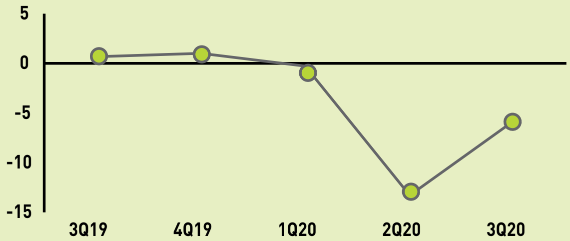
CHAPTER 1

THE SINGAPORE ECONOMY

ECONOMIC PERFORMANCE

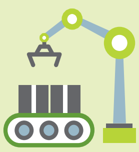
Real GDP declined by 5.8% in 3Q20

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 3Q20

Manufacturing



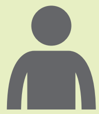
2.0%-point
contribution

Finance & Insurance

0.4%-point
contribution

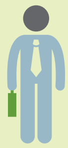
LABOUR MARKET

Resident
Unemployment Rate



4.7%
in 3Q20

Employment
(Q-O-Q Change)



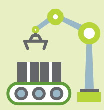
-32,100
employed

PRODUCTIVITY

Value-Added per Actual Hour Worked increased by 2.2% in 3Q20

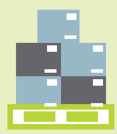
Sectors with the Highest Growth in Value-Added per Actual Hour Worked in 3Q20

22.3%



Manufacturing

3.3%



Wholesale & Retail Trade

COSTS

Overall Unit Labour Cost decreased by

10.1% in 3Q20

Within the manufacturing sector

-21.8%	-27.4%
Unit Business Cost	Unit Labour Cost

PRICES

The Consumer Price Index (CPI) declined by

0.3% in 3Q20

Categories with Price Decreases

-4.0%	-1.9%
Clothing & Footwear	Health Care

Quarterly Growth (Year-on-Year)

INTERNATIONAL TRADE

Total Merchandise Exports declined by 5.0% in 3Q20

EXPORTS

6.5%	0.4%	-48.6%
Non-Oil Domestic Exports	Re-exports	Oil Domestic Exports

Total Services Exports declined by 17.8% in 3Q20

Services Export Decline was led by...

-8.5%-pt	-4.9%-pt
Travel	Transport Services

OVERVIEW

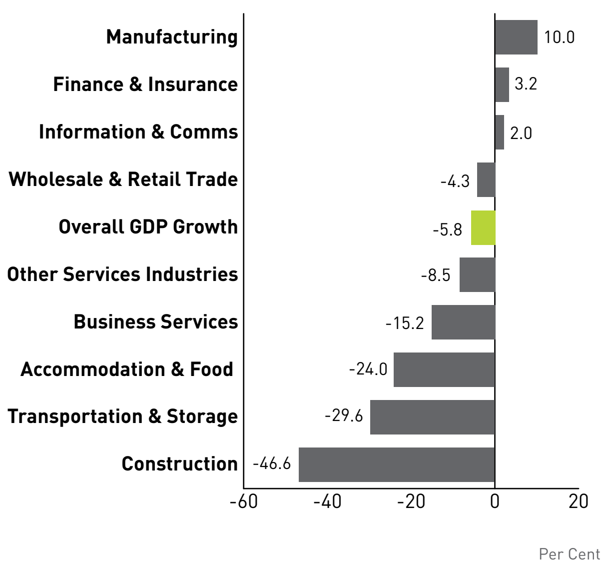
In the third quarter of 2020,

- The Singapore economy contracted by 5.8 per cent on a year-on-year basis. The sectors that contributed the most to the decline were business services, transportation & storage and construction.
- The seasonally-adjusted overall, resident and citizen unemployment rates rose in September 2020 as compared to June 2020. Retrenchments in the third quarter were slightly higher than that recorded in the preceding quarter, but remained lower than the peak during the Global Financial Crisis (GFC).
- Total employment fell by 32,100 on a quarter-on-quarter basis, moderating significantly from the contraction in the second quarter (-113,500), which was the largest quarterly decline on record. Excluding foreign domestic workers (FDWs), total employment contracted by 26,900, with the decline attributable to a continued fall in non-resident employment even as resident employment rebounded.
- The Consumer Price Index-All Items (CPI-All Items) dipped by 0.3 per cent on a year-on-year basis, easing from the 0.7 per cent decline in the second quarter.

