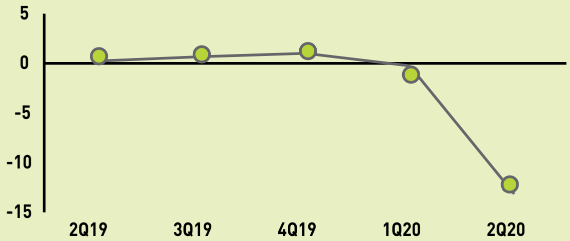
CHAPTER 1

THE SINGAPORE ECONOMY

ECONOMIC PERFORMANCE

Real GDP declined by **13.2%** in 2Q20

Quarterly Growth (Year-on-Year)



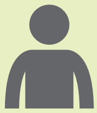
Main Drivers of Growth in 2Q20

Finance & Insurance

0.5%-point
contribution

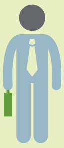
LABOUR MARKET

Resident Unemployment Rate



3.9%
in 2Q20

Employment
(Q-O-Q Change)



-131,500
employed

PRODUCTIVITY

Value-Added per Actual Hour Worked increased by **2.0%** in 2Q20

COSTS

Overall Unit Labour Cost decreased by

18.6% in 2Q20

Within the manufacturing sector

Unit Business Cost	Unit Labour Cost
-22.1%	-33.0%

PRICES

The Consumer Price Index (CPI) declined by

0.7% in 2Q20

Categories with Price Decreases

Transport	Recreation & Culture
-3.9%	-2.6%

Quarterly Growth (Year-on-Year)

INTERNATIONAL TRADE

Total Merchandise Exports declined by 13.8% in 2Q20

EXPORTS

Non-Oil Domestic Exports	Re-exports	Oil Domestic Exports
6.5%	-6.8%	-67.7%

Total Services Exports declined by 20.3% in 2Q20

Services Export Decline was led by...

Travel	Transport Services
-8.3%-pt	-6.8%-pt

OVERVIEW

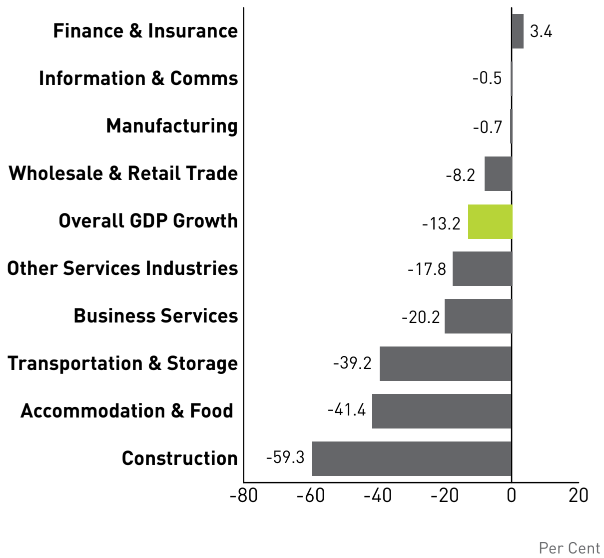
In the second quarter of 2020,

- The Singapore economy contracted by 13.2 per cent on a year-on-year basis. The decline in GDP during the quarter was broad-based, with all sectors except for the finance & insurance sector seeing a contraction.
- The seasonally-adjusted overall, resident and citizen unemployment rates rose in June 2020 as compared to March 2020. Retrenchments in the second quarter were double that in the preceding quarter, but remained significantly lower compared to the peak during the Global Financial Crisis (GFC).
- Total employment declined by 131,500 on a quarter-on-quarter basis, the sharpest quarterly contraction on record. Excluding foreign domestic workers (FDWs), total employment fell by 121,800.
- The Consumer Price Index-All Items (CPI-All Items) declined by 0.7 per cent on a year-on-year basis, reversing the 0.4 per cent increase in the previous quarter.

OVERALL PERFORMANCE

The Singapore economy contracted by 13.2 per cent on a year-on-year basis in the second quarter of 2020, worsening from the 0.3 per cent contraction in the previous quarter (Exhibit 1.1). The fall in GDP was due to the Circuit Breaker (CB) measures implemented from 7 April to 1 June 2020 to slow the spread of COVID-19 in Singapore, as well as weak external demand amidst a global economic downturn caused by the COVID-19 pandemic.

