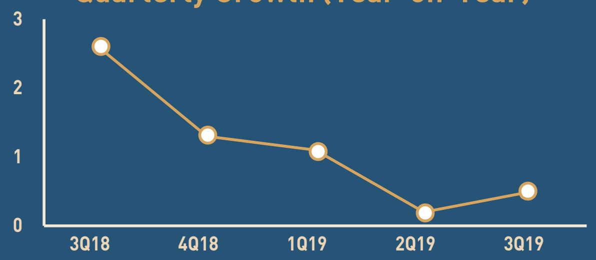
CHAPTER 1
THE SINGAPORE ECONOMY

ECONOMIC PERFORMANCE

Real GDP grew by
0.5% in 3Q19

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 3Q19

Finance & Insurance
0.5%-point contribution

Other Services Industries
0.3%-point contribution

LABOUR MARKET

Resident Unemployment Rate
3.2% in 3Q19

Employment (Q-O-Q Change)
+26,700 employed

Sectors with the Highest Employment Growth in 3Q19

+8,000 employed
Other Services Industries

+6,500 employed
Business Services

+5,300 employed
Construction

PRODUCTIVITY

Value-Added per Actual Hour Worked declined by 1.1% in 3Q19

Sectors with the Highest Growth in Value-Added per Actual Hour Worked in 3Q19

2.6%
Construction

0.8%
Finance & Insurance

COSTS

Overall Unit Labour Cost increased by

3.2% in 3Q19

Within the manufacturing sector

-2.2%
Unit Business Cost

4.2%
Unit Labour Cost

PRICES

The Consumer Price Index (CPI) rose by

0.4% in 3Q19

Categories with Price Increases

Education	Food	Health Care
2.3%	1.5%	1.2%

Quarterly Growth (Year-on-Year)

INTERNATIONAL TRADE

Total Merchandise Exports declined by 7.3% in 3Q19

EXPORTS

Re-exports	Non-Oil Domestic Exports	Oil Domestic Exports
-1.7%	-9.6%	-19.7%

Total Services Exports declined by 0.6% in 3Q19

Services Export Growth was supported by...

Financial Services	Maintenance and Repair Services	Insurance Services
0.8%-pt	0.6%-pt	0.2%-pt

OVERVIEW

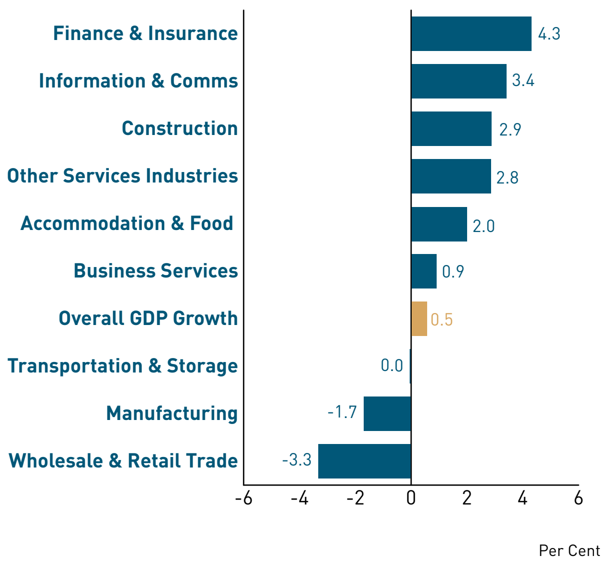
In the third quarter of 2019,

- The Singapore economy expanded by 0.5 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 overall, resident and citizen unemployment rates rose slightly in September 2019 as compared to June 2019. Retrenchments in the third quarter were higher as compared to the second quarter but remained comparable to the same quarter a year ago.
- Total employment rose by 26,700 on a quarter-on-quarter basis, higher than the increase of 5,500 registered in the second quarter and the 19,300 recorded in the same quarter last year. Excluding foreign domestic workers, employment gains came in at 22,400 in the third quarter.
- The Consumer Price Index-All Items (CPI-All Items) rose by 0.4 per cent on a year-on-year basis, slower than 0.7 per cent increase in the previous quarter.

