CHAPTER 1

THE SINGAPORE ECONOMY

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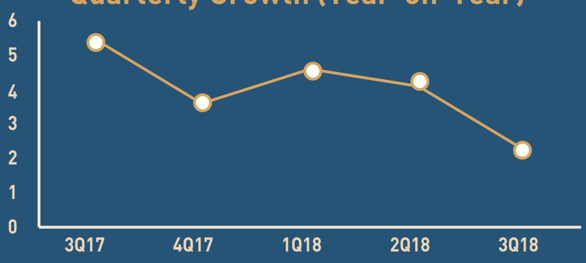
ECONOMIC PERFORMANCE

Real GDP grew by
2.2% in 3Q18

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 3Q18

Finance & Insurance

0.7%-point contribution

Manufacturing

0.7%-point contribution

These sectors accounted for
65% of GDP growth

LABOUR MARKET

Resident Unemployment Rate
2.9% in 3Q18

Employment (Q-O-Q Change)
+17,700 employed

Sectors with the Highest Employment Growth in 3Q18

+5,200 employed
Other Services Industries

+3,500 employed
Manufacturing

+2,700 employed
Information & Communications

PRODUCTIVITY

Value-added per Worker grew by
1.2% in 3Q18

Sectors with the highest Value-added per Worker Growth in 3Q18

4.1%
Manufacturing

3.5%
Accommodation & Food Services

COSTS

Overall Unit Labour Cost increased by

1.6% in 3Q18

Within the manufacturing sector

-0.6%
Unit Business Cost

-1.0%
Unit Labour Cost

PRICES

The Consumer Price Index (CPI) rose by

0.7% in 3Q18

Categories with Price Increases

2.6%
Education

2.3%
Clothing & Footwear

2.0%
Health Care

Quarterly Growth (Year-on-Year)

INTERNATIONAL TRADE

Total Merchandise Exports rose by

12.7% in 3Q18

EXPORTS

28.9%
Oil Domestic Exports

11.1%
Re-exports

8.0%
Non-Oil Domestic Exports

Total Services Exports rose by

3.3% in 3Q18

Main Drivers of Services Export Growth were...

28.9%
Charges for the use of Intellectual Property

2.3%
Other Business Services

3.5%
Financial Services

OVERVIEW

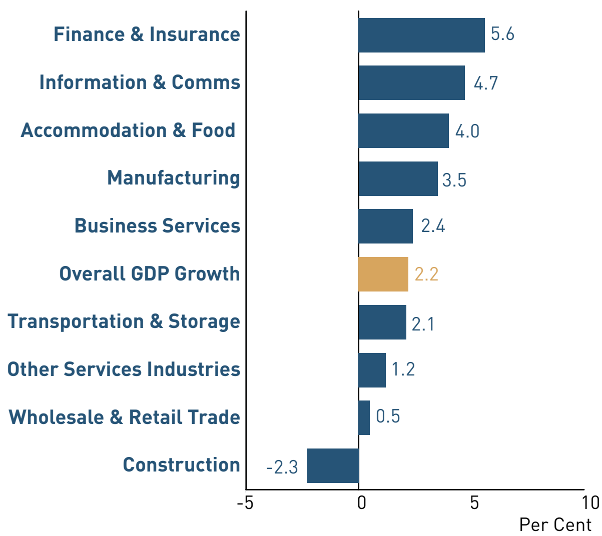
In the third quarter of 2018,

- The economy expanded by 2.2 per cent on a year-on-year basis. The sectors that contributed the most to GDP growth were the finance & insurance and manufacturing sectors.
- Total employment rose by 17,700 on a quarter-on-quarter basis, more than double the 6,500 increase in the second quarter. Excluding foreign domestic workers (FDWs), employment increased by 15,200.
- The seasonally-adjusted overall unemployment rate rose slightly in September 2018 as compared to June 2018, while that for residents and citizens remained unchanged. Retrenchments were lower than the previous quarter and the same period a year ago.
- The Consumer Price Index (CPI) rose by 0.7 per cent on a year-on-year basis, faster than the 0.3 per cent increase in the previous quarter.