Exhibit 1.1: GDP and Sectoral Growth Rates in 2Q 2020



By sectors, the manufacturing sector contracted by 0.7 per cent year-on-year in the second quarter, a pullback from the 7.9 per cent growth in the previous quarter. Manufacturing output was weighed down by output declines in the transport engineering, general manufacturing and chemicals clusters. By contrast, output in the biomedical manufacturing, electronics and precision engineering clusters expanded.

The services producing industries shrank by 13 per cent year-on-year in the second quarter, a steeper drop than the 2.3 per cent decline recorded in the previous quarter. All services sectors contracted, except for the finance & insurance sector, which grew by 3.4 per cent year-on-year. Among the services sectors that contracted, the accommodation & food services (-41 per cent) and transportation & storage (-39 per cent) sectors recorded the largest contractions.

The construction sector contracted sharply by 59 per cent year-on-year in the second quarter, far worse than the 1.2 per cent contraction in the previous quarter. Construction output during the quarter was weighed down by declines in both private and public sector construction output as almost all construction activities came to a halt during the CB period.

The top three contributors to the GDP decline in the second quarter were the business services, transportation & storage and construction sectors (Exhibit 1.2).

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 2Q 2020 (By Industry)

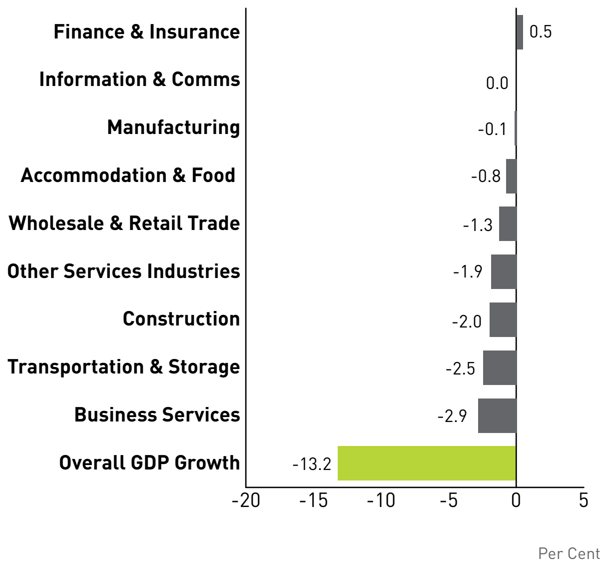


*Exhibit 1.3: Changes in Total Demand**

	2019			2020	
	II	III	IV	I	II
Total Demand	-1.3	-2.1	1.1	0.5	**-16.0**
External Demand	-2.2	-3.4	1.6	0.4	**-14.0**
Total Domestic Demand	1.0	1.1	-0.2	0.8	**-20.9**
Consumption Expenditure	2.7	3.5	3.0	0.2	**-18.2**
Public	0.7	2.6	4.3	8.0	**22.1**
Private	3.2	3.8	2.6	-2.4	**-28.2**
Gross Fixed Capital Formation	-0.7	2.5	-1.7	3.9	**-27.2**
Changes in Inventories	-0.3	-1.4	-1.1	-0.4	**-0.1**

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

SOURCES OF GROWTH

Total demand shrank by 16 per cent on a year-on-year basis in the second quarter of 2020, a sharp turnaround from the 0.5 per cent increase in the previous quarter (Exhibit 1.3). Total demand was weighed down by declines in both external and domestic demand amidst the COVID-19 pandemic.

External demand fell sharply by 14 per cent year-on-year in the second quarter, reversing the 0.4 per cent growth in the previous quarter, as many major economies saw severe economic disruptions during the quarter as a result of the lockdowns and movement restrictions imposed to curb the spread of COVID-19.

Meanwhile, domestic demand plunged by 21 per cent year-on-year in the second quarter, a reversal from the 0.8 per cent expansion in the previous quarter, as private consumption expenditure and gross fixed capital formation (GFCF) saw steep declines.

Within domestic demand, GFCF fell by 27 per cent year-on-year, a stark contrast to the 3.9 per cent expansion in the previous quarter. Overall GFCF was weighed down by a 26 per cent year-on-year decline in private sector GFCF, largely due to lower investment spending in construction & works and transport equipment. At the same time, public sector GFCF shrank by 35 per cent year-on-year because of reduced investment spending in construction & works.