OVERALL PERFORMANCE

The Singapore economy grew by 0.5 per cent on a year-on-year basis in the third quarter, slightly higher than the 0.2 per cent growth in the previous quarter (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 2.1 per cent, a turnaround from the 2.7 per cent contraction in the preceding quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 3Q 2019



The manufacturing sector shrank by 1.7 per cent year-on-year in the third quarter, moderating from the 3.3 per cent decline in the previous quarter. The contraction was due to a decline in output of the electronics cluster. All the other clusters in the sector expanded during the quarter, with the biomedical manufacturing cluster recording the strongest growth.

The services producing industries grew by 0.9 per cent year-on-year, easing from the 1.2 per cent growth in the previous quarter. The finance & insurance sector posted the fastest pace of growth (4.3 per cent), followed by the information & communications sector (3.4 per cent) and "other services industries" (2.8 per cent). The accommodation & food services and business services sectors also recorded positive growth of 2.0 per cent and 0.9 per cent respectively. By contrast, the wholesale & retail trade sector contracted by 3.3 per cent, while the transportation & storage sector posted flat growth in the third quarter.

The construction sector expanded by 2.9 per cent year-on-year, extending the 2.8 per cent growth in the preceding quarter. Construction output during the quarter was supported by an increase in both public sector and private sector construction works.

The sectors that contributed the most to GDP growth in the third 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 3Q 2019 (By Industry)

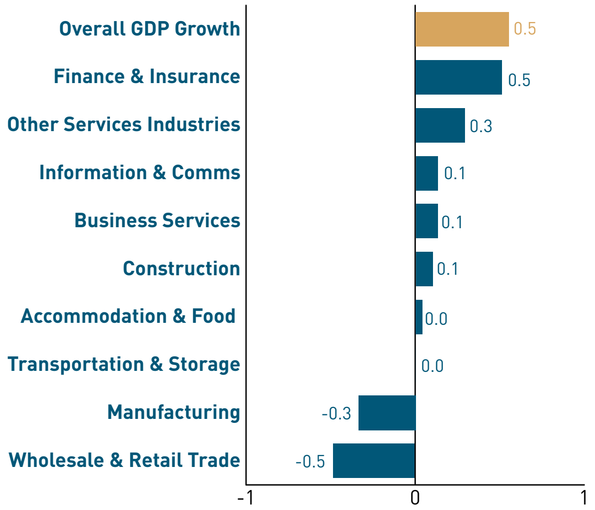


*Exhibit 1.3: Changes in Total Demand**

	2018		2019		
	III	IV	I	II	III
Total Demand	3.3	0.9	-0.5	-0.4	**-1.8**
External Demand	4.2	1.4	-2.4	-1.2	**-3.2**
Total Domestic Demand	0.8	-0.2	3.9	1.6	**1.8**
Consumption Expenditure	2.3	2.5	4.8	3.0	**4.1**
Public	1.5	3.8	2.9	2.2	**1.6**
Private	2.6	2.2	5.4	3.2	**4.8**
Gross Fixed Capital Formation	-7.5	-4.4	0.2	-0.5	**2.7**
Changes in Inventories	1.5	-0.2	0.5	-0.1	**-1.2**

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

SOURCES OF GROWTH

Total demand fell by 1.8 per cent on a year-on-year basis in the third quarter, extending the 0.4 per cent decline in the previous quarter (Exhibit 1.3). Total demand was weighed down by external demand, which dropped by 3.2 per cent year-on-year, a steeper decline as compared to the 1.2 per cent contraction in the preceding quarter.

On the other hand, domestic demand expanded by 1.8 per cent year-on-year, slightly higher the 1.6 per cent growth in the previous quarter. This was due to a faster pace of increase in private consumption expenditure and private gross fixed capital formation (GFCF).

Within domestic demand, GFCF grew by 2.7 per cent year-on-year, reversing the 0.5 per cent contraction in the previous quarter. This came on the back of a 3.2 per cent expansion in private sector GFCF, which was in turn supported by higher investment spending on transport equipment and construction & works. Public sector GFCF registered a modest 0.5 per cent increase, supported by growth in investment spending in public construction & works.

Consumption expenditure grew by 4.1 per cent year-on-year, higher than the 3.0 per cent growth in the previous quarter. Growth during the quarter was largely driven by a 4.8 per cent increase in private consumption, while public consumption grew by a slower 1.6 per cent.

