Image courtesy of Ministry of Communications and Information

CHAPTER 1

THE SINGAPORE ECONOMY

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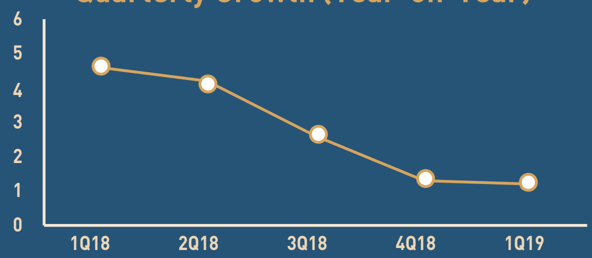
ECONOMIC PERFORMANCE

Real GDP grew by

1.2% in 1Q19

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 1Q19

Finance & Insurance

0.4%-point contribution

Business Services

0.3%-point contribution

These sectors accounted for

63% of GDP growth

LABOUR MARKET

Resident Unemployment Rate

3.0% in 1Q19

Employment (Q-O-Q Change)

+14,700 employed

Sectors with the Highest Employment Growth in 1Q19

+8,200 employed
Other Services Industries

+5,700 employed
Business Services

+2,300 employed
Finance & Insurance

PRODUCTIVITY

Value-Added per Actual Hour Worked grew by

0.1% in 1Q19

Sectors with the Highest Growth in Value-Added per Actual Hour Worked in 1Q19

4.9%
Construction

4.7%
Accommodation & Food Services

COSTS

Overall Unit Labour Cost increased by

2.1% in 1Q19

Within the manufacturing sector

- -3.5% Unit Business Cost
- 1.0% Unit Labour Cost

PRICES

The Consumer Price Index (CPI) rose by

0.5% in 1Q19

Categories with Price Increases

- 2.8% Education
- 1.6% Health Care
- 1.5% Food

Quarterly Growth (Year-on-Year)

INTERNATIONAL TRADE

Total Merchandise Exports registered flat growth in 1Q19

- 6.8% Re-exports
- -6.4% Non-Oil Domestic Exports
- -6.5% Oil Domestic Exports

Total Services Exports rose by

0.4% in 1Q19

Main Drivers of Services Export Growth were...

- 1.2%-pt Other Business Services
- 0.7%-pt Insurance Services
- 0.3%-pt Transport Services

OVERVIEW

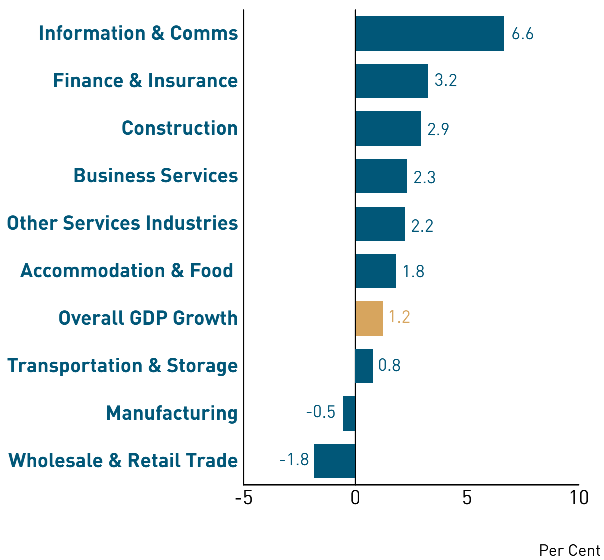
In the first quarter of 2019,

- The economy expanded by 1.2 per cent compared to the same period in 2018. The sectors that contributed the most to GDP growth were the finance & insurance and business services sectors.
- The seasonally-adjusted overall and resident unemployment rates remained unchanged while that for citizens increased slightly in March 2019 as compared to December 2018. Total retrenchments were similar to that recorded in the preceding quarter, but slightly higher compared to the same period a year ago.
- Total employment increased by 14,700 on a quarter-on-quarter basis, higher than the increase of 3,700 registered in the same period last year. Excluding foreign domestic workers, employment rose by 12,000, significantly higher than the increase of 400 in the same quarter a year ago. The rise in total employment in the first quarter was largely driven by employment growth in the services sector.
- The Consumer Price Index-All Items (CPI-All Items) rose by 0.5 per cent on a year-on-year basis, the same pace of increase as in the previous quarter.

