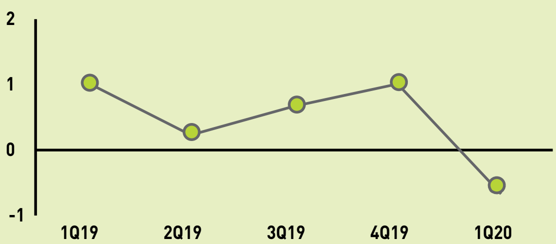
CHAPTER 1

THE SINGAPORE ECONOMY

ECONOMIC PERFORMANCE

Real GDP declined by 0.7% in 1Q20

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 1Q20

Manufacturing

1.3%-point contribution

Finance & Insurance

1.0%-point contribution

LABOUR MARKET

Resident Unemployment Rate

3.3% in 1Q20

Employment (Q-O-Q Change)

-19,500 employed

Sectors with the Highest Employment Growth in 1Q20

+1,900 employed — Finance & Insurance

+1,100 employed — Information & Communications

+900 employed — Other Services Industries

PRODUCTIVITY

Value-Added per Actual Hour Worked declined by 4.7% in 1Q20

Sectors with the Highest Growth in Value-Added per Actual Hour Worked in 1Q20

4.3% Manufacturing

0.7% Finance & Insurance

COSTS

Overall Unit Labour Cost increased by

1.5% in 1Q20

Within the manufacturing sector

-11.9% Unit Business Cost

-8.6% Unit Labour Cost

PRICES

The Consumer Price Index (CPI) rose by

0.4% in 1Q20

Categories with Price Increases

Transport	Food	Communication
2.0%	1.6%	0.5%

Quarterly Growth (Year-on-Year)

INTERNATIONAL TRADE

Total Merchandise Exports declined by 1.3% in 1Q20

EXPORTS

Non-Oil Domestic Exports	Re-exports	Oil Domestic Exports
5.8%	3.2%	-28.9%

Total Services Exports declined by 2.9% in 1Q20

Services Export Growth was supported by...

Other Business Services	Financial Services	Telecommunications, Computer and Information
0.7%-pt	0.6%-pt	0.3%-pt

OVERVIEW

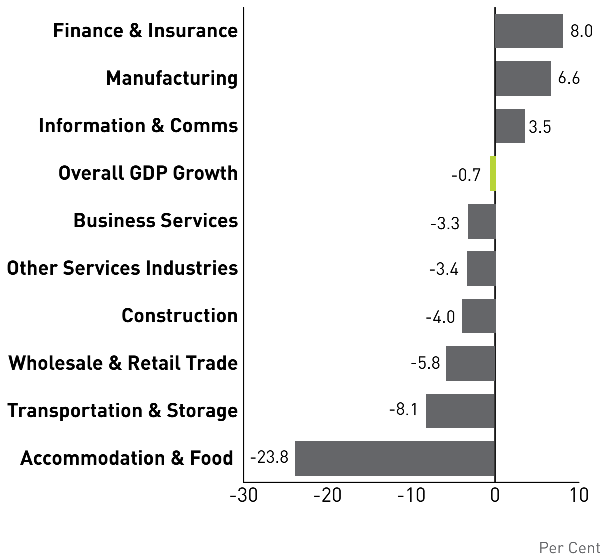
In the first quarter of 2020,

- The Singapore economy contracted by 0.7 per cent on a year-on-year basis. The decline in GDP during the quarter was primarily due to contractions in the wholesale & retail, transportation & storage and accommodation & food services sectors. By contrast, the manufacturing, finance & insurance and information & communications sectors expanded.
- The seasonally-adjusted overall, resident and citizen unemployment rates rose in March 2020 as compared to December 2019. Retrenchments in the first quarter were also higher as compared to the preceding quarter, but remained significantly lower when compared to the peak during the Global Financial Crisis (GFC).
- Total employment declined by 19,500 on a quarter-on-quarter basis, the sharpest quarterly contraction since the SARS crisis in the second quarter of 2003. Excluding foreign domestic workers (FDWs), total employment fell by 19,900 in the first quarter.
- The Consumer Price Index-All Items (CPI-All Items) rose by 0.4 per cent on a year-on-year basis, slower than the 0.6 per cent increase in the previous quarter.

