Image courtesy of Ministry of Communications and Information

CHAPTER 1

THE SINGAPORE ECONOMY

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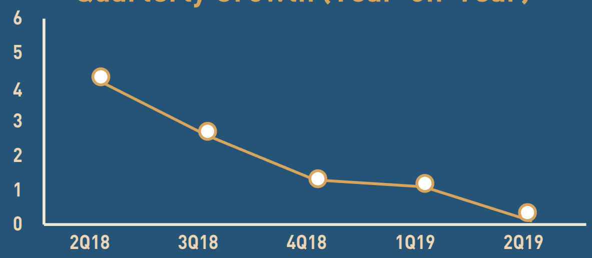
ECONOMIC PERFORMANCE

Real GDP grew by
0.1% in 2Q19

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 2Q19

Finance & Insurance

0.6%-point contribution

Other Services Industries

0.2%-point contribution

LABOUR MARKET

Resident Unemployment Rate

3.1% in 2Q19

Employment (Q-O-Q Change)

+3,300 employed

Sectors with the Highest Employment Growth in 2Q19

+2,800 employed
Construction

+2,000 employed
Information & Communications

+1,700 employed
Finance & Insurance

PRODUCTIVITY

Value-Added per Actual Hour Worked declined by 3.4% in 2Q19

Highest Growth in Value-Added per Actual Hour Worked in 2Q19

2.2%
Construction

COSTS

Overall Unit Labour Cost increased by

3.0% in 2Q19

Within the manufacturing sector

Unit Business Cost	Unit Labour Cost
1.1%	5.5%

PRICES

The Consumer Price Index (CPI) rose by

0.7% in 2Q19

Categories with Price Increases

Education	Recreation & Culture	Health Care
2.6%	2.1%	1.2%

Quarterly Growth (Year-on-Year)

INTERNATIONAL TRADE

Total Merchandise Exports declined by 4.5% in 2Q19

EXPORTS

Re-exports	Oil Domestic Exports	Non-Oil Domestic Exports
2.2%	-2.9%	-14.6%

Total Services Exports rose by

0.9% in 2Q19

Main Drivers of Services Export Growth were...

Transport Services	Financial Services	Telecommunications, Computer and Information
1.1%-pt	0.7%-pt	0.4%-pt

OVERVIEW

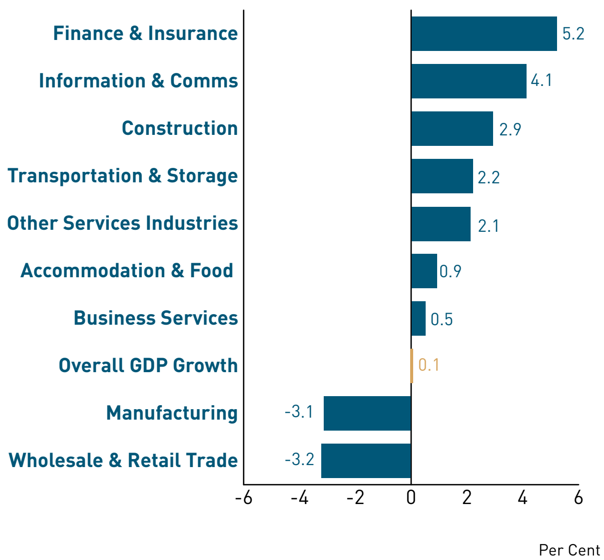
In the second quarter of 2019,

- The economy grew marginally by 0.1 per cent on a year-on-year basis. The sectors that contributed the most to GDP growth were the finance & insurance sector and "other services industries".
- The seasonally-adjusted resident and citizen unemployment rates rose slightly in June 2019 as compared to March 2019, even as the overall unemployment rate remained unchanged. Retrenchments in the second quarter were lower as compared to the first quarter and the same quarter a year ago.
- Total employment rose by 3,300 on a quarter-on-quarter basis, less than the increase of 13,400 registered in the first quarter and the 6,500 recorded in the same quarter last year. Excluding foreign domestic workers, employment increased by 4,000 in the second quarter.
- The Consumer Price Index-All Items (CPI-All Items) rose by 0.7 per cent on a year-on-year basis, slightly higher than 0.5 per cent increase in the previous quarter.