OVERALL PERFORMANCE

The economy grew by 1.2 per cent on a year-on-year basis in the first quarter, slightly lower than the 1.3 per cent growth in the previous quarter (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 3.8 per cent, a turnaround from the 0.8 per cent decline in the preceding quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 1Q 2019

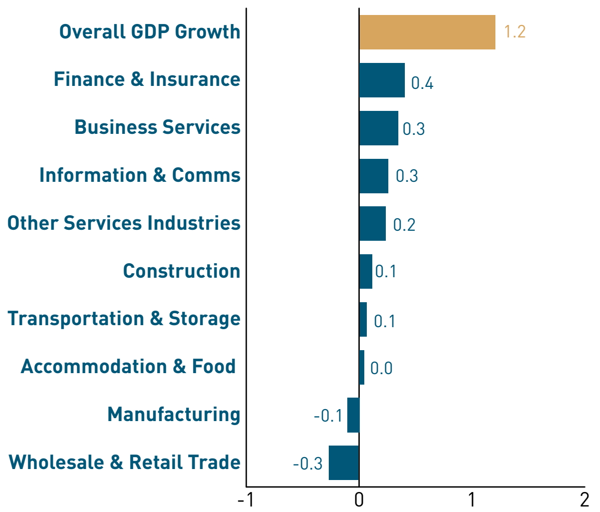


The manufacturing sector contracted by 0.5 per cent on a year-on-year basis in the first quarter, as compared to the 4.6 per cent growth recorded in the previous quarter. The contraction was due to output declines in the precision engineering and electronics clusters, which outweighed output expansions in the biomedical manufacturing, transport engineering, general manufacturing and chemicals clusters.

The services producing industries expanded by 1.5 per cent year-on-year, unchanged from the previous quarter. The information & communications sector posted the strongest pace of growth (6.6 per cent), followed by the finance & insurance (3.2 per cent) and business services (2.3 per cent) sectors. The "other services industries", accommodation & food services and transportation & storage sectors also recorded positive growth of 2.2 per cent, 1.8 per cent and 0.8 per cent respectively. By contrast, the wholesale & retail trade sector contracted by 1.8 per cent.

The construction sector grew by 2.9 per cent year-on-year, reversing the 1.2 per cent decline in the previous quarter. This also represented the first quarter of positive year-on-year growth after ten consecutive quarters of negative growth. Construction output growth during the quarter was supported by increases in both public sector and private sector construction works.

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 1Q 2019 (By Industry)



The sectors that contributed the most to GDP growth in the first quarter were the finance & insurance and business services sectors (Exhibit 1.2). Collectively, they accounted for 63 per cent of overall GDP growth during the quarter.

SOURCES OF GROWTH

Total demand fell by 0.5 per cent on a year-on-year basis in the first quarter, reversing the 0.9 per cent growth in the previous quarter (Exhibit 1.3). Total demand was weighed down by external demand, which declined by 2.1 per cent year-on-year, as compared to the 1.4 per cent growth in the preceding quarter.

On the other hand, domestic demand expanded by 3.4 per cent year-on-year, a turnaround from the 0.2 per cent contraction in the previous quarter. This was due to a faster pace of increase in private consumption expenditure and a build-up in inventories.

Within domestic demand, gross fixed capital formation (GFCF) declined by 0.4 per cent year-on-year, moderating from the 4.4 per cent contraction in the previous quarter. This came on the back of a 0.9 per cent decline in private sector GFCF, which was in turn weighed down by lower investment spending on machinery & equipment. By contrast, public sector GFCF registered a 1.6 per cent increase, supported by growth in investment spending in public construction & works.

*Exhibit 1.3: Changes in Total Demand**

	2018				2019
	I	II	III	IV	I
Total Demand	5.6	6.3	3.3	0.9	**-0.5**
External Demand	7.1	8.1	4.2	1.4	**-2.1**
Total Domestic Demand	2.2	2.1	0.8	-0.2	**3.4**
Consumption Expenditure	4.3	3.1	2.3	2.5	**3.9**
Public	7.3	3.2	1.5	3.8	**2.9**
Private	3.2	3.1	2.6	2.2	**4.2**
Gross Fixed Capital Formation	-2.6	-1.5	-7.5	-4.4	**-0.4**
Changes in Inventories	0.3	0.6	1.5	-0.2	**0.7**

* *For inventories, this refers to the contribution to GDP growth.*

Contrary to GFCF, consumption expenditure grew by 3.9 per cent year-on-year, a faster pace of increase as compared to the 2.5 per cent growth in the previous quarter. Growth during the quarter was largely driven by a 4.2 per cent increase in private consumption, while public consumption growth came in at 2.9 per cent.