OVERALL PERFORMANCE

The Singapore economy contracted by 0.7 per cent on a year-on-year basis in the first quarter, reversing the 1.0 per cent growth in the previous quarter (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted annualised basis, the Singapore economy shrank by 4.7 per cent, a pullback from the 0.6 per cent expansion in the preceding quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 1Q 2020



The manufacturing sector grew by 6.6 per cent year-on-year, a reversal from the 2.3 per cent contraction in the preceding quarter. Growth was on account of output expansions in the biomedical manufacturing, precision engineering and transport engineering clusters, which outweighed output declines in the electronics, general manufacturing and chemicals clusters.

The services producing industries shrank by 2.4 per cent year-on-year, in contrast to the 1.5 per cent expansion in the previous quarter. All services sectors contracted, except for the finance & insurance and information & communications sectors. The finance & insurance sector grew by 8.0 per cent, while the information & communications sector expanded by 3.5 per cent. Among the sectors that contracted, the accommodation & food services (-24 per cent) and transportation & storage (-8.1 per cent) sectors recorded the largest declines.

The construction sector contracted by 4.0 per cent year-on-year, a turnaround from the 4.3 per cent growth in the fourth quarter of last year. Construction output during the quarter was weighed down by a decline in private sector construction works.

The GDP decline during the first quarter was primarily because of contractions in the wholesale & retail, transportation & storage and accommodation & food services sectors (Exhibit 1.2).

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 1Q 2020 (By Industry)

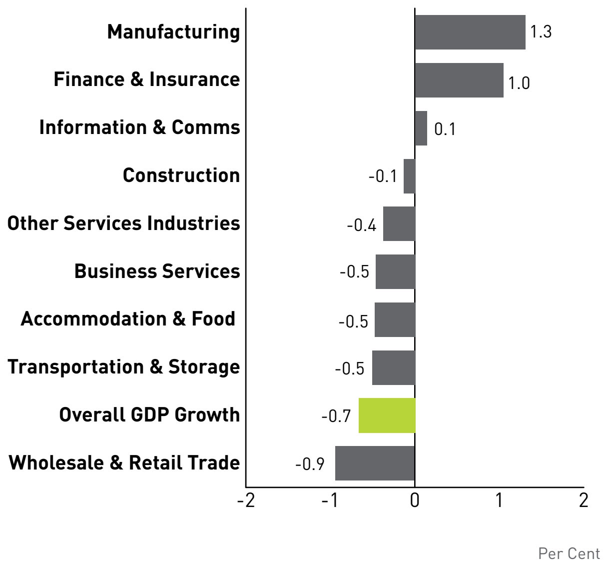


*Exhibit 1.3: Changes in Total Demand**

	2019				2020
	I	II	III	IV	I
Total Demand	-0.6	-1.3	-2.1	1.1	**0.5**
External Demand	-2.2	-2.2	-3.4	1.6	**0.5**
Total Domestic Demand	3.6	1.0	1.1	-0.2	**0.5**
Consumption Expenditure	4.9	2.7	3.5	3.0	**0.9**
Public	3.4	0.7	2.6	4.3	**8.5**
Private	5.4	3.2	3.8	2.6	**-1.6**
Gross Fixed Capital Formation	-0.6	-0.7	2.5	-1.7	**1.6**
Changes in Inventories	0.4	-0.3	-1.4	-1.1	**-0.4**

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

SOURCES OF GROWTH

Total demand rose by 0.5 per cent on a year-on-year basis in the first quarter, slower than the 1.1 per cent increase in the previous quarter (Exhibit 1.3). Total demand was supported by growth in both external and domestic demand.

External demand grew by 0.5 per cent year-on-year, moderating from the 1.6 per cent growth in the previous quarter. Meanwhile, domestic demand also expanded by 0.5 per cent year-on-year, reversing the 0.2 per cent contraction in the previous quarter, supported by growth in public consumption expenditure as well as public and private gross fixed capital formation (GFCF).

Within domestic demand, GFCF increased by 1.6 per cent year-on-year, a reversal from the 1.7 per cent contraction in the previous quarter. The increase came on the back of a 2.8 per cent expansion in public sector GFCF, which was in turn supported by higher investment spending on machinery & equipment and construction & works. Meanwhile, private sector GFCF registered a 1.3 per cent increase year-on-year, supported by investment spending in transport equipment and machinery & equipment.

Consumption expenditure rose by 0.9 per cent year-on-year, moderating from the 3.0 per cent growth in the preceding quarter. Growth during the first quarter was on account of a 8.5 per cent increase in public consumption expenditure, even as private consumption expenditure fell by 1.6 per cent.