OVERALL PERFORMANCE

The economy grew marginally by 0.1 per cent on a year-on-year basis in the second quarter, moderating from the 1.1 per cent growth in the first quarter (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted annualised basis, the economy contracted by 3.3 per cent, a reversal from the 3.8 per cent growth in the first quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 2Q 2019



The manufacturing sector shrank by 3.1 per cent year-on-year, sharper than the 0.3 per cent decline in the previous quarter. The contraction was largely due to output declines in the electronics, transport engineering and precision engineering clusters, which outweighed output expansions in the biomedical manufacturing and general manufacturing clusters.

The services producing industries grew by 1.1 per cent year-on-year, easing from the 1.2 per cent growth in the preceding quarter. The finance & insurance sector saw the strongest pace of growth (5.2 per cent), followed by the information & communications sector (4.1 per cent), the transportation & storage sector (2.2 per cent) and the "other services industries" (2.1 per cent). The accommodation & food services and business services sectors also recorded growth of 0.9 per cent and 0.5 per cent respectively. By contrast, the wholesale & retail trade sector contracted by 3.2 per cent.

The construction sector expanded by 2.9 per cent year-on-year, extending the 2.8 per cent growth in the first quarter. Construction output during the quarter was supported by public sector construction works.

The sectors that contributed the most to GDP growth in the second quarter were the finance & insurance sector and the "other services industries" (Exhibit 1.2).

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 2Q 2019 (By Industry)

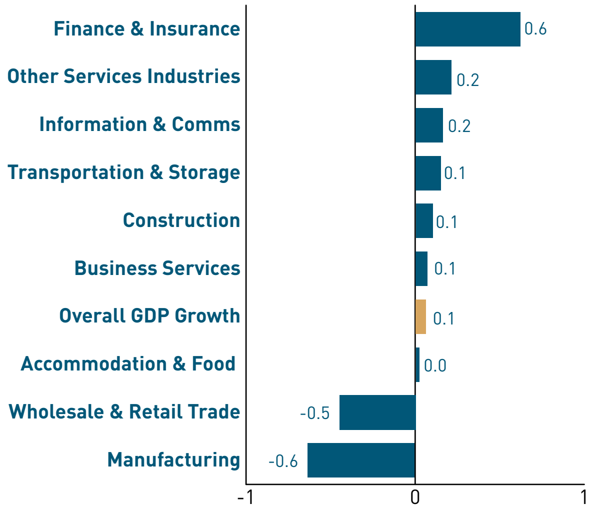


*Exhibit 1.3: Changes in Total Demand**

	2018			2019	
	II	III	IV	I	II
Total Demand	6.3	3.3	0.9	-0.4	**-0.3**
External Demand	8.1	4.2	1.4	-2.2	**-1.4**
Total Domestic Demand	2.1	0.8	-0.2	3.9	**2.4**
Consumption Expenditure	3.1	2.3	2.5	4.8	**3.3**
Public	3.2	1.5	3.8	3.0	**3.1**
Private	3.1	2.6	2.2	5.4	**3.4**
Gross Fixed Capital Formation	-1.5	-7.5	-4.4	-0.2	**-0.3**
Changes in Inventories	0.6	1.5	-0.2	0.6	**0.3**

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

SOURCES OF GROWTH

Total demand fell by 0.3 per cent on a year-on-year basis in the second quarter, a more gradual pace of decline as compared to the 0.4 per cent drop in the previous quarter (Exhibit 1.3). Total demand was weighed down by external demand, which contracted by 1.4 per cent in the second quarter, extending the 2.2 per cent decline in the preceding quarter.

On the other hand, domestic demand expanded by 2.4 per cent year-on-year, slower than the 3.9 per cent growth in the previous quarter. Growth in domestic demand during the quarter was supported by an increase in consumption expenditure and a build-up in inventories.

In particular, consumption expenditure rose by 3.3 per cent year-on-year, moderating from the 4.8 per cent growth in the first quarter. Both private consumption and public consumption increased during the quarter, at 3.4 per cent and 3.1 per cent respectively.