LABOUR MARKET

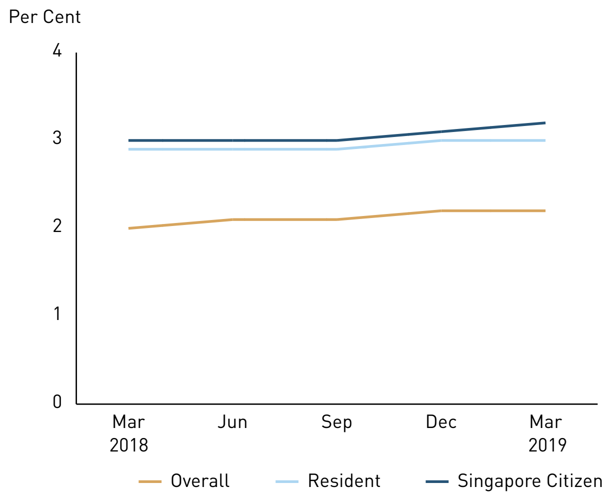
Unemployment and Retrenchment[1]

The seasonally-adjusted unemployment rate remained unchanged at the overall level (2.2 per cent) and for residents (3.0 per cent) between December 2018 and March 2019. However, there was a slight uptick in the citizen unemployment rate (from 3.1 per cent to 3.2 per cent) over the same period (Exhibit 1.4). The overall, resident and citizen unemployment rates in March 2019 were all higher when compared to the same period a year ago.

In March 2019, an estimated 69,400 residents were unemployed, slightly lower than the 69,600 residents in December 2018. Conversely, the number of unemployed Singapore citizens increased from 60,300 to 61,900 over the same period.[2]

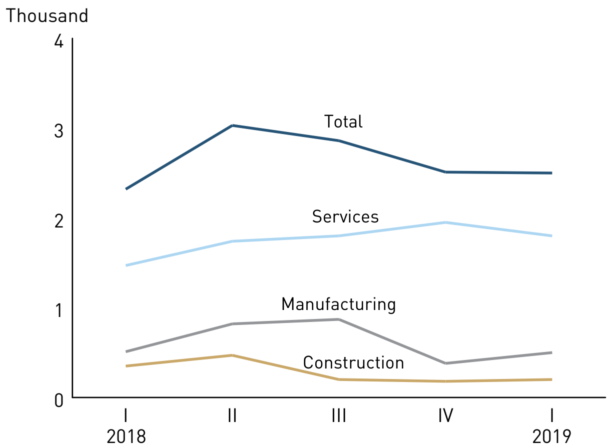
1 *Figures pertain to private sector establishments with at least 25 employees and the public sector.*
2 *Based on seasonally-adjusted data on the number of unemployed persons.*

Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)



Total retrenchments came in at around 2,500 in the first quarter, similar to the 2,510 recorded in the preceding quarter, but slightly higher than the 2,320 observed in the same period a year ago (Exhibit 1.5). By broad sectors, retrenchments in the services sector fell from the 1,950 seen in the fourth quarter of last year to 1,800 in the first quarter. On the other hand, retrenchments increased in the manufacturing (from 380 to 500) and construction (from 180 to 200) sectors over the same period.

Exhibit 1.5: Retrenchments



Employment[3]

Total employment rose by 14,700 on a quarter-on-quarter basis in the first quarter, higher than the increase of 3,700 registered in the same quarter a year ago (Exhibit 1.6). Excluding foreign domestic workers (FDWs), employment increased by 12,000 in the first quarter. Total employment gains during the quarter came on the back of employment growth in the services and construction sectors.

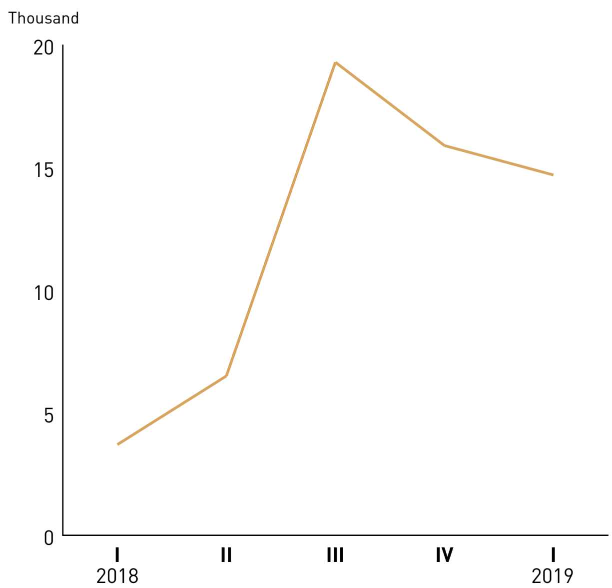
In particular, employment in the overall services sector rose by 17,000 (14,300 excluding FDWs) in the first quarter, with the other services (8,200) and business services (5,700) sectors contributing the most to the increase (Exhibit 1.7). Supported by an improvement in both public and private sector construction activities, employment in the construction sector also rose slightly by 100 in the first quarter, reversing eleven consecutive quarters of decline.