OVERALL PERFORMANCE

The economy grew by 2.2 per cent on a year-on-year basis in the third quarter, slower than the 4.1 per cent growth in the previous quarter (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 3.0 per cent, faster than the 1.0 per cent growth in the preceding quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 3Q 2018



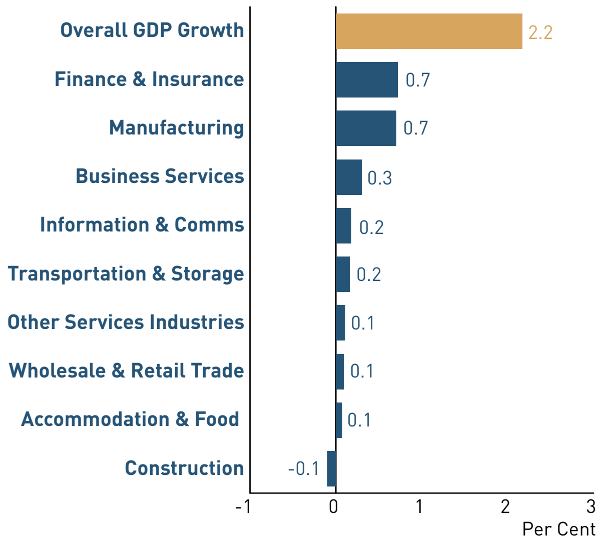
The manufacturing sector grew by 3.5 per cent year-on-year in the third quarter, moderating from the 11 per cent growth in the previous quarter. Growth during the quarter was broad-based, with all manufacturing clusters recording output expansions, except for the general manufacturing cluster.

The services producing industries expanded by 2.4 per cent year-on-year, easing from the 2.8 per cent growth in the preceding quarter. The finance & insurance sector posted the fastest pace of growth (5.6 per cent), followed by the information & communications (4.7 per cent) and accommodation & food services (4.0 per cent) sectors. The business services, transportation & storage, other services and wholesale & retail trade sectors also recorded positive growth rates of 2.4 per cent, 2.1 per cent, 1.2 per cent and 0.5 per cent respectively.

By contrast, the construction sector shrank by 2.3 per cent year-on-year, extending the 4.2 per cent decline in the previous quarter. The contraction was due to weakness in public sector construction activities.

The sectors that contributed the most to GDP growth in the third quarter were the finance & insurance and manufacturing sectors (Exhibit 1.2). Collectively, they accounted for 65 per cent of GDP growth during the quarter.

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 3Q 2018 (By Industry)



SOURCES OF GROWTH

Total demand rose by 4.3 per cent year-on-year in the third quarter, extending the 4.4 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 4.6 per cent, easing from the 4.8 per cent growth in the previous quarter. Domestic demand rose at a slightly faster pace of 3.2 per cent compared to 3.1 per cent in the previous quarter. This was due to a larger build-up of inventories and a faster pace of increase in public consumption expenditure.

Consumption expenditure increased by 3.3 per cent, slightly lower than the 3.4 per cent growth in the previous quarter. Consumption expenditure growth in the third quarter was supported by both public and private consumption, with the former rising by 2.6 per cent and the latter increasing by 3.4 per cent.

Meanwhile, gross fixed capital formation (GFCF) declined by 1.4 per cent, a reversal from the 3.1 per cent growth in the previous quarter. The contraction came on the back of a 2.4 per cent reduction in private GFCF, which was in turn due to reduced investment spending on transport equipment and residential buildings. On the other hand, public GFCF rose by 3.0 per cent, supported by higher investment spending on transport equipment and machinery & equipment.

*Exhibit 1.3: Changes in Total Demand**

	2017		2018		
	III	IV	I	II	III
Total Demand	5.5	4.9	3.9	4.4	**4.3**
External Demand	4.4	4.2	4.1	4.8	**4.6**
Total Domestic Demand	8.5	6.6	3.4	3.1	**3.2**
Consumption Expenditure	5.7	4.4	4.5	3.4	**3.3**
Public	7.1	0.5	8.4	2.5	**2.6**
Private	5.3	5.5	3.2	3.7	**3.4**
Gross Fixed Capital Formation	-2.7	2.2	-0.9	3.1	**-1.4**
Changes in Inventories	4.1	2.4	0.6	0.0	**1.2**