LABOUR MARKET

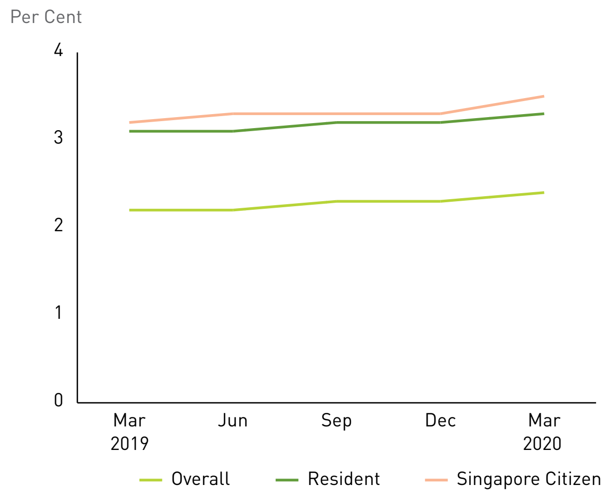
Unemployment and Retrenchment[1]

Compared to December 2019, the seasonally-adjusted unemployment rates edged up in March 2020 at the overall level (from 2.3 per cent to 2.4 per cent), as well as for residents (from 3.2 per cent to 3.3 per cent) and citizens (from 3.3 per cent to 3.5 per cent) (Exhibit 1.4). Nonetheless, these remained lower than the highs observed during SARS[2] and the GFC[3].

In March 2020, an estimated 76,400 residents, including 67,100 Singapore citizens, were unemployed. These were higher than the number of unemployed residents (73,900) and citizens (63,500) in December 2019.[4]

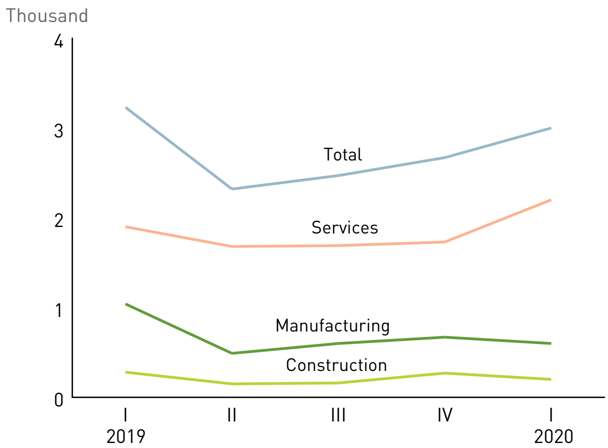
1 *Retrenchment figures pertain to private sector establishments with at least 25 employees and the public sector.*
2 *In September 2003, the overall, resident and citizen unemployment rates were 4.8 per cent, 6.2 per cent and 6.4 per cent respectively.*
3 *In September 2009, the overall, resident and citizen unemployment rates were 3.3 per cent, 4.9 per cent and 4.9 per cent respectively.*
4 *Based on seasonally-adjusted data on the number of unemployed persons.*

Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)



Total retrenchments increased to 3,000 in the first quarter, from the 2,670 recorded in the preceding quarter (Exhibit 1.5). However, the number of retrenchments remained significantly lower as compared to the peak recorded during the GFC (12,760 in the first quarter of 2009). Over the quarter, retrenchments increased in the services sector (from 1,730 to 2,200), but declined in the manufacturing (from 670 to 600) and construction (from 270 to 200) sectors.

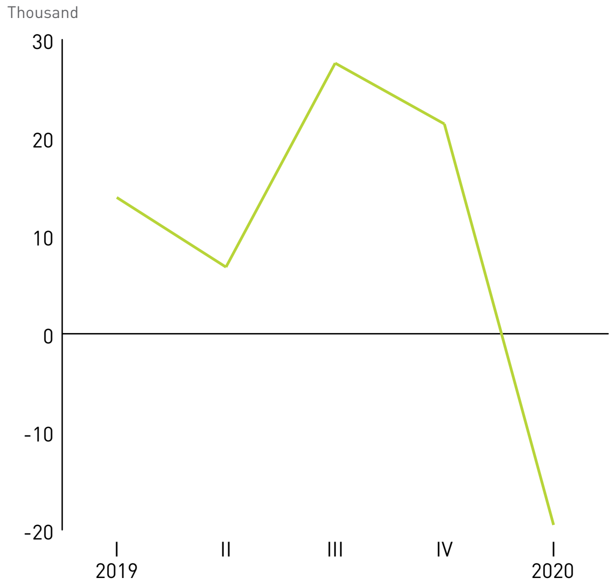
Exhibit 1.5: Retrenchments



Employment[5]