OVERALL PERFORMANCE

The Singapore economy expanded by 9.2 per cent on a quarter-on-quarter seasonally-adjusted basis in the third quarter, a turnaround from the 13.2 per cent contraction in the second quarter. On a year-on-year basis, the economy contracted by 5.8 per cent, moderating from the 13.3 per cent contraction recorded in the previous quarter (Exhibit 1.1). The improved performance of the Singapore economy came on the back of the phased resumption of activities in the third quarter following the Circuit Breaker that was implemented from 7 April to 1 June 2020, as well as the rebound in activity in major economies during the quarter as they emerged from their lockdowns.

Exhibit 1.1: GDP and Sectoral Growth Rates in 3Q 2020



By sectors, the manufacturing sector expanded by 10 per cent year-on-year in the third quarter, reversing the 0.8 per cent decline in the previous quarter. The expansion was largely due to output growth in the electronics, biomedical manufacturing and precision engineering clusters, which more than offset output declines in the transport engineering and general manufacturing clusters. In particular, output increases in the electronics and precision engineering clusters were due to strong global demand for semiconductors and semiconductor equipment respectively.

The services producing industries shrank by 8.4 per cent year-on-year in the third quarter, an improvement from the 13 per cent decline recorded in the previous quarter. All services sectors contracted, except for the finance & insurance and information & communications sectors, which grew by 3.2 per cent and 2.0 per cent year-on-year respectively. Among the services sectors that shrank, the transportation & storage (-30 per cent) and accommodation & food services (-24 per cent) sectors recorded the largest contractions.

The construction sector contracted by 47 per cent year-on-year in the third quarter, extending the 60 per cent contraction in the previous quarter. Construction output during the quarter remained weak due to the slow resumption of construction activities as construction firms had to implement safe management measures at the worksites for a safe restart.

The top three contributors to the GDP decline in the third 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 3Q 2020 (By Industry)

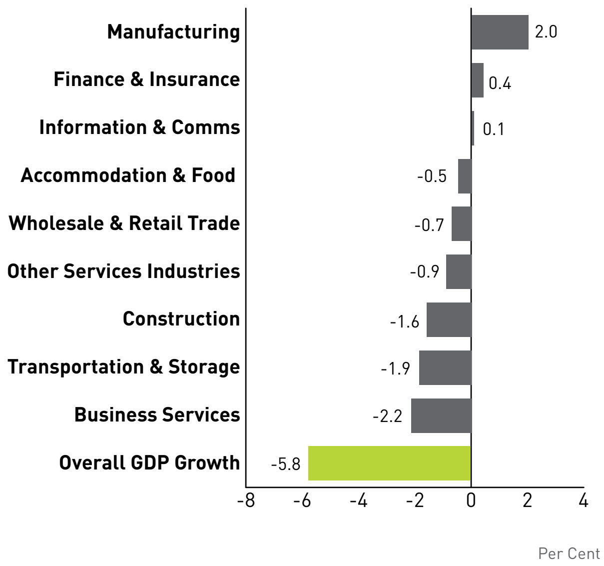


*Exhibit 1.3: Changes in Total Demand**

	2019		2020		
	III	IV	I	II	III
Total Demand	-2.1	1.1	0.4	-16.2	**-8.0**
External Demand	-3.4	1.6	0.3	-14.3	**-6.9**
Total Domestic Demand	1.1	-0.2	0.5	-20.8	**-10.7**
Consumption Expenditure	3.5	3.0	0.1	-19.1	**-7.2**
Public	2.6	4.3	6.9	19.5	**16.3**
Private	3.8	2.6	-2.2	-28.7	**-13.7**
Gross Fixed Capital Formation	2.5	-1.7	3.2	-25.3	**-18.6**
Changes in Inventories	-1.4	-1.1	-0.4	-0.1	**0.0**