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

LABOUR MARKET

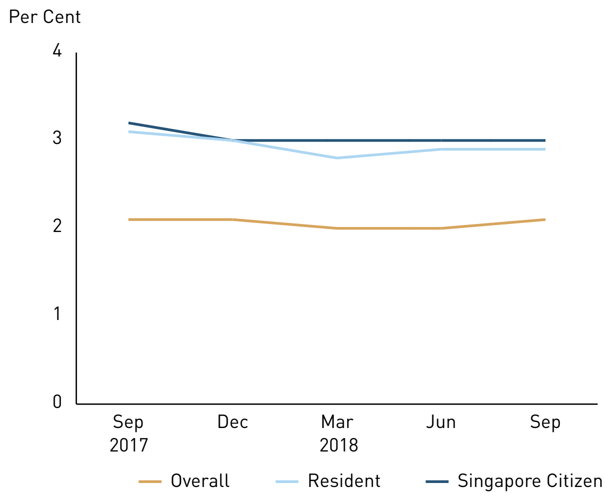
Unemployment and Retrenchment[1]

Between June and September 2018, the seasonally-adjusted unemployment rate at the overall level rose slightly (from 2.0 per cent to 2.1 per cent), while that for residents (2.9 per cent) and citizens (3.0 per cent) remained unchanged (Exhibit 1.4). These levels remained slightly elevated compared to the lows observed in March 2018, reflecting the continued inflow of job seekers into the labour market.

In September 2018, an estimated 67,000 residents were unemployed, higher than the 66,600 in June 2018. On the other hand, the number of citizens who were unemployed remained broadly similar in June and September 2018, at 59,000 and 59,100 respectively.[2]

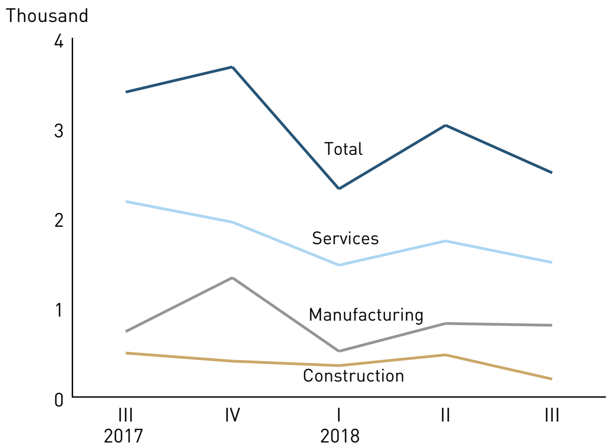
1 *Figures pertain to private sector establishments with at least 25 employees and the public sector.*
2 *Based on seasonally-adjusted data on the number of unemployed persons.*

Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)



Total retrenchments came in at around 2,500 in the third quarter. This was lower than the 3,030 recorded in the previous quarter and the 3,400 registered in the same period a year ago (Exhibit 1.5). Retrenchments fell across all broad sectors between the second and third quarters – from 820 to 800 in the manufacturing sector, 470 to 200 in the construction sector, and 1,740 to 1,500 in the services sector.

Exhibit 1.5: Retrenchments



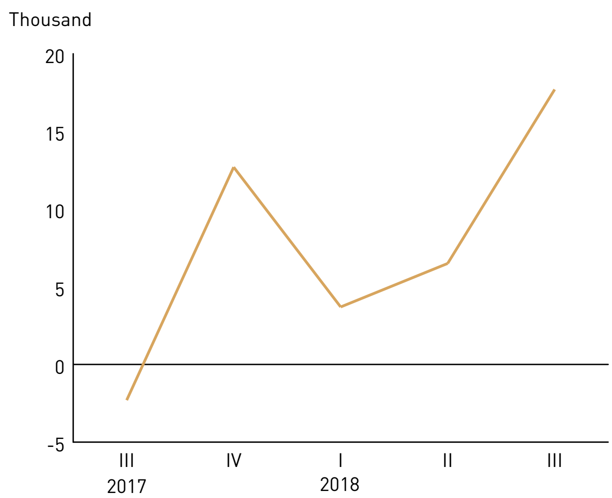
EMPLOYMENT[3]

Total employment rose by 17,700 on a quarter-on-quarter basis in the third quarter, more than double the 6,500 increase in the preceding quarter and a reversal from the 2,300 decline recorded in the same quarter a year ago (Exhibit 1.6). The increase in total employment came on the back of employment growth in both the manufacturing and services sectors, while the pace of employment decline in the construction sector moderated. Excluding FDWs, employment rose by 15,200 in the third quarter.