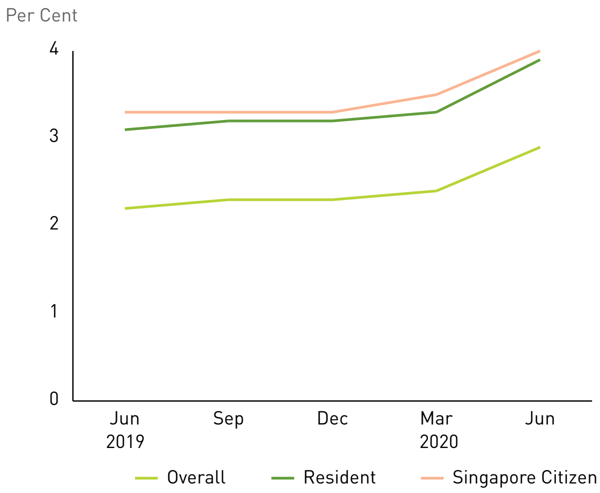
Meanwhile, consumption expenditure fell by 18 per cent year-on-year, a reversal from the 0.2 per cent growth in the preceding quarter. Private consumption expenditure shrank by 28 per cent in the second quarter on account of the COVID-19 outbreak, as well as the CB and other safe distancing measures that were imposed to contain the outbreak. This decline outweighed the 22 per cent increase in public consumption expenditure over the same period.

LABOUR MARKET[1]

Unemployment and Retrenchment

The COVID-19 outbreak had a more significant impact on the labour market in the second quarter of 2020. Compared to March 2020, the seasonally-adjusted unemployment rates rose in June 2020 at the overall level (from 2.4 per cent to 2.9 per cent), as well as for residents (from 3.3 per cent to 3.9 per cent) and citizens (from 3.5 per cent to 4.0 per cent) (Exhibit 1.4). However, these remained lower than the highs observed during SARS[2] and the GFC[3].

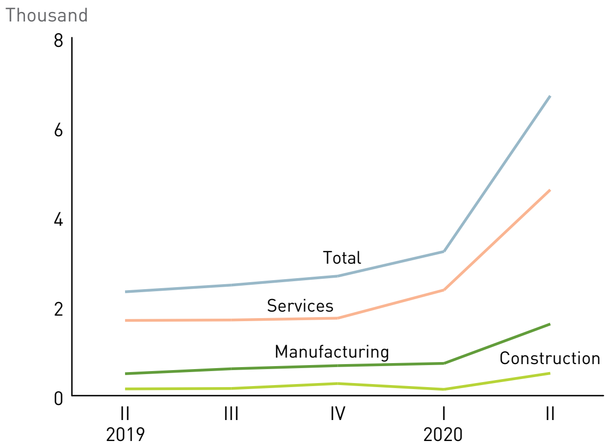
Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)



In June 2020, an estimated 90,500 residents, including 79,600 Singapore citizens, were unemployed. These were higher than the number of unemployed residents (76,200) and citizens (66,900) in March 2020.[4]

Total retrenchments doubled to 6,700 in the second quarter, from the 3,220 recorded in the preceding quarter (Exhibit 1.5). However, the number of retrenchments remained significantly below the peak recorded during the GFC (12,760 in the first quarter of 2009). Over the quarter, retrenchments increased in the services (from 2,360 to 4,600), manufacturing (from 720 to 1,600) and construction (from 140 to 500) sectors.

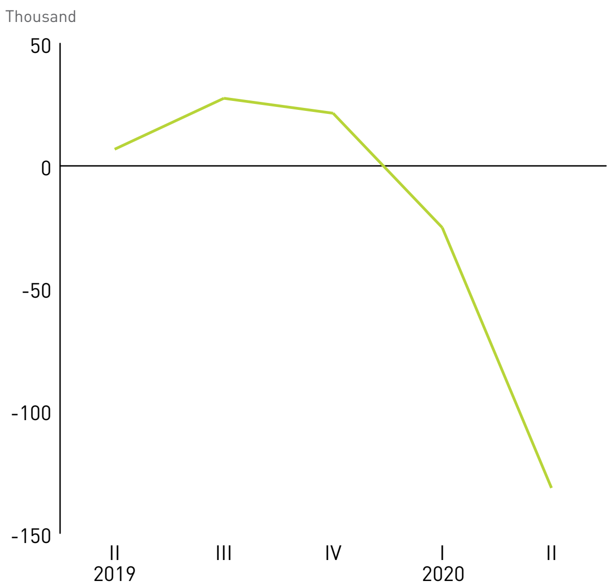
Exhibit 1.5: Retrenchments



Employment[5]

Total employment fell by 131,500 on a quarter-on-quarter basis in the second quarter (Exhibit 1.6), the sharpest quarterly contraction on record. Excluding FDWs, employment declined by 121,800.