LABOUR MARKET

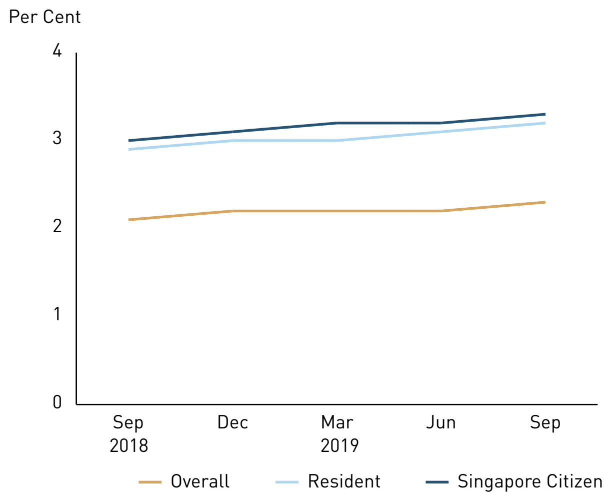
Unemployment and Retrenchment[1]

Compared to June 2019, the seasonally-adjusted unemployment rates inched up in September 2019 at the overall level (from 2.2 per cent to 2.3 per cent), and for residents (from 3.1 per cent to 3.2 per cent) and citizens (from 3.2 per cent to 3.3 per cent) (Exhibit 1.4).

In September 2019, an estimated 74,700 residents, including 65,000 Singapore citizens, were unemployed. These were higher than the number of unemployed residents (72,600) and citizens (64,200) in June 2019.[2]

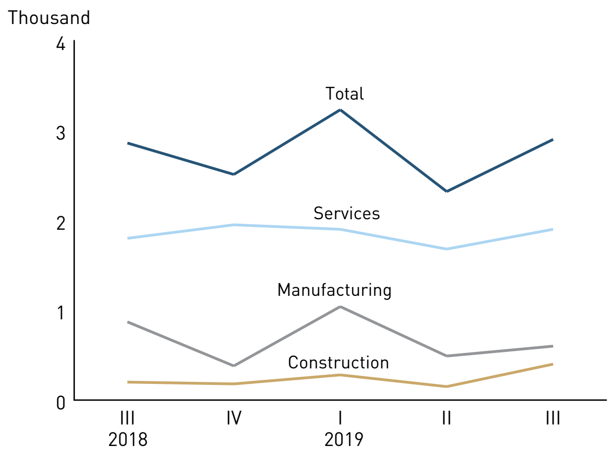
1 *Retrenchment figures pertain to private sector establishments with at least 25 employees and the public sector.*
2 *Based on seasonally-adjusted data on the number of unemployed persons.*

Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)



Total retrenchments came in at around 2,900 in the third quarter, higher than the level recorded in the preceding quarter (2,320) but comparable to that observed in the same quarter last year (2,860) (Exhibit 1.5). Over the quarter, retrenchments increased in the construction (from 150 to 400), services (from 1,680 to 1,900) and manufacturing (from 490 to 600) sectors.

Exhibit 1.5: Retrenchments

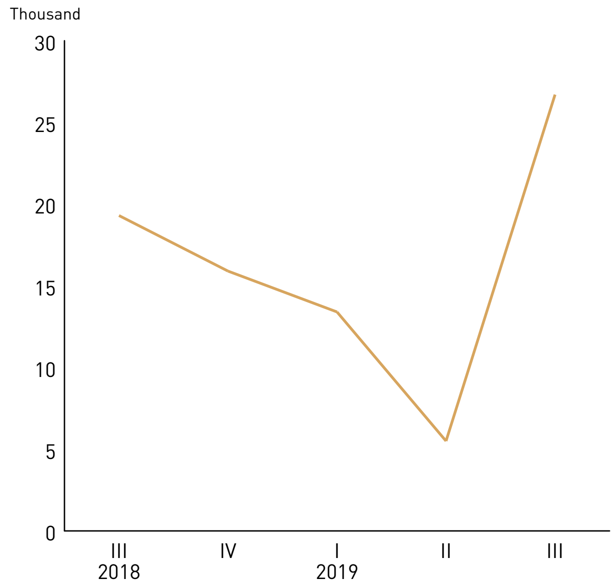


Employment[3]

Total employment rose by 26,700 on a quarter-on-quarter basis in the third quarter, higher than the increases in the second quarter (5,500) and the same quarter a year ago (19,300) (Exhibit 1.6). Excluding foreign domestic workers (FDWs), employment increased by 22,400. Total employment gains during the quarter came on the back of employment growth in all broad sectors.