By contrast, gross fixed capital formation (GFCF) declined by 0.3 per cent year-on-year, extending the 0.2 per cent contraction in the previous quarter. This came on the back of a 1.9 per cent decline in private sector GFCF, which was in turn weighed down by lower investment spending on private construction & works. On the other hand, public sector GFCF expanded by 8.1 per cent, largely supported by increased spending on public construction & works.

LABOUR MARKET

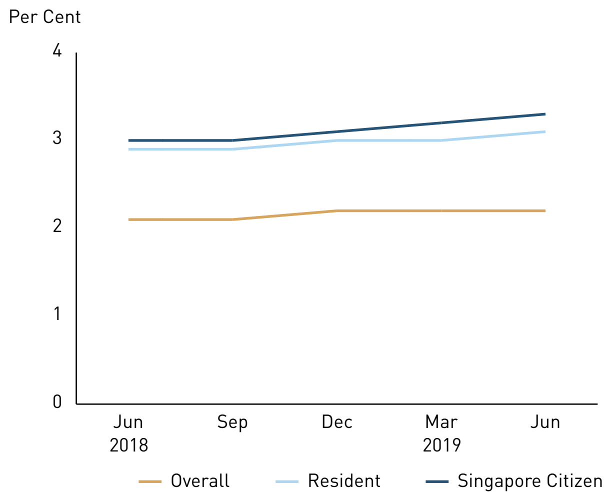
Unemployment and Retrenchment[1]

The seasonally-adjusted overall unemployment rate (2.2 per cent) remained unchanged in June 2019 as compared to March 2019. However, there was a slight uptick in the unemployment rates for residents (from 3.0 per cent to 3.1 per cent) and citizens (from 3.2 per cent to 3.3 per cent) over the same period (Exhibit 1.4). The overall, resident and citizen unemployment rates in June 2019 were all higher when compared to the same period a year ago.

In June 2019, an estimated 72,400 residents, including 64,300 Singapore citizens, were unemployed. These were higher than the number of unemployed residents (69,700) and citizens (62,200) in March 2019.[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.*

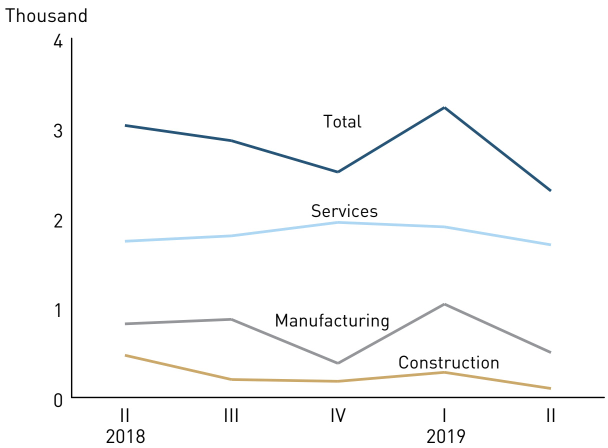
Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)



Total retrenchments came in at around 2,300 in the second quarter, lower than the levels recorded in the preceding quarter (3,230) and the same quarter last year (3,030) (Exhibit 1.5). By broad sectors, retrenchments fell in the manufacturing (from 1,040 in the first quarter to 500 in the second quarter), services (from 1,900 to 1,700) and construction (from 280 to 100) sectors.

The fall in retrenchments, alongside the slight uptick in resident and citizen unemployment rates, suggests that even though hiring had slowed, most employers were not laying off existing workers.

Exhibit 1.5: Retrenchments



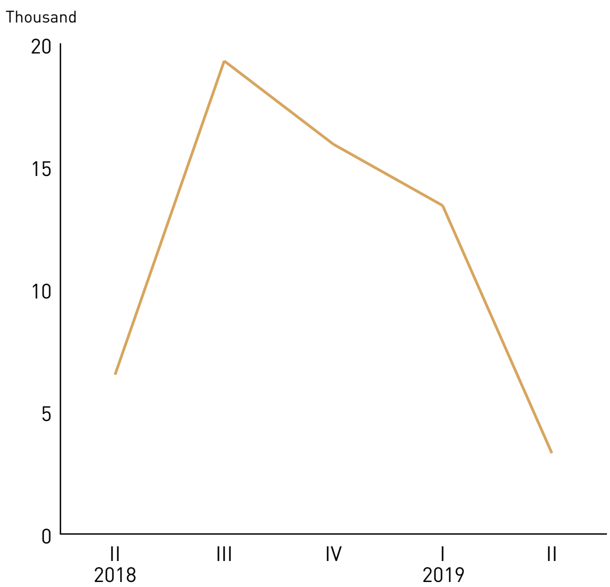
EMPLOYMENT[3]