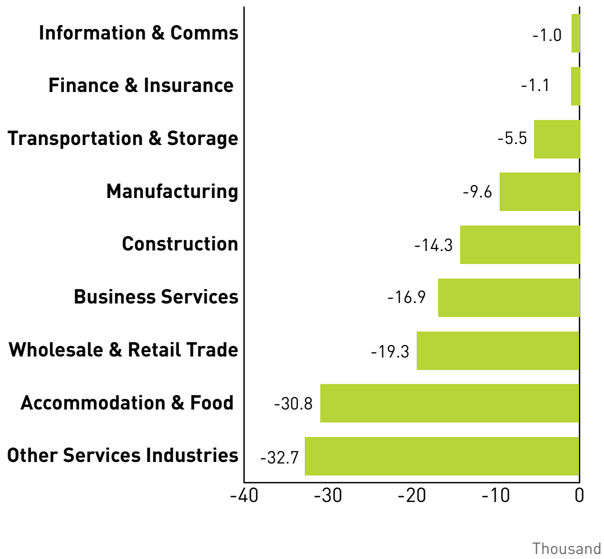
Exhibit 1.6: Change in Total Employment, Quarter-on-Quarter



Employment declines were observed across all broad sectors in the second quarter. In the overall services sector, employment fell by 107,200 (-97,500 excluding FDWs), led by contractions in the other services (-32,700) and accommodation & food services (-30,800) sectors (Exhibit 1.7). Meanwhile, employment in the construction (-14,300) and manufacturing (-9,600) sectors declined for the second consecutive quarter.

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.
5 Based on preliminary estimates.

Exhibit 1.7: Changes in Employment by Industry in 2Q 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 7 per cent of manufacturers expecting to reduce hiring in the third quarter of 2020 as compared to the second quarter. Firms in the aerospace segment of the transport engineering cluster were the most pessimistic, with a net weighted balance of 36 per cent of firms 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, with a net weighted balance of 12 per cent of firms expecting to increase hiring in the third quarter.

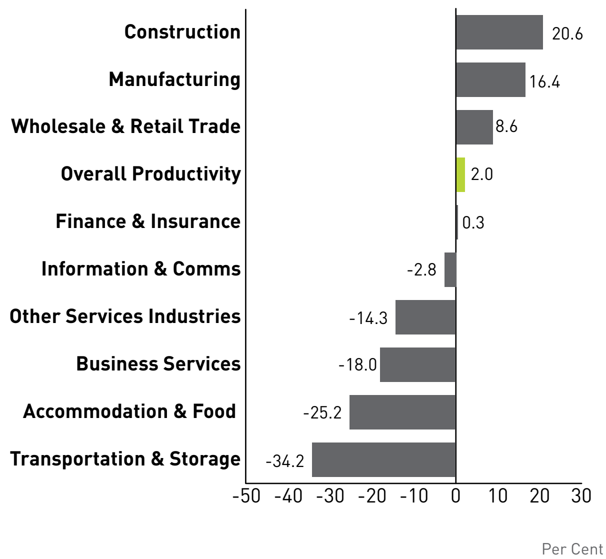
Hiring expectations for services firms were also weak. According to DOS' latest Business Expectations Survey for the Services Sector, a net weighted balance of 21 per cent of services firms expected to reduce hiring in the third quarter of 2020 as compared to the second quarter. In particular, firms in the accommodation and business services (excluding real estate) sectors had the weakest hiring sentiments, with a net weighted balance of 49 per cent and 37 per cent of firms expecting to hire fewer workers in the third quarter respectively.

COMPETITIVENESS

Productivity

Overall labour productivity, as measured by real value-added per actual hour worked, rose by 2.0 per cent year-on-year in the second quarter of 2020, reversing the 3.3 per cent decline recorded in the previous quarter (Exhibit 1.8). The increase came despite the sharp drop in GDP because of a large decline in total actual hours worked (-15 per cent year-on-year) in the second quarter, which was in turn due to a fall in both average actual hours worked per worker and average employment.[6] The fall in average actual hours worked per worker could be attributed partly to the CB measures, which entailed the closure of most physical workplaces for the most part of the quarter.