By contrast, employment in the manufacturing sector declined by 2,500 in the first quarter, marking the second consecutive quarter of contraction.

Hiring Expectations

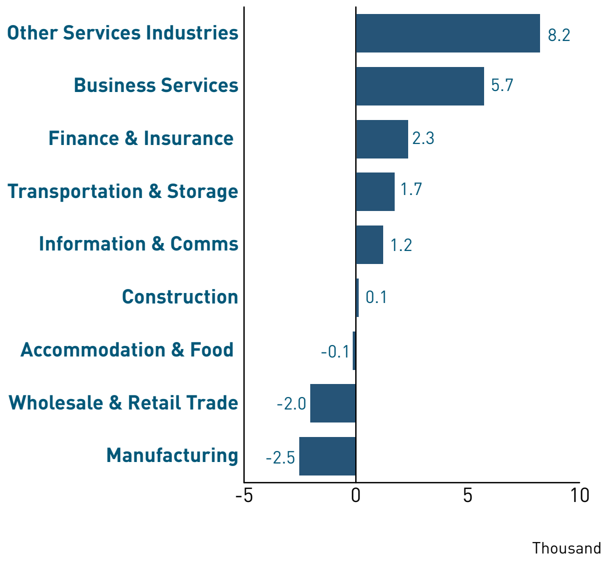
According to EDB's Business Expectations Survey for the Manufacturing Sector, hiring expectations in the sector remained subdued as a net weighted balance of 0 per cent of manufacturers expected to increase hiring in the second quarter of 2019, as compared to the first quarter. Hiring sentiments were optimistic in the pharmaceuticals segment of the biomedical manufacturing cluster and the marine & offshore engineering segment of the transport engineering cluster, with a net weighted balance of 13 per cent and 12 per cent of firms in the respective segments expecting to increase hiring in the second quarter. By contrast, firms in the infocomms & consumer electronics segment of the electronics cluster and the printing segment of the general manufacturing cluster were the most pessimistic, with a net weighted balance of 14 per cent and 11 per cent of firms expecting lower levels of hiring respectively.

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



3 *Based on preliminary estimates.*

Exhibit 1.7: Changes in Employment by Industry in 1Q 2019



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 2 per cent of services firms expected to increase hiring in the second quarter of 2019. In particular, a net weighted balance of 10 per cent of firms in the recreation, community & personal services industry, and 8 per cent of firms in the information & communications industry expected to hire more workers in the second quarter.

COMPETITIVENESS

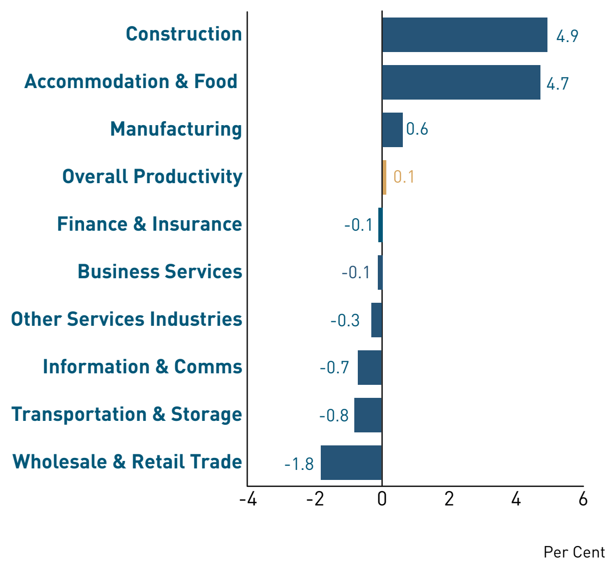
Productivity

Overall labour productivity, as measured by real value-added per actual hour worked, grew by 0.1 per cent on a year-on-year basis in the first quarter (Exhibit 1.8).[4] This was lower than the 0.8 per cent growth recorded in the previous quarter, in line with the moderation in GDP growth over the same period.

