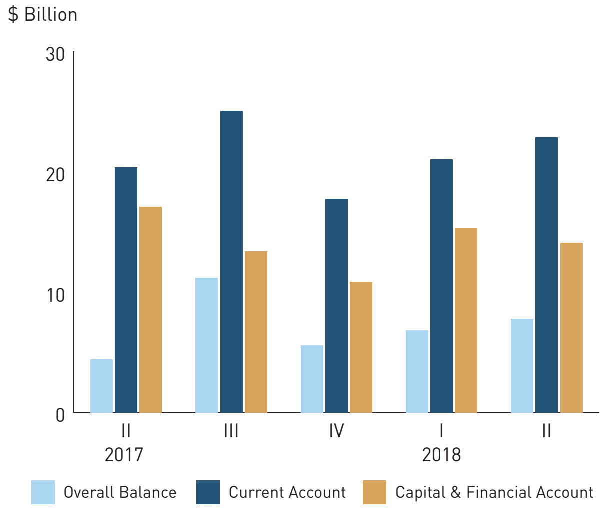
Per Cent

	2017				2018	
	II	III	IV	Ann	I	II
Total Services Trade	3.9	6.6	4.1	4.7	4.3	**3.0**
Services Exports	3.7	5.3	3.2	4.2	5.2	**3.8**
Services Imports	4.0	7.9	5.0	5.1	3.5	**2.1**

BALANCE OF PAYMENTS

The overall balance of payments recorded a larger surplus of $7.8 billion in the second quarter, compared to $6.8 billion in the first quarter (Exhibit 1.17). This resulted from both an increase in the current account surplus as well as a decline in net outflows from the capital and financial account.

Exhibit 1.17: Balance of Payments[7]



Current Account

The current account surplus rose to $23 billion in the second quarter, from $21 billion in the preceding quarter. This was due to an increase in the goods account surplus, as well as smaller deficits in the services and primary income balances. By contrast, the deficit in the secondary income balance rose slightly.

The surplus in the goods balance increased by $0.9 billion to $30 billion in the second quarter, as goods exports rose more than imports.

At the same time, the deficit in the services balance narrowed from $1.7 billion in the first quarter to $0.8 billion in the second quarter. Although net payments for travel and other business services increased, these were more than offset by lower net payments for the use of intellectual property, as well as a reversal from a net payments to a net receipts position for transport services.

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".*

Meanwhile, the deficit in the primary income balance fell to $4.3 billion in the second quarter from $4.6 billion in the first quarter, as primary income receipts rose more than payments.

Capital and Financial Account

Net outflows from the capital and financial account declined to $14 billion in the second quarter, from $15 billion in the previous quarter. This was due to a rise in the net inflows of direct investment and a fall in the net outflows of other investment, which outweighed the higher net outflows of portfolio investment and the lower net inflows of financial derivatives.

Net inflows of direct investment reached $14 billion, up from $8.5 billion in the first quarter. This largely reflected an increase in foreign direct investment into Singapore.

Meanwhile, net outflows from the "other investment" account fell by $8.2 billion to $18 billion in the second quarter. This was mainly due to a reversal of the non-bank private sector from a net outflow to a net inflow position, which had more than offset the increase in net outflows from domestic deposit-taking corporations.

On the other hand, the net outflows of portfolio investment increased by $5.8 billion to $10 billion in the second quarter. This was driven by a higher net acquisition of overseas securities by both the non-bank and official sectors, which outweighed the increase in net sales of foreign securities by domestic deposit-taking corporations.

At the same time, net inflows of financial derivatives fell to $0.9 billion in the second quarter, from $7.3 billion in the first quarter.