Exhibit 1.8: Changes in Value-Added per Actual Hour Worked for the Overall Economy and Sectors in 2Q 2020



Among the sectors, the construction (21 per cent), manufacturing (16 per cent), wholesale & retail trade (8.6 per cent) and finance & insurance (0.3 per cent) sectors posted productivity growth in the second quarter. All other sectors saw productivity declines, with the transportation & storage (-34 per cent), accommodation & food services (-25 per cent) and business services (-18 per cent) sectors experiencing the largest declines.

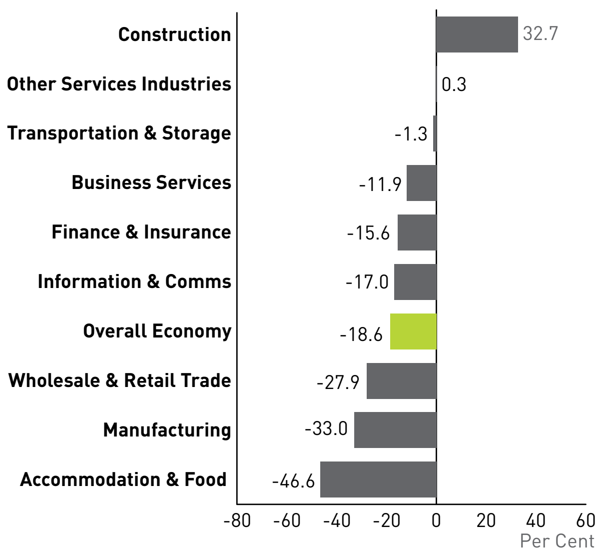
6 *Overall labour productivity, as measured by real value-added per worker, fell by 12 per cent in the second quarter as compared to the 1.6 per cent decline in the preceding quarter. The difference in growth trends between real value-added per actual hour worked and real value-added per worker in the second quarter was due to the sharp fall in the number of actual hours worked per worker.*

In the second quarter, the productivity of outward-oriented sectors as a whole grew by 2.8 per cent year-on-year, reversing the 0.5 per cent decline in the previous quarter.[7] By contrast, the productivity of domestically-oriented sectors fell by 9.9 per cent, extending the 7.8 per cent decline in the first quarter.

Unit Labour Cost and Unit Business Cost

Overall unit labour cost (ULC) for the economy fell by 19 per cent on a year-on-year basis in the second quarter, reversing the 1.2 per cent increase in the preceding quarter (Exhibit 1.9). The decline in the overall ULC was due to a fall in total labour cost per worker, which more than offset the drop in labour productivity as measured by real value-added per worker.

Exhibit 1.9: Changes in Unit Labour Cost in 2Q 2020



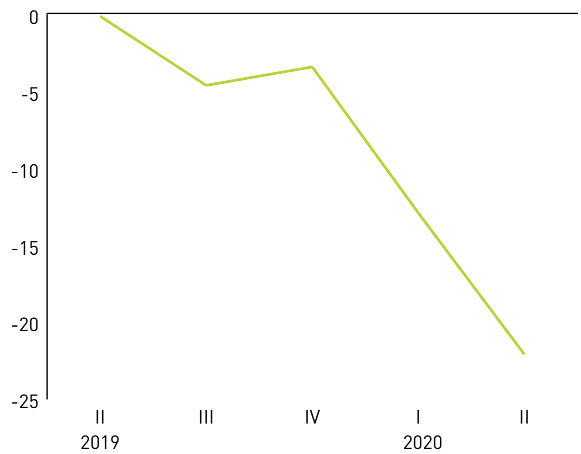
By sectors, the ULC for the manufacturing sector declined by 33 per cent year-on-year, extending the fall of 8.8 per cent in the preceding quarter. The decline occurred on the back of slight productivity gains alongside a fall in total labour cost per worker in the sector.

Similarly, the ULC for services producing industries fell by 15 per cent, reversing the 4.1 per cent increase in the preceding quarter. Most services sectors saw a decline in their ULCs, with the exception of the other services industries. The ULC of the other services industries rose slightly by 0.3 per cent, as the fall in labour productivity exceeded the decline in total labour cost per worker in the sector.