Total employment fell by 19,500 on a quarter-on-quarter basis in the first quarter (Exhibit 1.6), the sharpest quarterly contraction since the SARS crisis (-26,000 in the second quarter of 2003). Excluding FDWs, employment declined by 19,900. The fall in total employment was driven by a significant reduction in foreign employment, which outweighed a modest increase in local employment.[6]

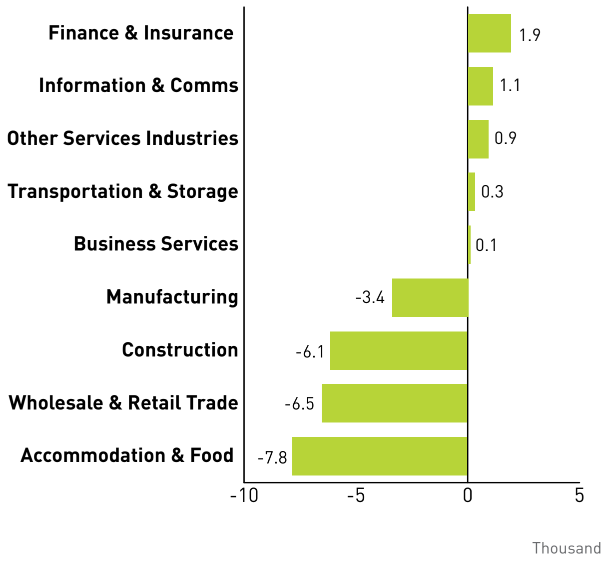
Exhibit 1.6: Change in Total Employment, Quarter-on-Quarter



Employment declines were observed across all broad sectors in the first quarter. In the overall services sector, employment fell by 10,000 (-10,400 excluding FDWs), driven by contractions in the accommodation & food services (-7,800) and wholesale & retail trade (-6,500) sectors (Exhibit 1.7). At the same time, employment in the construction sector decreased by 6,100 after four consecutive quarters of growth. Similarly, employment in the manufacturing sector declined by 3,400, reversing two consecutive quarters of growth.

5 *Based on preliminary estimates.*
6 *Local employment growth in the healthcare, public administration and professional services industries outweighed local employment declines in the wholesale & retail trade, food & beverage services and accommodation industries.*

Exhibit 1.7: Changes in Employment by Industry in 1Q 2020



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 10 per cent of manufacturers expecting to reduce hiring in the second quarter of 2020 as compared to the first quarter. Firms in the land segment of the transport engineering cluster had the weakest hiring sentiments, with a net weighted balance of 22 per cent of firms expecting lower levels of hiring in the second quarter. By contrast, firms in the other electronic modules & components segment of the electronics cluster were the most optimistic, with a net weighted balance of 18 per cent of firms expecting to increase hiring in the second quarter.

Hiring expectations for firms in the services sector were weak. According to DOS' latest Business Expectations Survey for the Services Sector, a net weighted balance of 24 per cent of services firms expected to reduce hiring in the second quarter of 2020 as compared to the first quarter. In particular, firms in the accommodation and food & beverage services industries were the most pessimistic, with a net weighted balance of 56 per cent and 42 per cent of firms expecting to hire fewer workers in the second quarter respectively.

COMPETITIVENESS

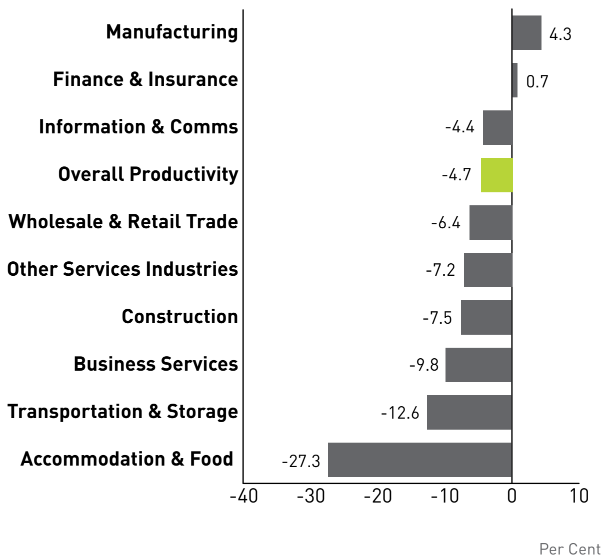
Productivity

In line with the contraction in GDP, overall labour productivity, as measured by real value-added per actual hour worked, fell by 4.7 per cent year-on-year in the first quarter (Exhibit 1.8).[7] This extended the 2.2 per cent decline recorded in the previous quarter.