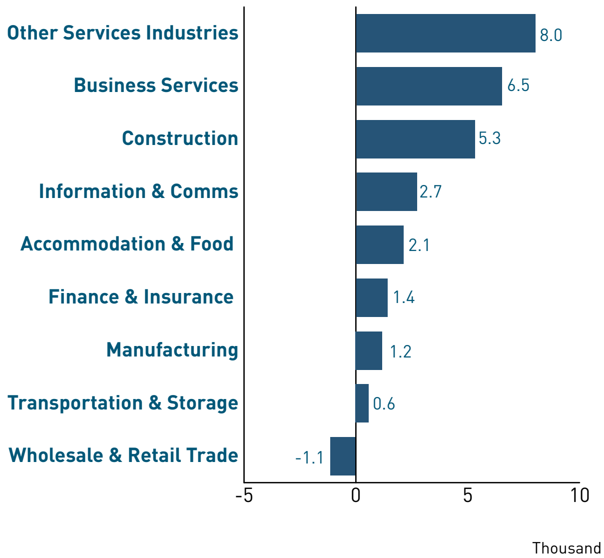
In the overall services sector, employment rose by 20,400 (16,100 excluding FDWs) in the third quarter, with the other services (8,000) and business services (6,500) sectors contributing the most to the increase (Exhibit 1.7). On the back of a pickup in construction activities, employment in the construction sector rose by 5,300, the highest since the first quarter of 2014 (6,300). Meanwhile, employment in the manufacturing sector rose by 1,200 after three consecutive quarters of decline.

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 2019



Hiring Expectations

According to EDB's latest Business Expectations Survey for the Manufacturing Sector, hiring expectations in the sector remained subdued, with a net weighted balance of 3 per cent of manufacturers expecting to reduce hiring in the fourth quarter of 2019 as compared to the third quarter. Firms in the other electronics modules & components segment of the electronics cluster had the weakest hiring sentiments, with a net weighted balance of 42 per cent of firms in the segment expecting lower levels of hiring in the fourth quarter. By contrast, firms in the pharmaceuticals segment of the biomedical manufacturing cluster were the most positive, with a net weighted balance of 7 per cent of them expecting higher levels of hiring in the fourth quarter.

Hiring expectations for firms in the services sector were positive. According to DOS' latest Business Expectations Survey for the Services Sector, a net weighted balance of 6 per cent of services firms expected to increase hiring in the fourth quarter of 2019 as compared to the third quarter. In particular, firms in the food & beverage services and retail trade industries were the most optimistic, with a net weighted balance of 29 per cent and 20 per cent of firms expecting to hire more workers in the fourth quarter respectively, likely because of the year-end holidays and festive season.

COMPETITIVENESS

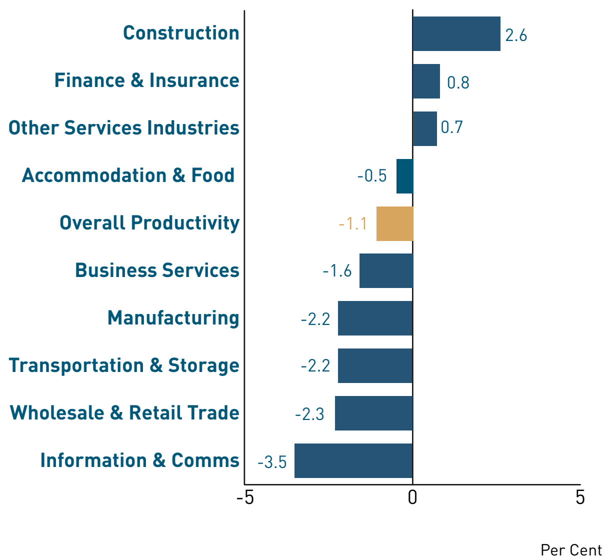
Productivity

Overall labour productivity, as measured by real value-added per actual hour worked, declined by 1.1 per cent on a year-on-year basis in the third quarter (Exhibit 1.8).[4] This was a smaller decline compared to the -3.2 per cent recorded in the previous quarter, in line with the modest uptick in GDP growth over the same period.