By contrast, the ULC for the construction sector increased by 33 per cent in the second quarter, significantly faster than the 3.1 per cent increase in the previous quarter, as labour productivity fell by more than total labour cost per worker in the sector.

Unit business cost (UBC) for the manufacturing sector fell by 22 per cent year-on-year in the second quarter, extending the 13 per cent decline in the previous quarter (Exhibit 1.10). This came on the back of declines in the manufacturing ULC (-33 per cent), unit services cost (-18 per cent) and unit non-labour production taxes (-7.0 per cent).

Exhibit 1.10: Changes in the Manufacturing Unit Business Cost



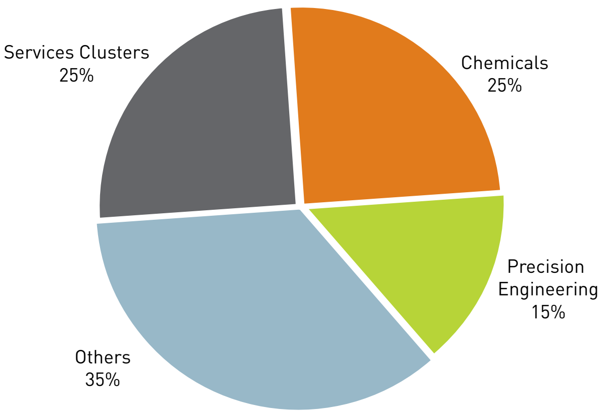
Investment Commitments

Investment commitments garnered by the Economic Development Board (EDB) in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $1.9 billion and $1.7 billion respectively in the second quarter of 2020 (Exhibit 1.11 and Exhibit 1.12).

In terms of FAI, the largest contribution was from the manufacturing sector, which attracted $1.4 billion worth of commitments. Within the manufacturing sector, the chemicals cluster garnered the largest amount of commitments, at $473 million. Among the services clusters, the engineering & environmental services cluster contributed the most to total FAI commitments, at $160 million. This was followed by the research & development cluster, which contributed $140 million. Investors from the United States were the largest contributors to total FAI, with $729 million (38 per cent) in commitments, followed by investors from Europe and Japan, with $482 million (25 per cent) and $398 million (21 per cent) respectively.

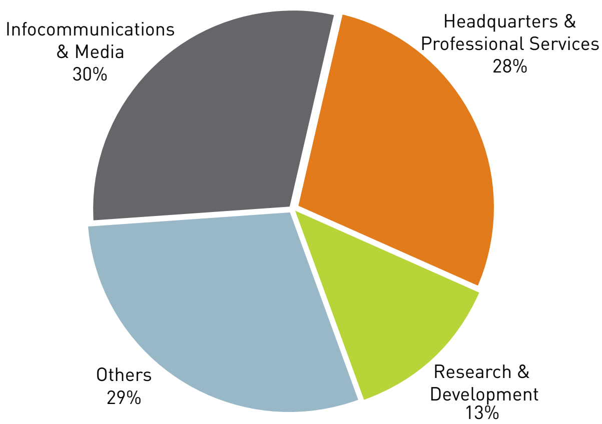
7 *Outward-oriented sectors refer to manufacturing, wholesale trade, transportation & storage, accommodation, information & communications, finance & insurance and professional services. Domestically-oriented sectors refer to construction, retail trade, food & beverage services, other business services and other services industries.*

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 2Q 2020



For TBE, the services clusters attracted the highest amount of commitments, at $1.5 billion. This was driven by the infocommunications & media cluster, which secured $522 million in TBE commitments, followed by the headquarters & professional services cluster, with $490 million. Among the manufacturing clusters, the transport engineering cluster pulled in the largest amount of TBE commitments, at $86 million. Investors from the Others region were the largest source of TBE commitments, at $602 million (35 per cent). They were followed by investors from Europe and the United States, with commitments of $373 million (21 per cent) and $355 million (20 per cent) respectively.

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 2Q 2020



When these projects are fully implemented, they are expected to generate $16 billion of value-added and create more than 4,400 jobs in the coming years.

PRICES

Consumer Price Index

The Consumer Price Index-All Items (CPI-All Items) fell by 0.7 per cent a year-on-year basis in the second quarter of 2020, a reversal from the 0.4 per cent increase in the preceding quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, CPI-All Items dipped by 0.7 per cent in the second quarter, steeper than the 0.1 per cent decline in the first quarter.