The construction (4.9 per cent) and accommodation & food services (4.7 per cent) sectors saw the highest productivity growth in the first quarter. By contrast, the wholesale & retail trade (-1.8 per cent) and transportation & storage (-0.8 per cent) sectors experienced declines in productivity.

Outward-oriented sectors as a whole achieved weaker productivity growth than domestically-oriented sectors in the first quarter, given the external headwinds facing these sectors. Compared to the same period last year, the productivity of outward-oriented sectors fell by 0.8 per cent in the first quarter, a reversal from the 1.6 per cent growth in the previous quarter.[5] For domestically-oriented sectors, productivity rose by 1.0 per cent, higher than the 0.3 per cent increase in the previous quarter.

Exhibit 1.8: Changes in Value-Added per Actual Hour Worked for the Overall Economy and Sectors in 1Q 2019



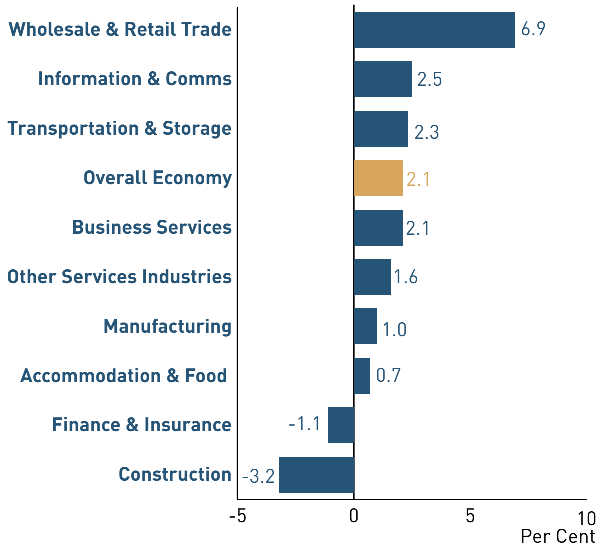
4 *Overall labour productivity, as measured by real value-added per worker, fell by 0.3 per cent in the first quarter, a reversal from the 0.1 per cent increase in the preceding quarter. The stronger growth in real value-added per actual hour worked compared to real value-added per worker was due to a fall in the number of actual hours worked per worker.*

5 *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 2.1 per cent on a year-on-year basis in the first quarter, higher than the 1.4 per cent increase in the preceding quarter (Exhibit 1.9). The rise in the overall ULC was due to an increase in total labour cost per worker and a fall in labour productivity, as measured by real value-added per worker.

Exhibit 1.9: Changes in Unit Labour Cost in 1Q 2019

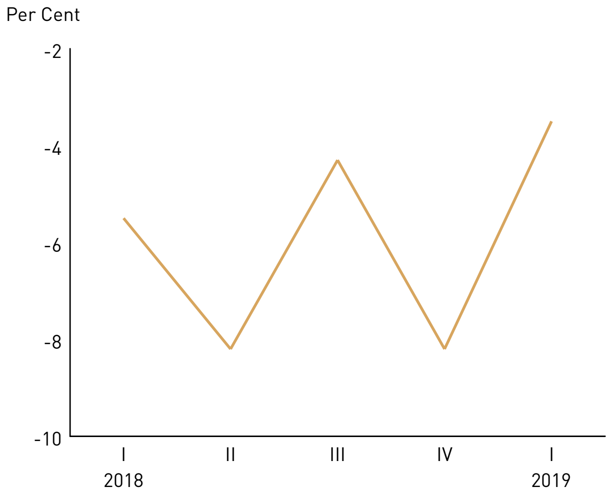


By sectors, the ULC for the manufacturing sector rose by 1.0 per cent year-on-year, reversing twelve consecutive quarters of decline. This occurred on the back of negative productivity growth in the sector in the first quarter. The ULC for services producing industries rose by 2.6 per cent, unchanged from the increase posted in the previous quarter. Most services sectors saw increases in their ULCs, with the exception of the finance & insurance sector, which experienced a fall in its ULC.

On the other hand, construction ULC fell by 3.2 per cent, sharper than the 0.9 per cent decline in the previous quarter, as labour productivity growth for the sector outpaced the increase in total labour cost per worker.