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

SOURCES OF GROWTH

Total demand declined by 8.0 per cent year-on-year in the third quarter, an improvement from the 16 per cent drop in the previous quarter (Exhibit 1.3). The improvement came on the back of the resumption of activities in Singapore following the Circuit Breaker as well as the rebound in activity in external economies that emerged from their lockdowns.

External demand fell by 6.9 per cent year-on-year in the third quarter, moderating from the 14 per cent decline in the previous quarter, as many major economies around the world continued to grapple with the COVID-19 pandemic.

Meanwhile, domestic demand decreased by 11 per cent year-on-year in the third quarter, better than 21 per cent contraction in the previous quarter, as private consumption expenditure and gross fixed capital formation (GFCF) remained weak.

Within domestic demand, GFCF shrank by 19 per cent year-on-year in the third quarter, extending the 25 per cent decline in the previous quarter. Overall GFCF was weighed down by a 15 per cent and 35 per cent drop in private sector and public sector GFCF respectively, both of which were largely due to lower investments in construction & works.

Meanwhile, consumption expenditure fell by 7.2 per cent year-on-year, improving from the 19 per cent decline in the preceding quarter. Private consumption expenditure shrank by 14 per cent in the third quarter. This decline outweighed the 16 per cent increase in public consumption expenditure over the same period.

LABOUR MARKET

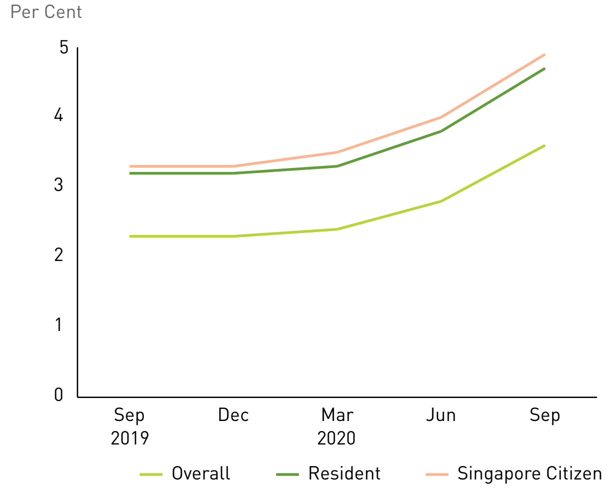
Unemployment and Retrenchment[1]

Compared to June 2020, the seasonally-adjusted unemployment rates rose in September 2020 at the overall level (from 2.8 per cent to 3.6 per cent), as well as for residents (from 3.8 per cent to 4.7 per cent) and citizens (from 4.0 per cent to 4.9 per cent) (Exhibit 1.4). While September's unemployment rates were comparable to previous recessionary highs observed during the Asian Financial Crisis[2] and GFC[3], they remained below the peaks seen during SARS[4].

1 *Retrenchment figures pertain to private sector establishments with at least 25 employees and the public sector.*
2 *In December 1998, the overall, resident and citizen unemployment rates were 3.4 per cent, 4.7 per cent and 4.8 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 *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.*
5 *Based on seasonally-adjusted data on the number of unemployed persons.*

In September 2020, an estimated 112,500 residents, including 97,700 Singapore citizens, were unemployed. These were higher than the number of unemployed residents (89,700) and citizens (78,800) in June 2020.[5]