Total employment rose by 3,300 on a quarter-on-quarter basis in the second quarter, lower than the increase of 13,400 in the first quarter and the increase of 6,500 in the same quarter a year ago (Exhibit 1.6). Excluding foreign domestic workers (FDWs), employment increased by 4,000. Total employment gains during the quarter came on the back of employment growth in the construction and services sectors.

Employment in the construction sector rose by 2,800 in the second quarter, supported by an increase in public sector construction works (Exhibit 1.7). Employment in the overall services sector also rose by 2,700 (3,400 excluding FDWs), with the information & communications (2,000), finance & insurance (1,700) and business services (1,500) sectors contributing the most to the increase.

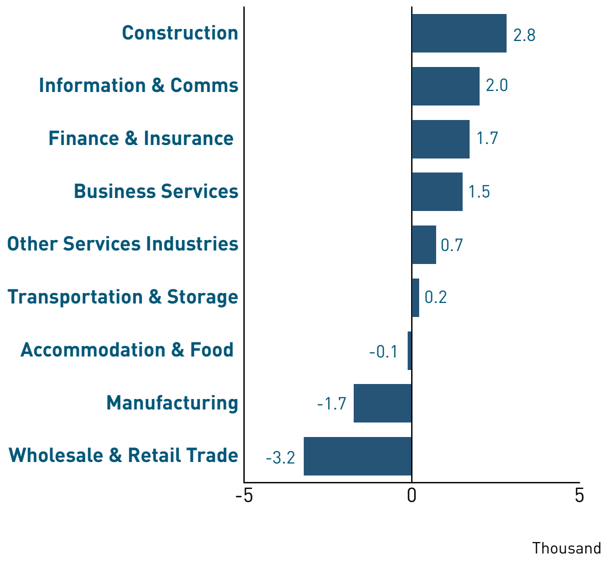
By contrast, employment in the manufacturing sector declined by 1,700 as manufacturing output declined. This marked the third consecutive quarter of contraction.

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



3 *Based on preliminary estimates.*

Exhibit 1.7: Changes in Employment by Industry in 2Q 2019



HIRING EXPECTATIONS

According to EDB's Business Expectations Survey for the Manufacturing Sector, hiring expectations in the sector remained subdued, with a net weighted balance of 1 per cent of manufacturers expecting to reduce hiring in the third quarter of 2019 as compared to the second quarter. Firms in the other electronics modules & components segment of the electronics cluster had the weakest hiring sentiments, with a net weighted balance of 53 per cent of firms in the segment expecting lower levels of hiring in the third quarter. By contrast, firms in the pharmaceuticals segment of the biomedical manufacturing cluster were the most optimistic, as a net weighted balance of 39 per cent of them expected higher levels of 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 5 per cent of services firms expected to increase hiring in the third quarter of 2019. In particular, a net weighted balance of 26 per cent of firms in the accommodation & food services industry and 22 per cent of firms in the real estate industry expected to hire more workers in the third quarter.