Among the sectors, only the manufacturing (4.3 per cent) and finance & insurance (0.7 per cent) sectors posted productivity growth in the first quarter. All other sectors saw productivity declines, with the accommodation & food services (-27 per cent) and transportation & storage (-13 per cent) sectors experiencing the largest declines.

In the first quarter, the productivity of outward-oriented sectors as a whole declined by less than the productivity of domestically-oriented sectors.[8] Specifically, the productivity of outward-oriented sectors fell by 3.7 per cent year-on-year, extending the 2.9 per cent decline in the previous quarter. In comparison, the productivity of domestically-oriented sectors saw a larger fall of 7.8 per cent, which in turn followed from a 1.2 per cent decline in the preceding quarter.

Exhibit 1.8: Changes in Value-Added per Actual Hour Worked for the Overall Economy and Sectors in 1Q 2020



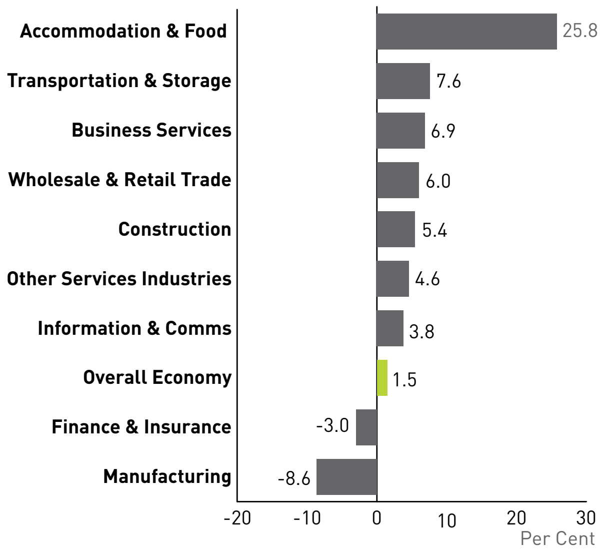
7 *Overall labour productivity, as measured by real value-added per worker, fell by 2.1 per cent in the first quarter as compared to the 0.7 per cent decline in the preceding quarter. The larger decline in real value-added per actual hour worked compared to real value-added per worker in the first quarter was due to an increase in the number of actual hours worked per worker.*

8 *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 1.5 per cent on a year-on-year basis in the first quarter, moderating from the 2.1 per cent increase in the preceding quarter (Exhibit 1.9). The increase in the overall ULC was due to a fall in labour productivity, as measured by real value-added per worker, which more than offset the fall in total labour cost per worker.

Exhibit 1.9: Changes in Unit Labour Cost in 1Q 2020



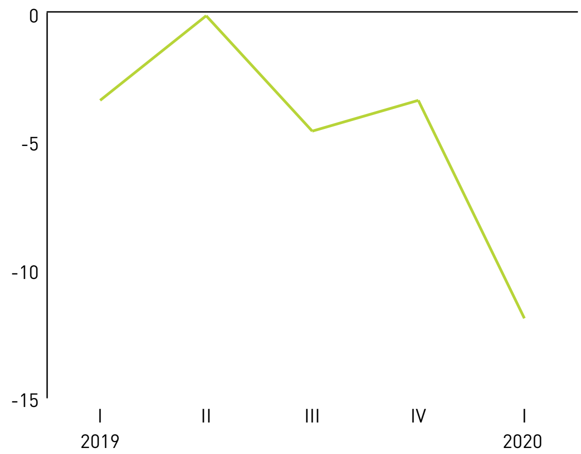
By sectors, the ULC for the manufacturing sector declined by 8.6 per cent year-on-year, reversing the increase of 3.0 per cent in the preceding quarter. The decline occurred on the back of productivity gains alongside a fall in total labour cost per worker in the sector.

In comparison, the ULC for services producing industries rose by 4.4 per cent, faster than the 1.8 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 fell as productivity growth in the sector exceeded the increase in total labour cost per worker.

For the construction sector, ULC increased by 5.4 per cent, reversing the 2.0 per cent decline recorded in the fourth quarter of last year, as labour productivity fell by more than total labour cost per worker in the sector.

Unit business cost (UBC) for the manufacturing sector decreased by 12 per cent year-on-year in the first quarter, extending the 3.4 per cent decline in the previous quarter (Exhibit 1.10). This came on the back of declines in the manufacturing ULC (-8.6 per cent), unit services cost (-13 per cent) and unit non-labour production taxes (-4.9 per cent).