Among the sectors, the construction (2.6 per cent) and finance & insurance (0.8 per cent) sectors saw the strongest productivity growth in the third quarter. By contrast, the information & communications (-3.5 per cent) and wholesale & retail trade (-2.3 per cent) sectors experienced the largest declines in productivity.

Given the challenging external environment, outward-oriented sectors as a whole registered weaker productivity growth than domestically-oriented sectors in the third quarter. Specifically, the productivity of outward-oriented sectors fell by 1.7 per cent year-on-year in the third quarter, following the 4.7 per cent decline in the previous quarter.[5] For domestically-oriented sectors, productivity fell by 0.4 per cent, after declining by 1.8 per cent in the preceding quarter.

Exhibit 1.8: Changes in Value-Added per Actual Hour Worked for the Overall Economy and Sectors in 3Q 2019



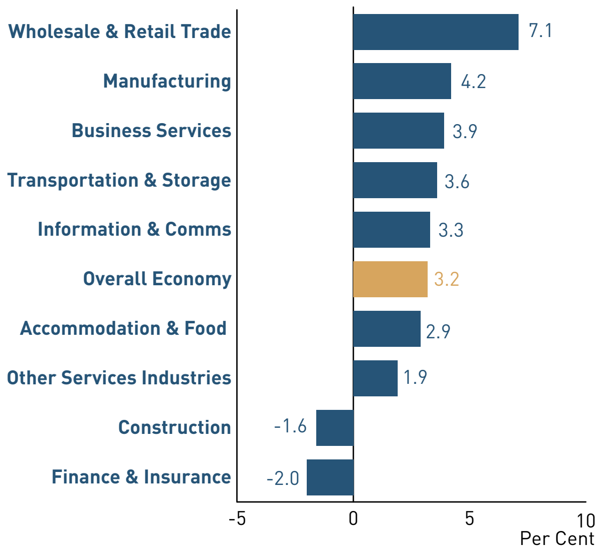
4 *Overall labour productivity, as measured by real value-added per worker, fell by 1.0 per cent in the third quarter as compared to the 1.3 per cent decline in the preceding quarter. The slightly larger decline in real value-added per actual hour worked compared to real value-added per worker in the third quarter was due to a slight increase 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 3.2 per cent on a year-on-year basis in the third quarter, higher than the 2.9 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 3Q 2019



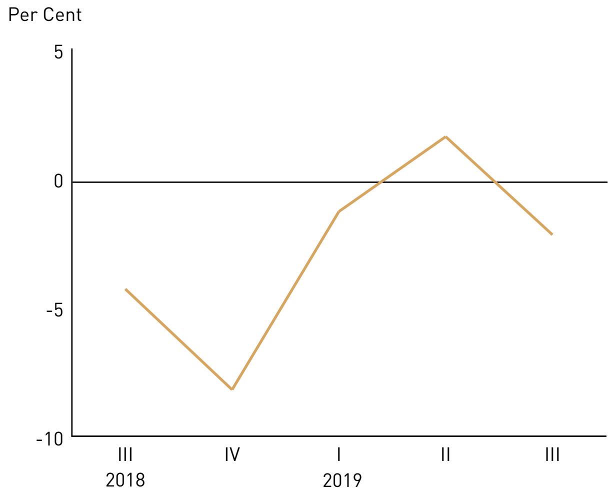
By sectors, the ULC for the manufacturing sector rose by 4.2 per cent year-on-year, moderating from the 6.2 per cent increase in the preceding quarter. This occurred on the back of a decline in productivity alongside an increase in total labour cost per worker in the sector.

In comparison, the ULC for services producing industries picked up by 3.3 per cent, faster than the 2.3 per cent increase in the previous quarter. Most services sectors saw an increase in their respective ULCs, with the exception of the finance & insurance sector. The ULC of the finance & insurance sector declined due to productivity gains and a fall in total labour cost per worker.

For the construction sector, ULC fell by 1.6 per cent, extending the 2.2 per cent decline in the previous quarter. The decline was driven by productivity gains in the sector, as total labour cost per worker remained unchanged.

Unit business cost (UBC) for the manufacturing sector declined by 2.2 per cent year-on-year in the third quarter, a turnaround from the 1.6 per cent increase in the previous quarter (Exhibit 1.10). The drop in the manufacturing UBC was mainly due to a 4.3 per cent fall in unit services cost (which includes royalties, utilities and other services costs such as professional and advertising fees), which outweighed the 4.2 per cent increase in manufacturing ULC.