Unit business cost (UBC) for the manufacturing sector fell by 3.5 per cent year-on-year in the first quarter, extending the 8.2 per cent decrease in the previous quarter (Exhibit 1.10). The decline in the manufacturing UBC was mainly due to a 5.6 per cent drop in the unit services cost (which includes royalties, utilities and other services costs such as professional and advertising fees), which outweighed the 1.0 per cent increase in the manufacturing ULC.

Exhibit 1.10: Changes in Unit Business Cost for Manufacturing

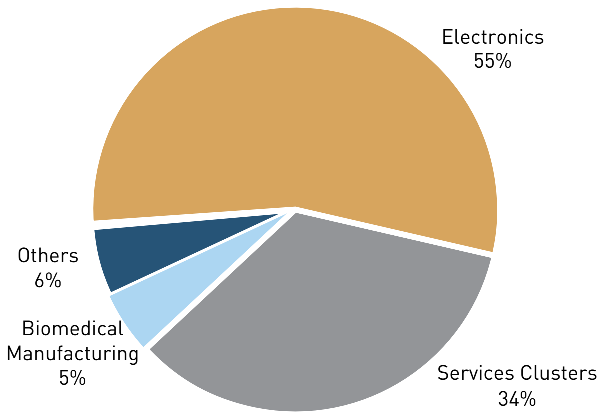


Investment Commitments

Investment commitments in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $3.8 billion and $3.6 billion respectively in the first quarter (Exhibit 1.11 and Exhibit 1.12).

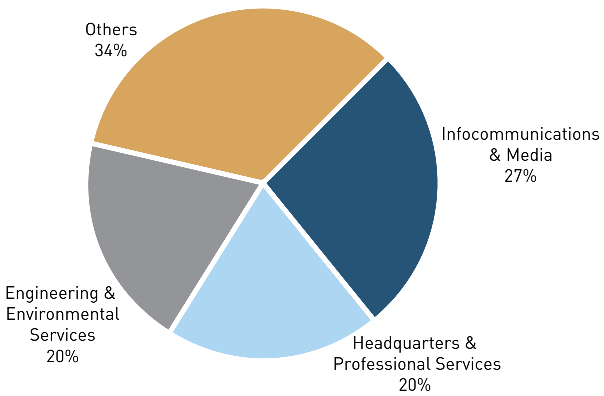
In terms of FAI, the largest contribution came from the manufacturing sector. Within the manufacturing sector, the electronics cluster garnered the largest amount of commitments, at $2.1 billion. On the other hand, the services clusters attracted $1.3 billion in commitments. Investors from Europe were the largest source of FAI commitments, with commitments of $1.7 billion (45 per cent). They were followed by investors from the United States who contributed $1.3 billion of FAI commitments (33 per cent).

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 1Q 2019



In terms of TBE, the infocommunications & media cluster attracted the largest amount of commitments, at $968 million, followed by the engineering & environmental services cluster, at $737 million. Investors from the United States contributed the most to total TBE, at $1.7 billion (47 per cent), followed by European investors, at $851 million (23 per cent).

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 1Q 2019



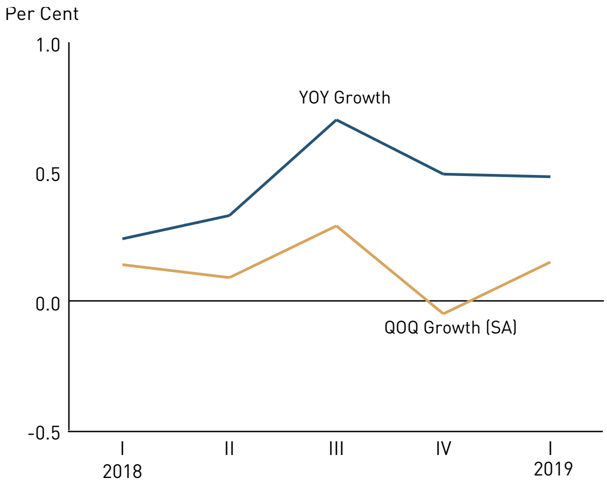
When fully realised, these commitments are expected to generate value-added amounting to $8.1 billion and more than 18,000 jobs.

PRICES

Consumer Price Index

The Consumer Price Index-All Items (CPI-All Items) rose by 0.5 per cent on a year-on-year basis in the first quarter, the same pace of increase as in the preceding quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, the CPI-All Items increased by 0.2 per cent in the first quarter, after remaining unchanged in the previous quarter.