By broad sectors, employment in the manufacturing sector rose by 3,500 on a quarter-on-quarter basis in the third quarter, after fifteen consecutive quarters of decline (Exhibit 1.7). Employment in the services producing industries rose by 14,800 (12,300 excluding FDWs) over the same period, with the other services (5,200), information & communications (2,700) and finance & insurance (2,500) sectors contributing the most to the increase.

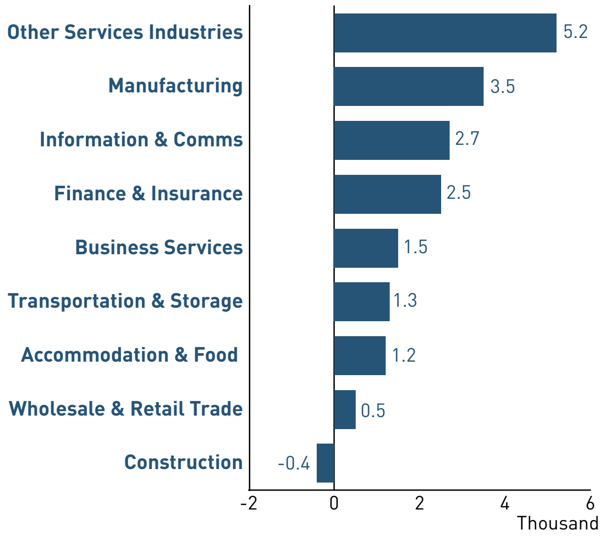
By contrast, construction employment fell by 400 in the third quarter, registering the tenth consecutive quarter of decline. This reflected the weakness in construction activities. However, the pace of decline was slower than that of previous quarters.

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



3 Based on preliminary estimates.

Exhibit 1.7: Changes in Employment by Industry in 3Q 2018



HIRING EXPECTATIONS

According to EDB's Business Expectations Survey for the Manufacturing Sector, a net weighted balance of 1 per cent of manufacturers expected to hire fewer workers in the fourth quarter of 2018 as compared to the third quarter. Firms in the machinery & systems segment of the precision engineering cluster and the printing segment of the general manufacturing cluster had the weakest hiring sentiments, with a net weighted balance of 14 per cent and 11 per cent of firms in the respective segments expecting lower levels of hiring in the fourth quarter. By contrast, firms in the computer peripherals segment of the electronics cluster and the medical technology segment of the biomedical manufacturing cluster 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 fourth 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 fourth quarter of 2018 as compared to the third quarter. In particular, a net weighted balance of 35 per cent of firms in the retail trade segment and 17 per cent of firms in the food & beverage services segment expected to hire more workers in the fourth quarter, partly because of the year-end festivities.

COMPETITIVENESS

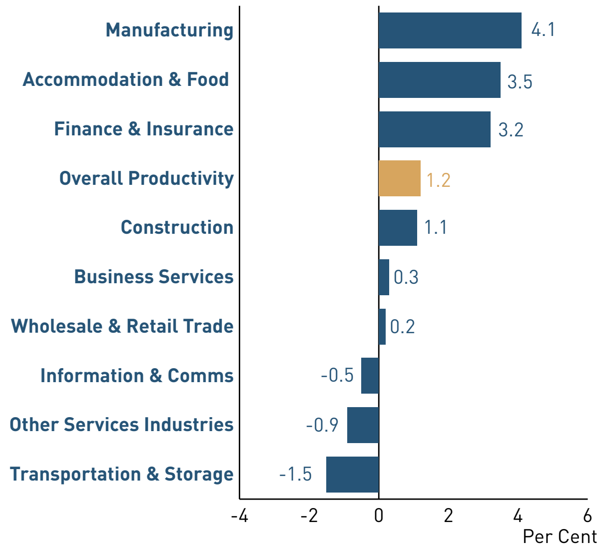
Productivity

Overall labour productivity, as measured by real value-added per worker[4], increased by 1.2 per cent in the third quarter compared to the same period a year ago (Exhibit 1.8). This was slower than the 3.6 per cent increase recorded in the second quarter. The slowdown in productivity growth can be attributed to the moderation in GDP growth and pickup in employment during the third quarter.