Exhibit 1.10: Changes in Unit Business Cost for Manufacturing

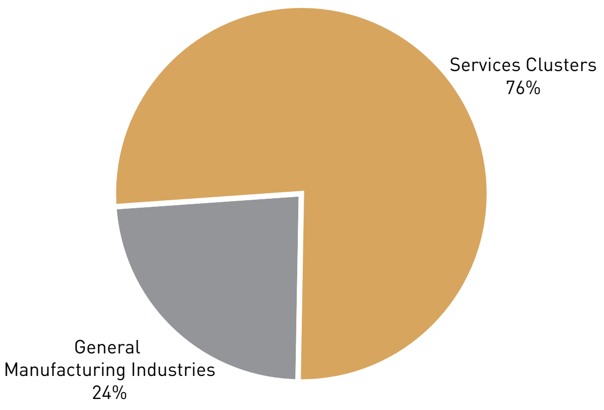


Investment Commitments

Investment commitments garnered by the Economic Development Board (EDB) in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $180 million and $751 million respectively in the third quarter (Exhibit 1.11 and Exhibit 1.12).

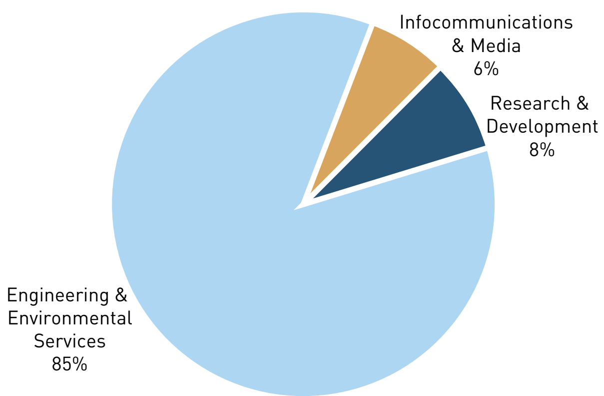
For FAI, the largest contribution came from the services clusters, which attracted $137 million worth of commitments, mostly from the engineering & environmental services as well as research & development clusters. This was followed by the general manufacturing cluster, which garnered $42 million of commitments. Investors from the United States contributed the most to total FAI, at $97 million (54 per cent), followed by local investors, at $79 million (44 per cent).

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 3Q 2019



For TBE, the engineering & environmental services cluster attracted the highest amount of commitments, at $641 million. This was followed by the research & development and infocommunications & media clusters, at $60 million and $48 million respectively. Local investors were the largest source of TBE commitments, with commitments of $627 million (84 per cent). They were followed by investors from the United States who contributed $56 million of TBE commitments (7.4 per cent).

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 3Q 2019



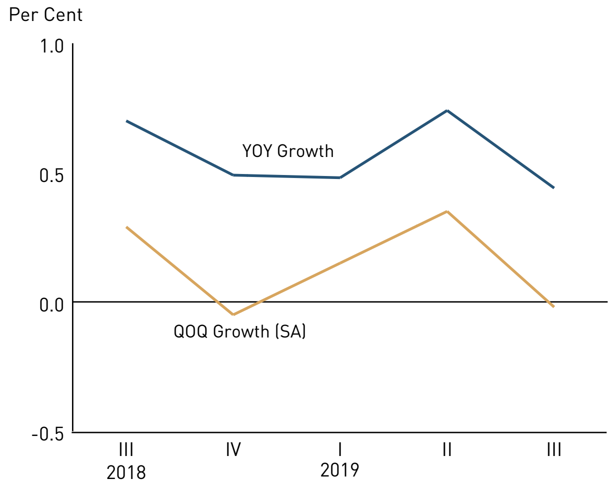
When fully realised, these commitments are expected to generate value-added amounting to $610 million and more than 3,000 jobs.