Exhibit 1.13: Changes in CPI-All Items



Among the CPI categories, food was the largest positive contributor to headline inflation in the first quarter, with prices rising by 1.5 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 bread & cereals, fruits and fish & seafood (Exhibit 1.14). Meanwhile, education costs rose by 2.8 per cent due to higher fees at commercial institutions, kindergartens & childcare centres, universities and polytechnics.

At the same time, healthcare costs increased by 1.6 per cent as an increase in the costs of hospital and outpatient services more than offset a fall in the prices of medical products. Recreation & culture costs picked up by 0.9 per cent due to a rise in the cost of holiday travel. Prices of miscellaneous goods & services increased by 0.8 per cent as the prices of cigarettes and personal care items rose. Clothing & footwear costs went up by 1.2 per cent on account of more expensive ready-made garments and footwear. Prices of household durables & services rose by 0.6 per cent because of an increase in the salaries of foreign maids.

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

Per Cent

	2018				2019
	I	II	III	IV	I
All items	0.2	0.3	0.7	0.5	**0.5**
Food	1.3	1.4	1.6	1.4	**1.5**
Clothing & Footwear	1.0	1.0	2.3	1.6	**1.2**
Housing & Utilities	-2.6	-2.0	-0.7	0.0	**-0.4**
Household Durables & Services	0.9	0.8	0.7	0.8	**0.6**
Health Care	2.3	2.2	2.0	1.7	**1.6**
Transport	0.3	-0.1	-0.2	-2.0	**-1.1**
Communication	-0.1	-0.7	-1.0	-2.3	**-2.1**
Recreation & Culture	1.0	1.1	1.5	1.2	**0.9**
Education	2.9	2.9	2.6	3.2	**2.8**
Miscellaneous Goods & Services	0.6	0.9	1.1	1.3	**0.8**

The price gains in these CPI categories were partially offset by declines in other categories. Transport costs decreased by 1.1 per cent as a fall in the prices of cars, motorcycles & scooters as well as lower petrol prices more than offset higher bus & train fares. Housing & utilities costs dipped by 0.4 per cent as a decline in accommodation costs outweighed the increases in water and electricity prices as well as housing maintenance charges. Communications costs fell by 2.1 per cent due to a drop in the prices of telecommunication services and equipment.

INTERNATIONAL TRADE

Merchandise Trade

Total merchandise trade rose by 2.1 per cent on a year-on-year basis in the first quarter, slowing from the 9.2 per cent increase in the preceding quarter (Exhibit 1.15). The increase in total merchandise trade came on the back of a rise in non-oil trade, which outweighed a decline in oil trade. Oil trade decreased by 6.9 per cent, partly reflecting the fall in oil prices from levels observed year ago, while non-oil trade rose by 4.5 per cent.

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

Per Cent

	2018					2019
	I	II	III	IV	Ann	I
Merchandise Trade	2.5	10.2	14.7	9.2	9.2	**2.1**
Merchandise Exports	2.3	9.3	12.7	7.2	7.9	**0.0**
Domestic Exports	3.5	12.9	14.5	3.4	8.4	**-6.4**
Oil	8.6	20.4	28.9	12.1	17.1	**-6.5**
Non-Oil	1.1	9.3	8.0	-1.1	4.2	**-6.4**
Re-Exports	0.9	5.7	11.1	11.2	7.4	**6.8**
Merchandise Imports	2.8	11.1	17.0	11.5	10.6	**4.6**
Oil	3.7	26.3	30.9	16.9	18.9	**-4.3**
Non-Oil	2.5	6.9	13.4	9.9	8.3	**7.4**

Total merchandise exports saw flat growth in the first quarter, moderating from the 7.2 per cent increase in the preceding quarter. Domestic exports declined by 6.4 per cent year-on-year, while re-exports rose by 6.8 per cent.

The fall in domestic exports was due to a decline in both oil and non-oil domestic exports. Oil domestic exports declined by 6.5 per cent year-on-year, partly reflecting lower oil prices compared to levels a year ago. In volume terms, oil domestic exports declined by 8.3 per cent. Similarly, non-oil domestic exports (NODX) fell by 6.4 per cent year-on-year, following the 1.1 per cent decrease in the previous quarter. The drop in NODX was on account of declines in both electronics and non-electronics NODX.

Total merchandise imports rose by 4.6 per cent year-on-year in the first quarter, extending the 11 per cent increase in the previous quarter. This was due to a rise in non-oil imports which outweighed a decline in oil imports. Specifically, oil imports decreased by 4.3 per cent on the back of lower oil prices compared to levels a year ago. Meanwhile, non-oil imports rose by 7.4 per cent, driven by an increase in both electronics and non-electronics imports.