COMPETITIVENESS

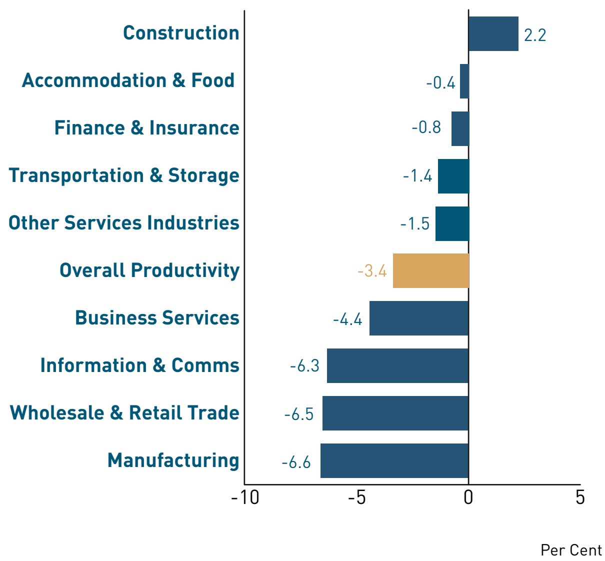
Productivity

Overall labour productivity, as measured by real value-added per actual hour worked, declined by 3.4 per cent on a year-on-year basis in the second quarter, after remaining unchanged in the previous quarter (Exhibit 1.8).[4] The weaker productivity growth in the second quarter was in line with the moderation in GDP growth over the same period.

By sectors, the construction sector (2.2 per cent) saw positive productivity growth in the second quarter. On the other hand, the manufacturing (-6.6 per cent) and wholesale & retail trade (-6.5 per cent) sectors experienced the strongest declines in productivity.

Outward-oriented sectors as a whole saw weaker productivity growth than domestically-oriented sectors in the second quarter. Compared to the same period last year, the productivity of outward-oriented sectors fell by 4.7 per cent in the second quarter, following the 0.5 per cent decline in the previous quarter, on the back of a marked slowdown in economic activities due to weak external demand.[5] For domestically-oriented sectors, productivity fell by 2.2 per cent, a reversal from the 0.5 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 2Q 2019



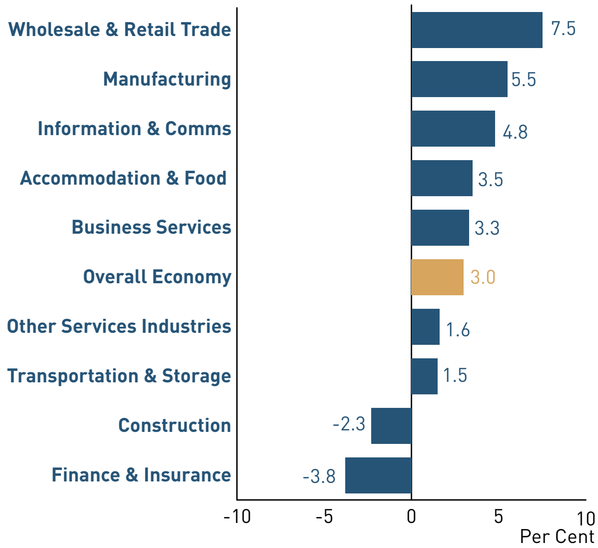
4 *Overall labour productivity, as measured by real value-added per worker, fell by 1.4 per cent in the second quarter, deteriorating from the 0.3 per cent decline in the preceding quarter. The larger decline in real value-added per actual hour worked compared to real value-added per worker was due to a rise 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 3.0 per cent on a year-on-year basis in the second quarter, higher than the 2.4 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 2Q 2019

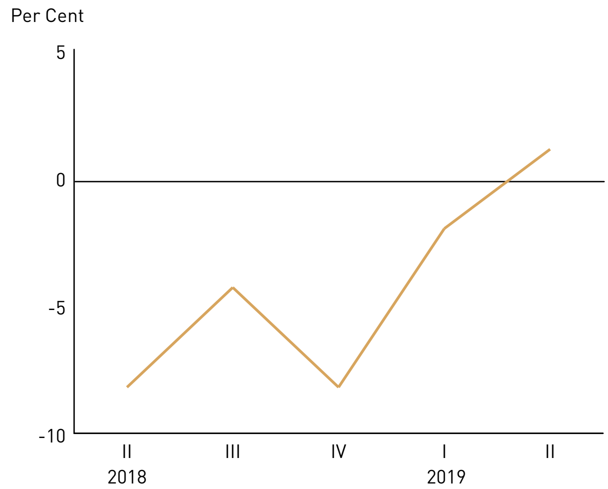


By sectors, the ULC for the manufacturing sector rose by 5.5 per cent year-on-year, faster than the 1.7 per cent increase observed in the first quarter. This occurred on the back of a larger decline in productivity and an increase in total labour cost per worker in the sector. The ULC for the services producing industries rose by 2.6 per cent, a slight moderation from the 2.8 per cent increase in the previous quarter. Most services sectors saw an increase in their ULCs, with the exception of the finance & insurance sector. The ULC of the finance & insurance sector declined due to productivity gains (in terms of real value-added per worker) and a fall in total labour cost per worker.