The manufacturing (4.1 per cent), accommodation & food services (3.5 per cent) and finance & insurance (3.2 per cent) sectors saw the highest productivity growth rates in the third quarter. By contrast, the transportation & storage (-1.5 per cent) and other services (-0.9 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 1.2 per cent in the third quarter, slower than the 4.4 per cent growth in the previous quarter.[5] For domestically-oriented sectors, productivity rose by 0.9 per cent, an improvement from the 0.4 per cent increase in the preceding quarter.

Exhibit 1.8: Changes in Value-added per Worker for the Overall Economy and Sectors in 3Q 2018

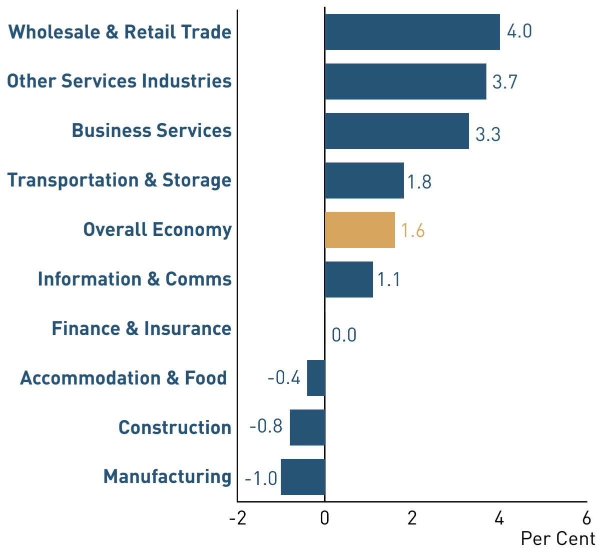


4 *Real value-added per actual hour worked is currently only available on an annual basis.*
5 *Based on MTI estimates. Outward-oriented sectors refer to manufacturing, wholesale trade, transportation & storage, accommodation, information & communications, finance & insurance and professional services. 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 rose by 1.6 per cent on a year-on-year basis in the third quarter, higher than the 0.6 per cent increase in the previous quarter (Exhibit 1.9). The rise in the overall ULC was due to increases in total labour cost per worker that exceeded the gains in labour productivity.

Exhibit 1.9: Changes in Unit Labour Cost in 3Q 2018



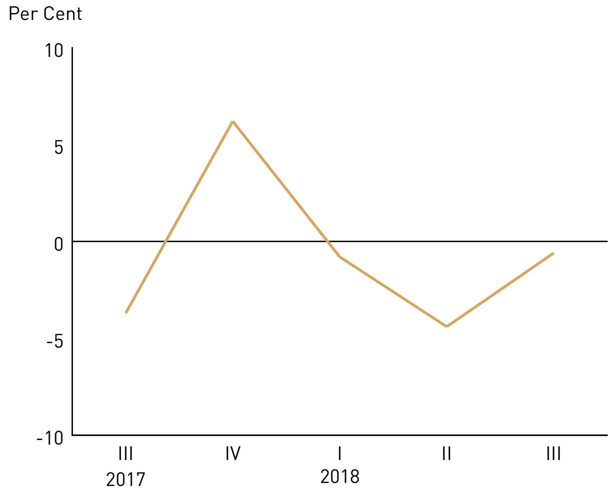
By sectors, the ULC for the manufacturing sector fell by 1.0 per cent year-on-year, the eleventh consecutive quarter of decline, on the back of strong productivity gains in the sector.

On the other hand, the ULC for services producing industries rose by 2.6 per cent, a moderation from the 3.0 per cent increase in the previous quarter. Most services sectors saw increases in their ULCs, with the exception of the accommodation & food services sector where productivity gains outweighed the rise in total labour cost per worker.

Meanwhile, construction ULC fell by 0.8 per cent, a reversal from the 0.8 per cent increase in the preceding quarter, as productivity growth outpaced the rise in total labour cost per worker in the sector.

Unit business cost (UBC) for the manufacturing sector fell by 0.6 per cent year-on-year in the third quarter, extending the 4.4 per cent decline in the previous quarter (Exhibit 1.10). The decline came on the back of decreases in both the manufacturing ULC (-1.0 per cent) and the unit services cost (-0.4 per cent). On the other hand, unit non-labour production taxes rose (2.3 per cent).