PRICES

Consumer Price Index

The Consumer Price Index-All Items (CPI-All Items) rose at a slower pace of 0.4 per cent on a year-on-year basis in the third quarter, compared to the 0.7 per cent increase in the preceding quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, the CPI-All Items was unchanged in the third quarter, easing from the 0.4 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 1.5 per cent on a year-on-year basis over this period due to an increase in the prices of food servicing services like hawker food and restaurant meals, as well as non-cooked food items such as vegetables and bread & cereals (Exhibit 1.14). Education costs went up by 2.3 per cent because of higher fees at commercial institutions, universities, kindergartens & childcare centres and polytechnics.

Meanwhile, transport costs rose by 0.9 per cent as an increase in car prices, bus & train fares and general repair & maintenance fees outweighed a fall in the prices of petrol and motorcycles & scooters. Healthcare costs picked up by 1.2 per cent as a rise in the costs of outpatient and hospital services more than offset a decline in the prices of medical products. Recreation & culture costs rose by 0.9 per cent on account of higher holiday travel expenses. The costs of household durables & services went up by 0.7 per cent due to an increase in the levy for foreign domestic workers as well as higher salaries for them. Prices of miscellaneous goods & services edged up by 0.2 per cent as a result of more expensive personal care items.

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

Per Cent

	2018		2019		
	III	IV	I	II	III
All items	0.7	0.5	0.5	0.7	**0.4**
Food	1.6	1.4	1.5	1.4	**1.5**
Clothing & Footwear	2.3	1.6	1.2	-0.9	**-1.9**
Housing & Utilities	-0.7	0.0	-0.4	-0.8	**-1.4**
Household Durables & Services	0.7	0.8	0.6	1.2	**0.7**
Health Care	2.0	1.7	1.6	1.2	**1.2**
Transport	-0.2	-2.0	-1.1	1.2	**0.9**
Communication	-1.0	-2.3	-2.1	-1.1	**-1.2**
Recreation & Culture	1.5	1.2	0.9	2.1	**0.9**
Education	2.6	3.2	2.8	2.6	**2.3**
Miscellaneous Goods & Services	1.1	1.3	0.8	0.2	**0.2**

The price gains in these CPI categories were in contrast to the declines in other categories. Clothing & footwear costs fell by 1.9 per cent on account of cheaper ready-made garments. Communication costs dipped by 1.2 per cent due to a fall in the prices of telecommunication services and equipment. Housing & utilities costs dropped by 1.4 per cent as lower costs of electricity and accommodation outweighed higher housing maintenance charges.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade declined by 6.7 per cent year-on-year in the third quarter, following the 2.2 per cent decrease 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 fell by 19 per cent in nominal terms, partly reflecting lower oil prices compared to a year ago, while non-oil trade declined by 3.5 per cent.

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

Per Cent

	2018			2019		
	III	IV	Ann	I	II	III
Merchandise Trade	14.7	9.2	9.2	2.1	-2.2	**-6.7**
Merchandise Exports	12.7	7.2	7.9	0.0	-4.5	**-7.3**
Domestic Exports	14.5	3.4	8.4	-6.5	-10.6	**-13.1**
Oil	28.9	12.1	17.1	-6.5	-2.9	**-19.7**
Non-Oil	8.0	-1.1	4.2	-6.4	-14.7	**-9.6**
Re-Exports	11.1	11.2	7.4	6.8	2.2	**-1.7**
Merchandise Imports	17.0	11.5	10.6	4.5	0.5	**-5.9**
Oil	30.9	16.9	18.9	-4.3	-9.6	**-18.2**
Non-Oil	13.4	9.9	8.3	7.3	3.7	**-2.3**

Total merchandise exports dropped by 7.3 per cent in the third quarter, extending the 4.5 per cent decrease in the preceding quarter. Within total exports, domestic exports declined by 13 per cent, while re-exports fell by 1.7 per cent during the quarter.

The fall in domestic exports was due to declines in both oil and non-oil domestic exports. In particular, oil domestic exports contracted by 20 per cent, partly reflecting lower oil prices compared to a year ago. In volume terms, oil domestic exports decreased by 9.2 per cent.

Meanwhile, non-oil domestic exports (NODX) declined by 9.6 per cent in the third quarter, following the 15 per cent decrease in the previous quarter. The drop in NODX was due to a fall in both electronics and non-electronics NODX.

Total merchandise imports contracted by 5.9 per cent in the third quarter, reversing the 0.5 per cent increase in the previous quarter. The contraction was due to a fall in both oil and non-oil imports. Specifically, oil imports declined by 18 per cent amidst lower oil prices compared to levels a year ago. At the same time, non-oil imports decreased by 2.3 per cent due to a decline in electronics imports, which outweighed the growth in non-electronics imports.