For the construction sector, ULC fell by 2.3 per cent, extending the 3.6 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 rose by 1.1 per cent year-on-year in the second quarter, a reversal from the 2.0 per cent decline in the previous quarter (Exhibit 1.10). The increase in the manufacturing UBC was mainly due to a 5.5 per cent rise in the manufacturing ULC, which more than offset a 0.5 per cent drop in the unit services cost (which includes royalties, utilities, rental and other services costs such as professional and advertising fees).

Exhibit 1.10: Changes in Unit Business Cost for Manufacturing

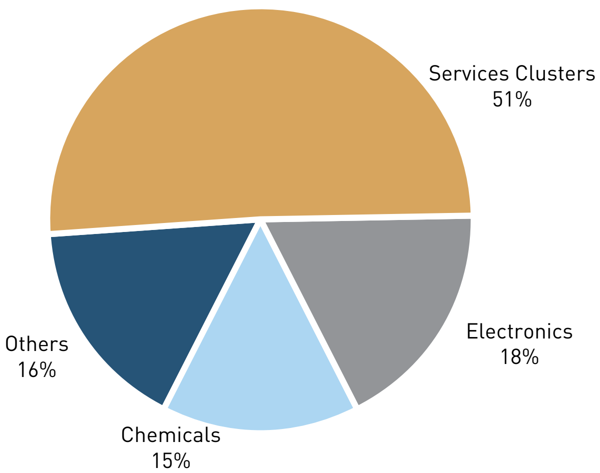


Investment Commitments

Investment commitments in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $4.3 billion and $2.8 billion respectively in the second quarter (Exhibit 1.11 and Exhibit 1.12).

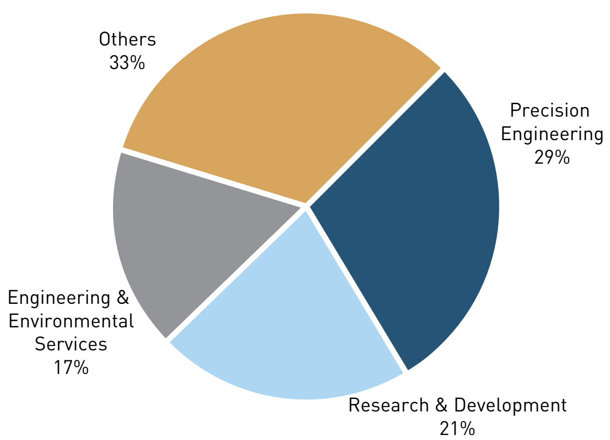
In terms of FAI, the services clusters contributed the most to FAI during the quarter, attracting $2.2 billion worth of commitments, mostly from the research & development and engineering & environmental services clusters. This was followed by the electronics cluster, which garnered $766 million of commitments. Investors from the United States contributed the most to total FAI, at $2.3 billion (52 per cent), followed by European investors, at $1.1 billion (24 per cent).

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 2Q 2019



For TBE, the largest contribution came from the precision engineering cluster, which attracted $811 million of commitments. This was followed by the research & development cluster, at $592 million. Investors from the United States were the largest source of TBE commitments, with commitments of $1.1 billion (39 per cent). They were followed by investors from Europe who contributed $700 million of TBE commitments (25 per cent).

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 2Q 2019



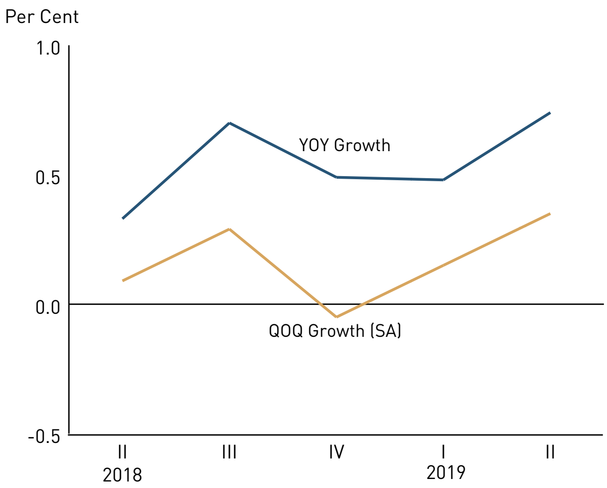
When fully realised, these commitments are expected to generate value-added amounting to $14 billion and more than 7,000 jobs.