Exhibit 1.10: Changes in Unit Business Cost for Manufacturing

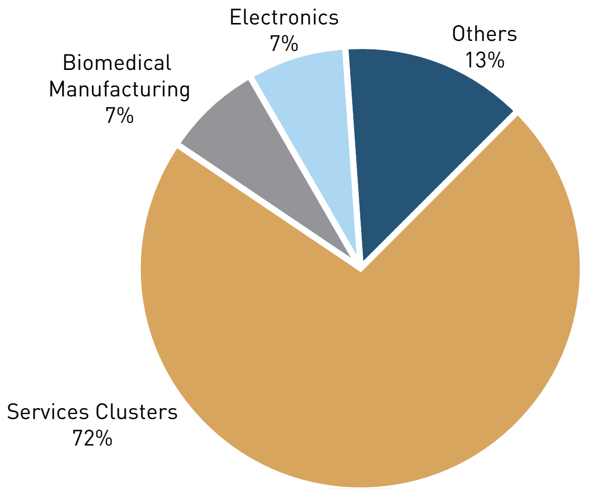


Investment Commitments

Investment commitments in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $1.5 billion and $1.1 billion respectively in the third quarter (Exhibit 1.11 and Exhibit 1.12).

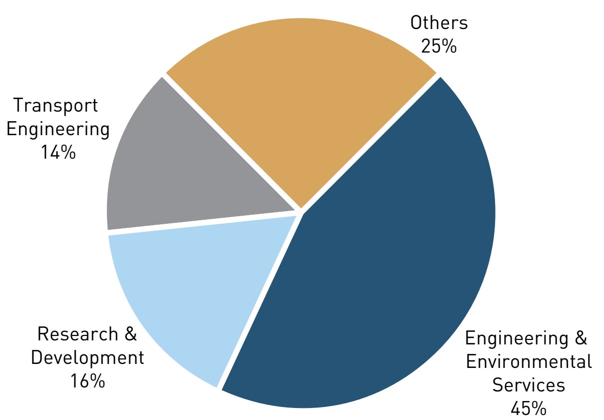
In terms of FAI, the largest contribution came from the services clusters, which garnered $1.1 billion in commitments, mainly from the engineering & environmental services cluster. Within manufacturing, the electronics cluster attracted the highest amount of commitments, at $110 million. Investors from Europe were the largest contributor to total FAI commitments, with $854 million of FAI commitments (57 per cent). They were followed by investors from Asia Pacific (ex-Japan), who contributed about $270 million of FAI commitments (18 per cent).

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 3Q 2018



In terms of TBE, the engineering & environmental services cluster attracted the highest amount of commitments, at $476 million, followed by the research & development cluster with $173 million. Investors from Asia Pacific (ex-Japan) contributed the most to total TBE, at $546 million (51 per cent), followed by investors from the United States at $214 million (20 per cent).

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 3Q 2018



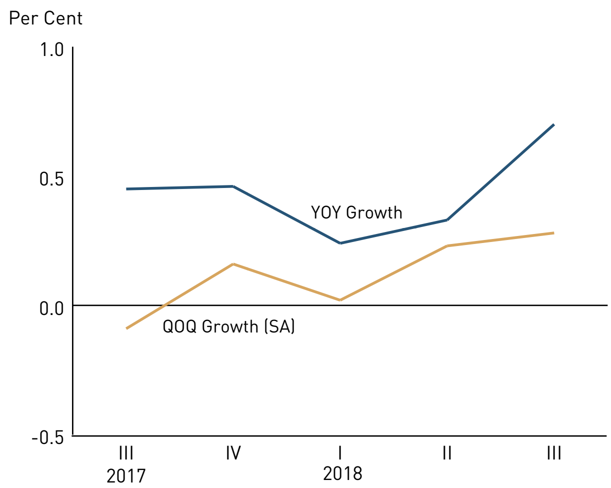
When fully realised, these commitments are expected to generate value-added of $2.4 billion and more than 3,900 jobs.

PRICES

Consumer Price Index

The Consumer Price Index-All Items (CPI-All Items) rose by 0.7 per cent on a year-on-year basis in the third quarter, faster than the 0.3 per cent increase in the preceding quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, the CPI-All Items increased by 0.3 per cent, slightly higher than the 0.2 per cent increase in the second quarter.