Services Trade

Total services trade dipped by 0.2 per cent on a year-on-year basis in the third quarter, a reversal from the 1.2 per cent growth recorded in the previous quarter (Exhibit 1.16). Services exports declined by 0.6 per cent year-on-year, a pullback from the 0.9 per cent increase in the preceding quarter. The fall in services exports was largely attributable to a decline in receipts from the use of intellectual property and exports of other business services. Meanwhile, services imports expanded by 0.3 per cent year-on-year, moderating from the 1.5 per cent increase in the previous quarter. The modest growth in services imports was mainly due to an increase in the imports of travel services and financial services.

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

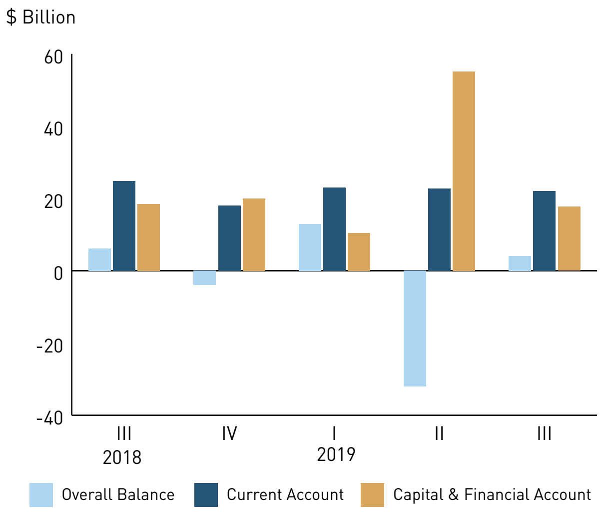
Per Cent

	2018			2019		
	III	IV	Ann	I	II	III
Total Services Trade	2.1	0.8	2.1	-0.1	1.2	**-0.2**
Services Exports	4.3	2.1	3.9	-0.3	0.9	**-0.6**
Services Imports	-0.1	-0.5	0.3	0.1	1.5	**0.3**

BALANCE OF PAYMENTS

The overall balance of payments recorded a surplus of $4.1 billion in the third quarter, a reversal from the deficit of $32 billion in the previous quarter (Exhibit 1.17).

Exhibit 1.17: Balance of Payments



Current Account

The current account surplus edged down to $22 billion in the third quarter, from $23 billion in the second quarter. This was driven by a larger deficit in the primary income balance, which outweighed a smaller deficit in the services balance. Meanwhile, the surplus in the goods balance and deficit in the secondary income balance were almost unchanged.

The surplus in the goods balance was $34 billion in the third quarter, comparable to the previous quarter, as goods exports and imports fell by similar magnitudes.

The deficit in the services balance narrowed to $0.2 billion in the third quarter, from $0.9 billion in the second quarter. Although net payments for other business services rose, they were more than offset by lower net payments for travel and telecommunications, computer & information services, as well as higher net receipts for financial and insurance services.

Meanwhile, the deficit in the primary income balance widened to $9.5 billion in the third quarter, from $7.9 billion in the preceding quarter, as primary income payments rose faster than receipts.

Capital and Financial Account[6]

Net outflows from the capital and financial account fell to $18 billion in the third quarter, from $55 billion in the second quarter. This was due to lower net outflows of portfolio investment as well as higher net inflows of direct investment, which outweighed an increase in the net outflows of financial derivatives and "other investment".

Net outflows of portfolio investment decreased by $59 billion to $20 billion in the third quarter. This was partly due to lower net purchases of overseas securities by resident deposit-taking corporations.

Meanwhile, net inflows of direct investment rose to $33 billion in the third quarter, from $28 billion in the previous quarter, largely driven by an increase in foreign direct investment into Singapore.

In comparison, net outflows of financial derivatives surged to $21 billion in the third quarter, from $2.0 billion in the second quarter. At the same time, other investment recorded higher net outflows of $10 billion in the third quarter, compared to $1.6 billion in the preceding quarter. This was mainly due to a shift by the non-bank private sector from a net inflow to a net outflow position, which more than offset the switch from a net outflow to a net inflow position by deposit-taking corporations.

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".*