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 second quarter, slightly faster than the 0.5 per cent increase in the preceding quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, the CPI-All Items increased by 0.4 per cent, following the 0.2 per cent increase in the first 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 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 vegetables, fish & seafood and bread & cereals (Exhibit 1.14). Transport costs increased by 1.2 per cent as higher car prices, bus & train fares and petrol prices more than offset a fall in the prices of motorcycles & scooters.

Meanwhile, education costs rose by 2.6 per cent due to higher fees at commercial institutions, kindergartens & childcare centres, universities and polytechnics. Recreation & culture costs picked up by 2.1 per cent on account of a rise in the cost of holiday travel. Healthcare costs rose by 1.2 per cent as an increase in the costs of outpatient and hospital services more than offset a fall in the prices of medical products. The costs of household durables & services went up by 1.2 per cent due to a rise in the government levy for foreign domestic workers (FDWs) and higher salaries for FDWs. Prices of miscellaneous goods & services edged up by 0.2 per cent because of more expensive personal care items.

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

Per Cent

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

The price gains in these CPI categories were partially offset by declines in other categories. Clothing & footwear costs fell by 0.9 per cent on account of cheaper ready-made garments. Communications costs declined by 1.1 per cent due to a fall in the prices of telecommunication services and equipment. Housing & utilities costs dropped by 0.8 per cent as a decline in accommodation costs and electricity prices outweighed an increase in water and housing maintenance charges.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade decreased by 2.1 per cent year-on-year in the second quarter, after posting an increase of 2.1 per cent in the preceding quarter (Exhibit 1.15). The fall in total merchandise trade was due to declines in both oil and non-oil trade. Total oil trade decreased by 7.6 per cent in nominal terms, partly reflecting lower oil prices compared to a year ago, while non-oil trade fell by 0.6 per cent.

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

Per Cent

	2018				2019	
	II	III	IV	Ann	I	II
Merchandise Trade	10.2	14.7	9.2	9.2	2.1	**-2.1**
Merchandise Exports	9.3	12.7	7.2	7.9	0.0	**-4.5**
Domestic Exports	12.9	14.5	3.4	8.4	-6.4	**-10.6**
Oil	20.4	28.9	12.1	17.1	-6.5	**-2.9**
Non-Oil	9.3	8.0	-1.1	4.2	-6.4	**-14.6**
Re-Exports	5.7	11.1	11.2	7.4	6.8	**2.2**
Merchandise Imports	11.1	17.0	11.5	10.6	4.6	**0.6**
Oil	26.3	30.9	16.9	18.9	-4.3	**-9.6**
Non-Oil	6.9	13.4	9.9	8.3	7.4	**3.8**

Total merchandise exports declined by 4.5 per cent in the second quarter, after registering flat growth in the preceding quarter. Domestic exports fell by 11 per cent, while re-exports grew by 2.2 per cent during the quarter.

The fall in domestic exports was due to a decline in both oil and non-oil domestic exports. Specifically, oil domestic exports dropped by 2.9 per cent, reflecting lower oil prices compared to a year ago. In volume terms, oil domestic exports increased by 0.7 per cent.

At the same time, non-oil domestic exports (NODX) contracted by 15 per cent, following the 6.4 per cent decrease in the previous quarter. The decline in NODX was due to a fall in both electronics and non-electronics NODX.

Total merchandise imports grew by 0.6 per cent in the second quarter, following the 4.6 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 fell by 9.6 per cent on account of lower oil prices compared to levels a year ago. On the other hand, non-oil imports rose by 3.8 per cent, driven by an increase in non-electronics imports which more than offset the drop in electronics imports.