Exhibit 1.13: Changes in CPI

Price declines in the following CPI categories contributed negatively to CPI-All Items inflation on a year-on-year basis in the second quarter. Transport costs fell by 3.9 per cent on the back of lower car and petrol prices, as well as Electronic Road Pricing (ERP) charges (Exhibit 1.14). Recreation & culture costs dropped by 2.6 per cent because of lower holiday travel costs. Healthcare costs declined by 1.8 per cent as a fall in the costs of outpatient services and medical products more than offset a rise in hospital service fees. Clothing & footwear costs fell by 3.6 per cent due to cheaper ready-made garments. Prices of miscellaneous goods & services declined by 1.4 per cent as a result of cheaper personal effects items and infant care services. Education costs dipped by 0.6 per cent, as childcare centre and kindergarten fees fell on the back of an enhancement in preschool subsidies from January 2020. Communications costs edged down by 0.3 per cent on account of a fall in the prices of telecommunication equipment. Prices of household durables & services declined by 0.2 per cent owing to cheaper household durables.

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

Per Cent

	2019			2020	
	II	III	IV	I	II
All items	0.8	0.4	0.6	0.4	**-0.7**
Food	1.5	1.4	1.6	1.6	**2.2**
Clothing & Footwear	-0.8	-2.5	-1.6	-3.1	**-3.6**
Housing & Utilities	-0.8	-1.3	-1.3	-0.2	**0.1**
Household Durables & Services	1.3	0.6	0.4	0.4	**-0.2**
Health Care	1.3	1.1	0.2	-1.5	**-1.8**
Transport	1.4	0.8	2.3	2.0	**-3.9**
Communication	-1.1	-1.4	0.3	0.5	**-0.3**
Recreation & Culture	1.8	0.6	0.5	-1.0	**-2.6**
Education	2.5	2.2	2.1	-0.6	**-0.6**
Miscellaneous Goods & Services	0.2	0.2	0.3	-0.1	**-1.4**

By contrast, price increases in the following CPI categories contributed positively to CPI-All Items inflation in the second quarter. Food prices rose by 2.2 per cent 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 meat and vegetables. Housing & utilities costs inched up by 0.1 per cent as higher accommodation costs outweighed a drop in electricity prices and gas tariffs.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade declined by 15 per cent year-on-year in the second quarter of 2020, after posting a slight increase of 0.5 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. Oil trade contracted by 62 per cent in nominal terms amidst lower oil prices compared to a year ago, while non-oil trade decreased by 3.3 per cent.

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

Per Cent

	2019				2020	
	II	III	IV	Ann	I	II
Merchandise Trade	-2.2	-6.7	-5.3	-3.2	0.5	**-15.2**
Merchandise Exports	-4.6	-7.3	-4.3	-4.2	-1.4	**-13.8**
Domestic Exports	-10.6	-13.1	-11.5	-10.5	-6.4	**-21.1**
Oil	-2.9	-19.7	-21.5	-12.9	-28.9	**-67.7**
Non-Oil	-14.7	-9.6	-5.7	-9.2	5.4	**6.5**
Re-Exports	2.0	-1.7	2.8	2.3	3.2	**-6.8**
Merchandise Imports	0.5	-5.9	-6.3	-2.1	2.6	**-16.6**
Oil	-9.6	-18.2	-20.4	-13.5	-6.2	**-57.5**
Non-Oil	3.7	-2.3	-1.9	1.5	5.1	**-5.2**

Total merchandise exports declined by 14 per cent in the second quarter, weakening from the 1.4 per cent contraction in the preceding quarter. Both domestic exports (-21 per cent) and re-exports (-6.8 per cent) contracted.

Domestic exports fell on account of a decline in oil domestic exports, which outweighed an increase in non-oil domestic exports (NODX). In particular, oil domestic exports contracted by 68 per cent, partly reflecting lower oil prices compared to a year ago. In volume terms, oil domestic exports decreased by 36 per cent.

Meanwhile, NODX increased by 6.5 per cent in the second quarter, extending the 5.4 per cent growth in the previous quarter. The rise in NODX was supported by increases in both non-electronics and electronics domestic exports.