Exhibit 1.10: Changes in the Manufacturing Unit Business Cost

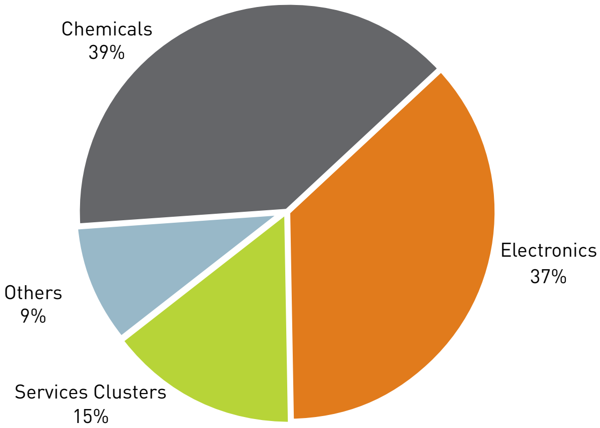


Investment Commitments

Investment commitments garnered by the Economic Development Board (EDB) in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $12.4 billion and $3.1 billion respectively in the first quarter (Exhibit 1.11 and Exhibit 1.12).

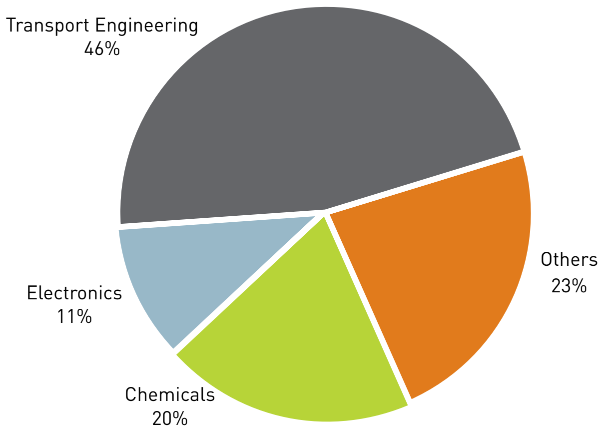
In terms of FAI, the largest contribution was from the manufacturing sector, which attracted $10.6 billion worth of commitments. Within the manufacturing sector, the chemicals and electronics clusters garnered the largest amount of commitments, at $4.8 billion and $4.5 billion respectively. Among the services clusters, the logistics cluster contributed the most to total FAI commitments, at $811 million. This was followed by the infocommunications & media cluster, which contributed $578 million. Investors from the United States were the largest contributors to total FAI, with $8.6 billion (69 per cent) in commitments, followed by local investors, with $2.2 billion (18 per cent).

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 1Q 2020



For TBE, the manufacturing clusters attracted the highest amount of commitments, at $2.6 billion. This was driven by the transport engineering cluster, which garnered $1.5 billion in TBE commitments, followed by the chemicals and electronics clusters, at $614 million and $332 million respectively. Among the services clusters, the headquarters & professional services cluster pulled in the largest amount of TBE commitments, at $255 million. Local investors were the largest source of TBE commitments, with commitments of $1.7 billion (53 per cent). They were followed by investors from the United States, with commitments of $843 million (27 per cent).

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 1Q 2020



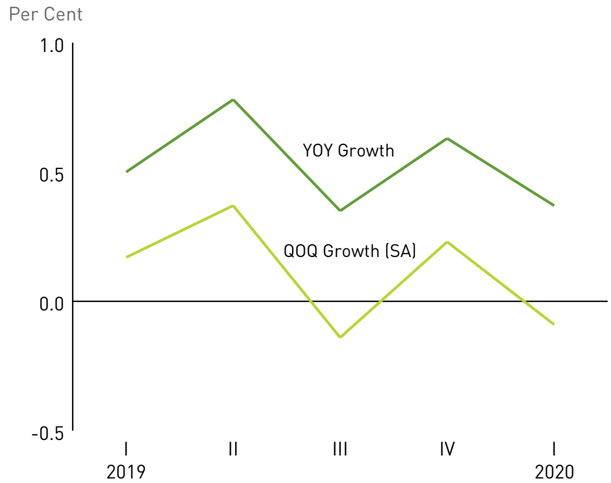
When these projects are fully implemented, they are expected to generate $5.3 billion of value-added and create more than 6,800 jobs in the coming years.

PRICES

Consumer Price Index

On a year-on-year basis, the Consumer Price Index-All Items (CPI-All Items) rose at a slower pace of 0.4 per cent in the first quarter, compared to the 0.6 per cent increase in the preceding quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, CPI-All Items fell by 0.1 per cent, a reversal from the 0.2 per cent increase in the fourth quarter of 2019.