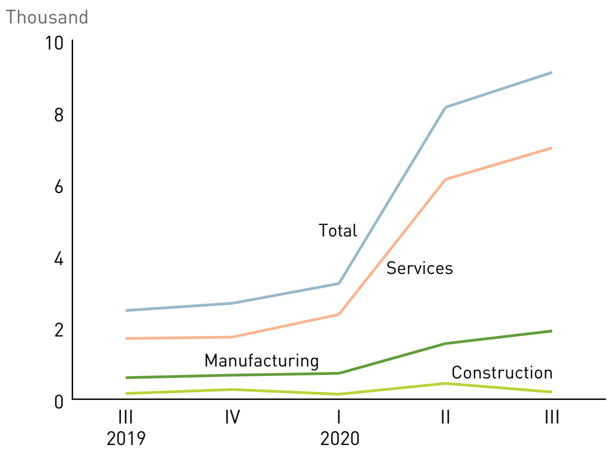
Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)



Total retrenchments increased from 8,130 in the second quarter to 9,100 in the third quarter (Exhibit 1.5). However, the number of retrenchments continued to remain lower compared to the peak recorded during the GFC (12,760 in the first quarter of 2009).

Over the quarter, retrenchments increased in the services (from 6,120 to 7,000) and manufacturing (from 1,550 to 1,900) sectors, but declined in the construction sector (from 440 to 200).

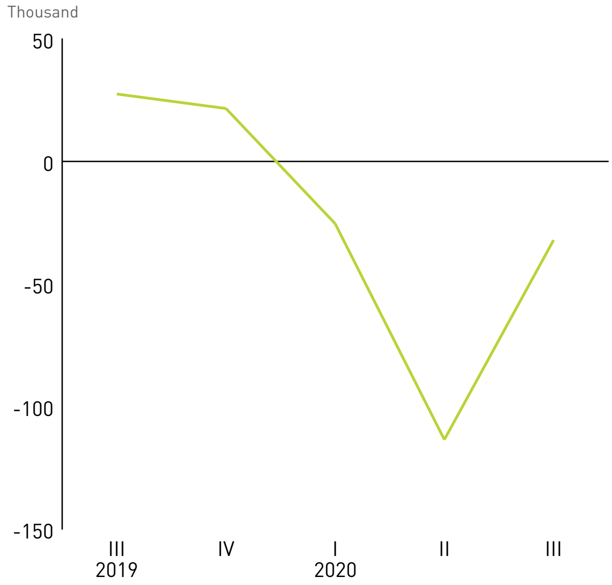
Exhibit 1.5: Retrenchments



Employment[6]

Total employment fell by 32,100 on a quarter-on-quarter basis in the third quarter (Exhibit 1.6), moderating significantly from the 113,500 decline in the preceding quarter, which was the largest quarterly contraction on record. Excluding FDWs, total employment declined by 26,900, driven by a continued contraction in non-resident employment, which outweighed a rebound in resident employment.

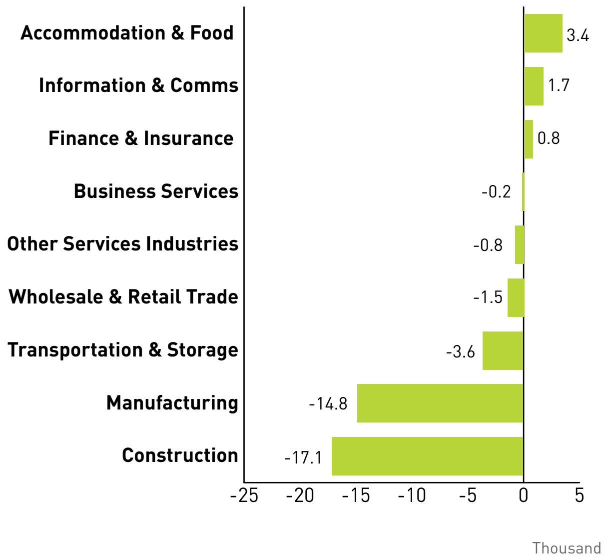
Exhibit 1.6: Change in Total Employment, Quarter-on-Quarter



Employment declines were observed across all broad sectors in the third quarter. In particular, the construction (-17,100) and manufacturing (-14,800) sectors saw the sharpest contractions in employment, led by a decline in the number of foreign workers. At the same time, employment in the overall services sector fell by 300 on the back of a decline in FDWs. Excluding FDWs, employment in the services sector increased by 5,000, supported by employment gains in the accommodation & food services (+3,400) and information & communications (+1,700) sectors (Exhibit 1.7).