Exhibit 1.13: Changes in CPI-All Items



Among the CPI categories, food was the largest positive contributor to CPI-All Items inflation in the third quarter, with prices rising by 1.6 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 fruits, fish & seafood and bread & cereals (Exhibit 1.14). Meanwhile, education costs rose by 2.6 per cent on account of higher fees at kindergartens & childcare centres, commercial institutions, universities and polytechnics.

Healthcare costs increased by 2.0 per cent due to more expensive hospital services and outpatient services. Recreation & culture costs climbed by 1.5 per cent on the back of a rise in the cost of holiday travel. Prices of miscellaneous goods & services picked up by 1.1 per cent as the result of an increase in cigarette prices. The costs of household durables & services rose by 0.7 per cent as an increase in the salaries of foreign maids outweighed a dip in the prices of household durables. Clothing & footwear costs went up by 2.3 per cent due to more expensive ready-made garments and footwear.

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

Per Cent

	2017		2018		
	III	IV	I	II	III
All items	0.4	0.5	0.2	0.3	**0.7**
Food	1.3	1.4	1.3	1.4	**1.6**
Clothing & Footwear	1.6	0.4	1.0	1.0	**2.3**
Housing & Utilities	-2.4	-2.4	-2.6	-2.0	**-0.7**
Household Durables & Services	1.0	1.0	0.9	0.8	**0.7**
Health Care	2.6	2.0	2.3	2.2	**2.0**
Transport	1.5	1.7	0.3	-0.1	**-0.2**
Communication	0.6	1.0	-0.1	-0.7	**-1.0**
Recreation & Culture	0.2	0.6	1.0	1.1	**1.5**
Education	2.7	2.6	2.9	2.9	**2.6**
Miscellaneous Goods & Services	0.4	0.2	0.6	0.9	**1.1**

The price gains in these CPI categories were partially offset by price declines in other categories. Housing & utilities costs posed the largest drag on CPI-All Items inflation, declining by 0.7 per cent as a fall in accommodation costs more than offset higher electricity tariffs and water prices, as well as higher housing maintenance charges. Likewise, communication costs fell by 1.0 per cent due to a drop in the cost of telecommunication services and equipment. Transport costs edged down by 0.2 per cent as lower car prices and bus & train fares outweighed higher petrol prices.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade expanded by 15 per cent year-on-year in the third quarter, following the 10 per cent growth in the preceding quarter (Exhibit 1.15). The increase was supported by both oil and non-oil trade. Oil trade rose by 28 per cent in nominal terms on the back of higher oil prices compared to a year ago, while non-oil trade expanded by 12 per cent.

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

Per Cent

	2017			2018		
	III	IV	Ann	I	II	III
Merchandise Trade	11.6	7.8	11.1	2.5	10.2	**14.7**
Merchandise Exports	10.1	6.6	10.3	2.3	9.3	**12.7**
Domestic Exports	11.0	15.3	15.8	3.5	12.9	**14.5**
Oil	19.3	26.1	33.4	8.6	20.4	**28.9**
Non-Oil	7.6	10.4	8.8	1.1	9.3	**8.0**
Re-Exports	9.3	-1.3	5.2	0.9	5.7	**11.1**
Merchandise Imports	13.4	9.1	12.1	2.8	11.1	**17.0**
Oil	26.3	30.5	41.6	3.7	26.3	**30.9**
Non-Oil	10.4	4.0	5.8	2.6	6.9	**13.4**

Total merchandise exports grew by 13 per cent in the third quarter, faster than the 9.3 per cent increase in the preceding quarter. This also marked the eighth consecutive quarter of growth, and was supported by increases in both domestic exports (15 per cent) and re-exports (11 per cent).

In turn, the increase in domestic exports was due to an expansion in both oil and non-oil domestic exports. In particular, oil domestic exports rose by 29 per cent on the back of higher oil prices compared to levels observed a year ago. In volume terms, oil domestic exports declined by 5.8 per cent.

Meanwhile, non-oil domestic exports (NODX) expanded by 8.0 per cent, following the 9.3 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 increased by 17 per cent in the third quarter, after posting growth of 11 per cent in the previous quarter. Both oil and non-oil merchandise imports grew. Oil imports expanded by 31 per cent on the back of higher oil prices, while non-oil imports rose by 13 per cent, driven by an increase in both electronics and non-electronics imports.