Total merchandise imports declined by 17 per cent in the second quarter, reversing the 2.6 per cent increase in the previous quarter, as both oil and non-oil imports fell. Specifically, oil imports contracted by 57 per cent amidst lower oil prices compared to levels a year ago. Meanwhile, non-oil imports declined by 5.2 per cent, as a fall in non-electronics imports outweighed an increase in electronics imports.

Services Trade

Total services trade contracted by 22 per cent on a year-on-year basis in the second quarter of 2020, sharper than the 3.2 per cent decline in the previous quarter (Exhibit 1.16). Both exports and imports of services recorded negative growth during the quarter.

Services exports fell by 20 per cent, following the 3.0 per cent decline in the preceding quarter. The fall in services exports was largely attributable to declines in the exports of travel, transport and maintenance & repair services. Meanwhile, services imports contracted by 24 per cent, larger than the 3.3 per cent fall in the previous quarter. The decline in services imports was mainly due to a drop in the imports of travel, transport and other business services.

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

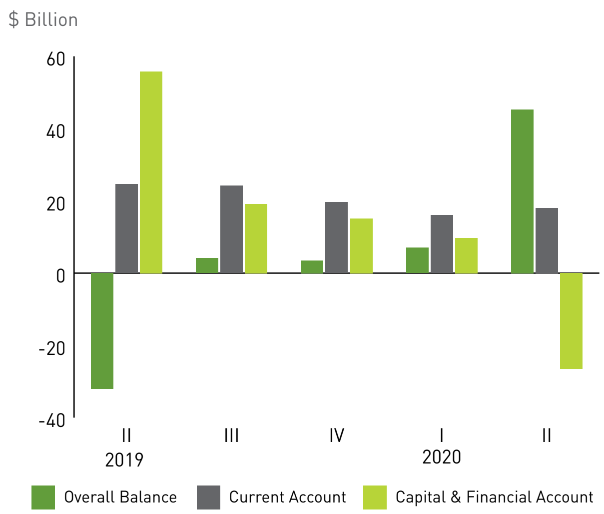
Per Cent

	2019				2020	
	II	III	IV	Ann	I	II
Total Services Trade	1.9	0.6	2.5	1.3	-3.2	**-22.2**
Services Exports	1.9	1.9	4.5	2.2	-3.0	**-20.3**
Services Imports	1.9	-0.8	0.6	0.4	-3.3	**-24.1**

BALANCE OF PAYMENTS

The overall balance of payments recorded a surplus of $45 billion in the second quarter of 2020, up from $7.0 billion in the first quarter (Exhibit 1.17).

Exhibit 1.17: Balance of Payments



Current Account

The current account surplus rose to $18 billion in the second quarter, from $16 billion in the preceding quarter. This was due to increases in both the goods and services surpluses, which more than offset the larger deficits in the primary and secondary income balances.

The surplus in the goods balance was $30 billion in the second quarter, up from $27 billion in the previous quarter, as goods imports fell more than goods exports.

At the same time, the surplus in the services balance rose to $3.8 billion in the second quarter, from $1.9 billion in the preceding quarter. This was mainly driven by a shift in travel services from net payments to net receipts, as well as smaller net payments for transport and other business services. These changes more than offset a decline in the net receipts for maintenance & repair services.

Meanwhile, the deficits in the primary and secondary income balances increased by $2.7 billion and $0.5 billion respectively, as both primary and secondary income receipts from abroad fell by a larger magnitude than their corresponding payments during the quarter.

Capital and Financial Account[8]

The capital and financial account registered a net inflow of $26 billion in the second quarter, in contrast to the $9.7 billion net outflow seen in the preceding quarter. This primarily reflected a shift in "other investment" from a net outflow to a net inflow position, as well as higher net inflows of direct investment.

"Other investment" saw a net inflow of $20 billion in the second quarter, a turnaround from the $17 billion net outflow in the quarter before. This was partly attributable to a sharp decline in net outflows from resident deposit-taking corporations.

At the same time, net inflows of direct investment rose to $20 billion in the second quarter, from $13 billion in the first quarter, as foreign direct investments into Singapore increased while residents' direct investment abroad fell.

By contrast, net outflows of portfolio investment increased to $7.2 billion in the second quarter, from $1.6 billion the previous quarter. This was mainly due to a decline in the net sales of overseas securities by resident deposit-taking corporations.

Similarly, net outflows of financial derivatives stepped up to $7.1 billion in the second quarter, from $4.4 billion in the preceding quarter.

8 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".