Services Trade

Total services trade expanded by 0.7 per cent on a year-on-year basis in the first quarter, following the 0.8 per cent growth in the previous quarter (Exhibit 1.16). Services exports grew by 0.4 per cent year-on-year, down from the 2.1 per cent growth recorded in the preceding quarter. The increase in services exports during the quarter was largely due to a rise in the exports of other business services, insurance services and transport services. Meanwhile, services imports grew by 0.9 per cent year-on-year, a reversal from the 0.5 per cent decline in the previous quarter. The pickup in services imports was mainly due to an increase in the imports of travel services and transport services.

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

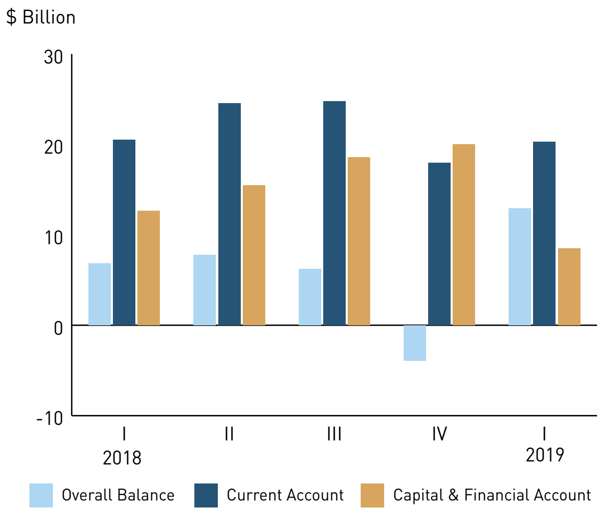
Per Cent

	2018					2019
	I	II	III	IV	Ann	I
Total Services Trade	3.9	1.6	2.1	0.8	2.1	**0.7**
Services Exports	6.3	3.2	4.3	2.1	3.9	**0.4**
Services Imports	1.6	0.1	-0.1	-0.5	0.3	**0.9**

BALANCE OF PAYMENTS

The overall balance of payments recorded a surplus of $13 billion in the first quarter, reversing the deficit of $3.9 billion in the fourth quarter of last year (Exhibit 1.17).

Exhibit 1.17: Balance of Payments[6]



Current Account

The current account surplus rose to $20 billion in the first quarter, from $18 billion in the preceding quarter. This increase was driven by smaller deficits in the services, primary income and secondary income balances, which outweighed a decline in the goods surplus.

The surplus in the goods balance fell by $0.8 billion from the previous quarter to $31 billion in the first quarter, as goods exports fell by more than imports.

Meanwhile, the deficit in the services balance narrowed from $1.8 billion in the fourth quarter of 2018 to $0.6 billion in the first quarter. Although net payments for other business services and telecommunications, computer & information services rose, these were more than offset by lower net payments for travel as well as higher net receipts for financial services.

At the same time, the deficit in the primary income balance narrowed to $8.3 billion in the first quarter, from $9.9 billion in the previous quarter, as primary income receipts from abroad rose while income payments to foreign investors declined.

In addition, the secondary income deficit dipped from $2.4 billion in the preceding quarter to $2.1 billion in the first quarter on the back of a fall in secondary income payments as well as higher receipts for the quarter.

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 fell to $8.5 billion in the first quarter, from $20 billion in the preceding quarter. This was due to higher net inflows of direct investment, as well as lower net outflows of portfolio investment and financial derivatives, which outweighed an increase in the net outflows of "other investment".

Net inflows of direct investment doubled from the previous quarter to $21 billion in the first quarter, reflecting an increase in foreign direct investment into Singapore as well as a decline in residents' direct investment abroad.

Meanwhile, net outflows of portfolio investment decreased by $17 billion to $7.9 billion in the first quarter. This was mainly due to resident deposit-taking corporations reversing from net purchases to net sales of overseas securities.

At the same time, net outflows from financial derivatives fell slightly to $4.2 billion in the first quarter, from $4.4 billion in the fourth quarter of last year.

In comparison, net outflows from the "other investment" account rose to $17 billion in the first quarter, from $0.8 billion in the preceding quarter. This reflected deposit-taking corporations reversing from a net inflow to a net outflow position, as well as reduced net inflows to the non-bank private sector.