Exhibit 1.13: Changes in CPI



Among the CPI categories, food was the largest positive contributor to CPI-All Items inflation in the first quarter, with prices rising by 1.6 per cent on a year-on-year basis due to an increase in the prices of food servicing services like restaurant meals and hawker food, as well as non-cooked food items such as meat and vegetables (Exhibit 1.14). Transport costs went up by 2.0 per cent as an increase in car prices, bus & train fares as well as petrol prices more than offset a fall in airfares. Prices of household durables & services rose by 0.4 per cent as higher salaries and levy for FDWs outweighed a fall in the prices of household durables. Communication costs edged up by 0.5 per cent due to an increase in the prices of telecommunication services and equipment.

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

Per Cent

	2019				2020
	I	II	III	IV	I
All items	0.5	0.8	0.4	0.6	**0.4**
Food	1.6	1.5	1.4	1.6	**1.6**
Clothing & Footwear	1.8	-0.8	-2.5	-1.6	**-3.1**
Housing & Utilities	-0.6	-0.8	-1.3	-1.3	**-0.2**
Household Durables & Services	0.8	1.3	0.6	0.4	**0.4**
Health Care	1.9	1.3	1.1	0.2	**-1.5**
Transport	-1.3	1.4	0.8	2.3	**2.0**
Communication	-1.5	-1.1	-1.4	0.3	**0.5**
Recreation & Culture	1.4	1.8	0.6	0.5	**-1.0**
Education	2.8	2.5	2.2	2.1	**-0.6**
Miscellaneous Goods & Services	0.8	0.2	0.2	0.3	**-0.1**

The price gains in the above CPI categories outweighed the declines in the following categories. Prices of miscellaneous goods & services dipped by 0.1 per cent because of a fall in the costs of personal effects and infant care services. Education costs fell by 0.6 per cent on the back of lower fees at childcare centres & kindergartens due to the enhancement of preschool subsidies from January 2020. Housing & utilities costs edged down by 0.2 per cent as a fall in electricity prices and gas tariffs outweighed a rise in accommodation cost. Clothing & footwear costs declined by 3.1 per cent on account of cheaper ready-made garments. Recreation & culture costs fell by 1.0 per cent due to the lower cost of holiday travel. Healthcare costs dropped by 1.5 per cent as a fall in the cost of outpatient services and prices of medical products more than offset an increase in the cost of hospital services.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade increased by 0.6 per cent year-on-year in the first quarter, after posting a decline of 5.3 per cent in the preceding quarter (Exhibit 1.15). The rise in total merchandise trade was due to an increase in non-oil trade, which outweighed a decline in oil trade. Oil trade fell by 16 per cent in nominal terms on the back of lower oil prices compared to a year ago, while non-oil trade increased by 4.5 per cent.

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

Per Cent

	2019					2020
	I	II	III	IV	Ann	I
Merchandise Trade	2.1	-2.2	-6.7	-5.3	-3.2	**0.6**
Merchandise Exports	0.0	-4.6	-7.3	-4.3	-4.2	**-1.3**
Domestic Exports	-6.5	-10.6	-13.1	-11.5	-10.5	**-6.2**
Oil	-6.5	-2.9	-19.7	-21.5	-12.9	**-28.9**
Non-Oil	-6.4	-14.7	-9.6	-5.7	-9.2	**5.8**
Re-Exports	6.8	2.0	-1.7	2.8	2.3	**3.2**
Merchandise Imports	4.5	0.5	-5.9	-6.3	-2.1	**2.6**
Oil	-4.3	-9.6	-18.2	-20.4	-13.5	**-6.2**
Non-Oil	7.3	3.7	-2.3	-1.9	1.5	**5.1**

Total merchandise exports declined by 1.3 per cent in the first quarter, extending the 4.3 per cent fall in the preceding quarter. This was due to a fall in domestic exports (-6.2 per cent) even as re-exports grew (3.2 per cent).

Domestic exports contracted on account of a decline in oil domestic exports, which more than offset the expansion in non-oil domestic exports (NODX). In particular, oil domestic exports fell by 29 per cent, partly reflecting lower oil prices compared to a year ago. In volume terms, oil domestic exports decreased by 14 per cent.

Meanwhile, NODX increased by 5.8 per cent, reversing the 5.7 per cent decline in the previous quarter. The rise in NODX was due to an increase in non-electronics domestic exports, which outweighed a decline in electronics domestic exports.