Services Trade

Total services trade expanded by 3.0 per cent year-on-year in the third quarter, extending the 2.9 per cent growth in the previous quarter (Exhibit 1.16). Services exports grew by 3.3 per cent, after recording growth of 3.2 per cent in the second quarter. The increase in services exports was largely attributable to the rise in receipts from charges for the use of intellectual property, as well as higher exports of other business services and financial services. Meanwhile, services imports rose by 2.7 per cent, a slight increase from the 2.6 per cent growth in the preceding quarter. The rise in services imports was mainly due to higher imports of other business services and insurance services.

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

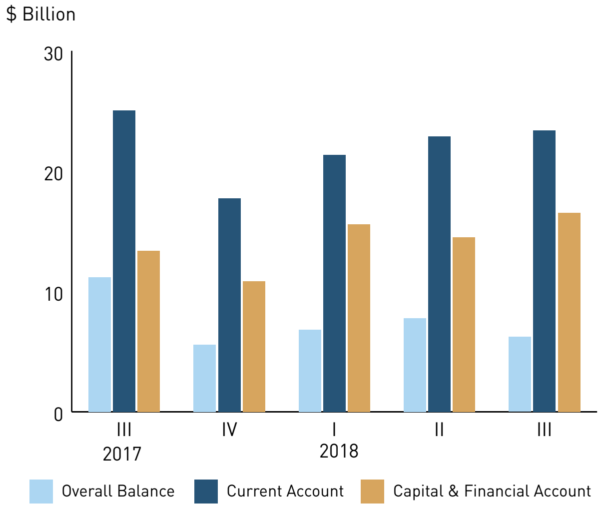
Per Cent

	2017			2018		
	III	IV	Ann	I	II	III
Total Services Trade	6.6	4.1	4.7	4.5	2.9	**3.0**
Services Exports	5.3	3.2	4.2	5.5	3.2	**3.3**
Services Imports	7.9	5.0	5.1	3.7	2.6	**2.7**

BALANCE OF PAYMENTS

The overall balance of payments recorded a smaller surplus of $6.2 billion in the third quarter, compared to the $7.8 billion surplus in the second quarter (Exhibit 1.17). This occurred as net outflows from the capital and financial account increased, even as the current account surplus was broadly unchanged.

Exhibit 1.17: Balance of Payments[6]



Current Account

The current account surplus was stable at $23 billion in the third quarter. Although the goods account surplus rose, it was mostly offset by a larger primary income deficit. Meanwhile, the deficits in the services and secondary income balances were almost unchanged.

The surplus in the goods balance increased by $1.0 billion to $32 billion in the third quarter, as goods exports rose more than imports.

The deficit in the services balance widened slightly from $1.4 billion in the second quarter to $1.5 billion in the third quarter. Although net payments for travel services fell and net receipts of maintenance & repair services rose, their impact was more than offset by higher net payments for telecommunications, computer & information services and other business services, as well as the reversal of transport services from net receipts to net payments.

The deficit in the primary income balance widened to $5.0 billion in the third quarter from $4.5 billion in the second quarter, as primary income payments rose faster than receipts.

6 *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 increased to $17 billion in the third quarter, from $15 billion in the previous quarter. This was due to a rise in the net outflows of other investment, which outweighed higher net inflows of direct investment and lower net outflows of portfolio investment.

Net inflows of direct investment reached $21 billion, up from $8.3 billion in the second quarter. This primarily reflected an increase in foreign direct investment into Singapore.

Meanwhile, net outflows of portfolio investment declined by $1.8 billion to $8.0 billion in the third quarter. The net sales of foreign securities by domestic deposit-taking corporations increased, exceeding the higher net acquisition of overseas securities by both the non-bank and official sectors.

By contrast, net outflows from the "other investment" account rose by $16 billion to $29 billion in the third quarter. This was mainly due to a reversal of the non-bank private sector from a net inflow to net outflow position, which more than offset the switch from a net outflow to net inflow position for domestic deposit-taking corporations.

At the same time, financial derivatives turned to a small net outflow position in the third quarter, following net inflows of $0.1 billion in the second quarter.