Services Trade

Total services trade expanded by 1.4 per cent on a year-on-year basis in the second quarter, higher than the 0.1 per cent growth in the previous quarter (Exhibit 1.16). Services exports grew by 0.9 per cent year-on-year, reversing the 0.4 per cent decline in the preceding quarter. The increase in services exports during the quarter was largely due to a rise in the exports of transport services and financial services. Meanwhile, services imports grew by 1.9 per cent, faster than the 0.5 per cent increase in the first quarter. The pickup in services imports was mainly due to an increase in the imports of travel services, financial services and transport services.

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

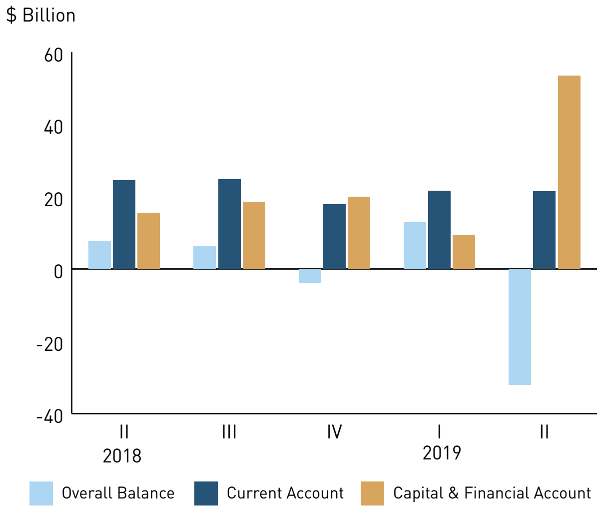
Per Cent

	2018				2019	
	II	III	IV	Ann	I	II
Total Services Trade	1.6	2.1	0.8	2.1	0.1	**1.4**
Services Exports	3.2	4.3	2.1	3.9	-0.4	**0.9**
Services Imports	0.1	-0.1	-0.5	0.3	0.5	**1.9**

BALANCE OF PAYMENTS

The overall balance of payments recorded a deficit of $32 billion in the second quarter, a reversal from the surplus of $13 billion in the first quarter (Exhibit 1.17).

Exhibit 1.17: Balance of Payments



Current Account

The current account surplus declined to $21 billion in the second quarter, from $22 billion in the preceding quarter. Although the goods surplus increased, this was offset by larger deficits in the services, primary income and secondary income balances.

The surplus in the goods balance rose by $1.9 billion from the previous quarter, to $33 billion in the second quarter, as goods exports increased by more than imports.

The deficit in the services balance widened to $1.1 billion in the second quarter, from $0.8 billion in the first quarter. Net payments for other business services and telecommunications, computer & information services declined, while net receipts for financial services rose. However, these were more than offset by higher net payments for transport services and travel services.

At the same time, the deficit in the primary income balance rose by $1.4 billion from the first quarter, to $8.1 billion in the second quarter, as primary income payments to foreign investors increased by more than income receipts from abroad.

In addition, the secondary income deficit increased to $2.4 billion in the second quarter, from $2.0 billion in preceding quarter, due to a fall in secondary income receipts and a rise in payments.

Capital and Financial Account[6]

Net outflows from the capital and financial account rose to $54 billion in the second quarter, from $9.4 billion in the preceding quarter. This was primarily due to a surge in net outflows of portfolio investment, which outweighed the increase in net inflows of direct investment and the reversal of "other investment" from a net outflow to net inflow position.

Net outflows of portfolio investment surged to $82 billion in the second quarter, compared to $6.6 billion in the first quarter. This was due in part to resident deposit-taking corporations reversing from net sales to net purchases of overseas securities.

In comparison, net inflows of direct investment rose by $6.1 billion from the previous quarter to $28 billion in the second quarter, reflecting a rise in foreign direct investment into Singapore as well as a decline in residents' direct investment abroad.

At the same time, other investment recorded net inflows of $2.8 billion in the second quarter, a turnaround from the net outflows of $22 billion in the first quarter. This reflected a shift by deposit-taking corporations from a net outflow to a net inflow position, as well as an increase in net inflows to the non-bank private sector.

Meanwhile, net outflows of financial derivatives fell slightly to $2.7 billion in the second quarter, from $2.8 billion in the preceding quarter.

6 Net inflows in net balances are indicated by a minus (-) sign, and vice versa. 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".