Total merchandise imports expanded by 2.6 per cent in the first quarter, after registering a decline of 6.3 per cent in the previous quarter. The increase was due to a rise in non-oil imports, which more than offset a fall in oil imports. Specifically, oil imports declined by 6.2 per cent amid lower oil prices compared to levels a year ago. Meanwhile, non-oil imports grew by 5.1 per cent, driven by an increase in both electronics and non-electronics imports.

Services Trade

Total services trade contracted by 3.5 per cent on a year-on-year basis in the first quarter, a reversal from the 2.5 per cent growth recorded in the previous quarter (Exhibit 1.16). Both services exports and services imports declined during the quarter.

Services exports fell by 2.9 per cent, a turnaround from the 4.5 per cent expansion in the preceding quarter. The fall in services exports was largely attributable to declines in the exports of travel services, receipts from the use of intellectual property and exports of transport services. Meanwhile, services imports declined by 4.2 per cent year-on-year, reversing the 0.6 per cent increase in the previous quarter. The fall in services imports was mainly due to lower imports of travel services, transport services and other business services.

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

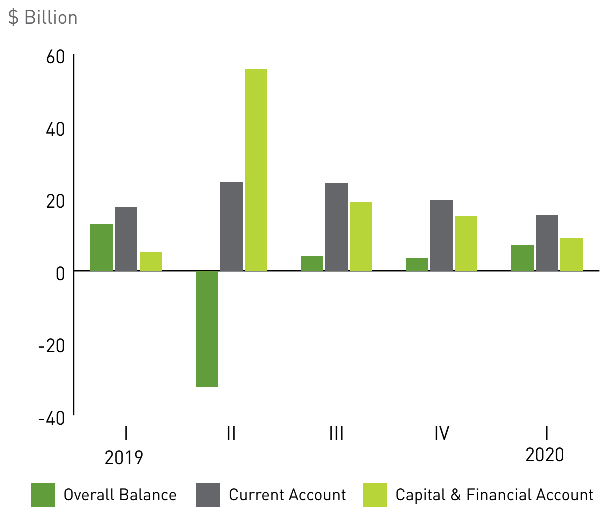
Per Cent

	2019					2020
	I	II	III	IV	Ann	I
Total Services Trade	0.3	1.9	0.6	2.5	1.3	**-3.5**
Services Exports	0.6	1.9	1.9	4.5	2.2	**-2.9**
Services Imports	-0.1	1.9	-0.8	0.6	0.4	**-4.2**

BALANCE OF PAYMENTS

The overall balance of payments registered a larger surplus of $7.0 billion in the first quarter, compared to the surplus of $3.5 billion in the preceding quarter (Exhibit 1.17).

Exhibit 1.17: Balance of Payments



Current Account

The current account surplus fell to $16 billion in the first quarter, from $20 billion in the last quarter of 2019. This largely reflected the narrowing of the surplus in the goods balance.

The surplus in the goods balance declined to $27 billion in the first quarter, from $32 billion in the previous quarter, as goods exports fell by a larger magnitude relative to goods imports.

By contrast, the services balance rose to $2.5 billion in the first quarter, from $1.3 billion in the preceding quarter. This was mainly driven by a decline in net payments for travel, transport and other business services.

In addition, the deficits in both the primary and secondary income balances remained steady, at $12 billion and $2 billion respectively in the first quarter, as the growth in receipts in each account was broadly compensated by higher payments.

Capital and Financial Account[9]

Net outflows from the capital and financial account fell to $9.1 billion in the first quarter, from $15 billion in the fourth quarter. This came on the back of lower net outflows of portfolio investment and financial derivatives, which collectively more than offset a decline in the net inflows of direct investment and a rise in the net outflows of "other investment".

Net outflows of portfolio investment declined sharply by $20 billion to $6.6 billion in the first quarter. This primarily reflected a shift from net purchases to net sales of overseas securities by resident deposit-taking corporations.

At the same time, the net outflows of financial derivatives eased to $2.1 billion in the first quarter, from $5.3 billion in the preceding quarter.

Meanwhile, the net inflows of direct investment slipped to $16 billion in the first quarter, from $26 billion in the previous quarter, as a decline in foreign direct investments into Singapore outweighed a fall in residents' direct investments abroad.

On the other hand, the net outflows of "other investment" rose to $17 billion, from $8.6 billion in the preceding quarter. This was mainly because resident deposit-taking corporations shifted from a net inflow to a net outflow position, which exceeded the increase in net inflows to the non-bank private sector.

9 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".