6 *Based on preliminary estimates.*

Exhibit 1.7: Changes in Employment by Industry in 3Q 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 8 per cent of manufacturers expecting to reduce hiring in the fourth quarter of 2020 as compared to the third quarter. Firms in the precision modules & components segment of the precision engineering cluster were the most pessimistic, with a net weighted balance of 29 per cent of firms expecting lower levels of hiring in the fourth quarter. By contrast, firms in the other electronic modules & components segment of the electronics cluster were optimistic, with a net weighted balance of 23 per cent of firms expecting to increase hiring in the fourth quarter.

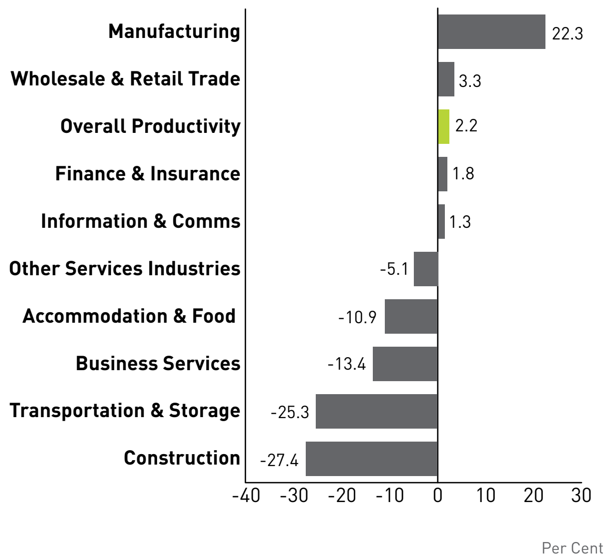
Hiring expectations for services firms were also weak. According to DOS' latest Business Expectations Survey for the Services Sector, a net weighted balance of 7 per cent of services firms expected to reduce hiring in the fourth quarter of 2020 as compared to the third quarter. Firms in the accommodation and transportation & storage sectors had the weakest hiring sentiments, with a net weighted balance of 60 per cent and 20 per cent of firms expecting to hire fewer workers in the fourth quarter respectively.

COMPETITIVENESS

Productivity

Overall labour productivity, as measured by real value-added per actual hour worked, rose by 2.2 per cent year-on-year in the third quarter, following the 2.4 per cent growth in the previous quarter (Exhibit 1.8). The increase came despite the contraction in GDP because of a larger decline in actual hours worked (-7.8 per cent year-on-year) in the third quarter. In turn, the fall in the number of actual hours worked was due to continued year-on-year declines in both average employment and average actual hours worked per worker.[7]

Exhibit 1.8: Changes in Value-Added per Actual Hour Worked for the Overall Economy and Sectors in 3Q 2020



Among the sectors, the manufacturing (22 per cent), wholesale & retail trade (3.3 per cent), finance & insurance (1.8 per cent) and information & communications (1.3 per cent) sectors posted productivity growth in the third quarter. All the other sectors saw productivity declines, with the construction (-27 per cent), transportation & storage (-25 per cent), business services (-13 per cent) and accommodation & food services (-11 per cent) sectors experiencing the largest declines.

In the third quarter, the productivity of outward-oriented sectors as a whole rose by 2.7 per cent year-on-year, exceeding the 1.9 per cent increase in the previous quarter.[8] By contrast, the productivity of domestically-oriented sectors fell by 7.6 per cent, extending the 8.6 per cent decline in the second quarter.

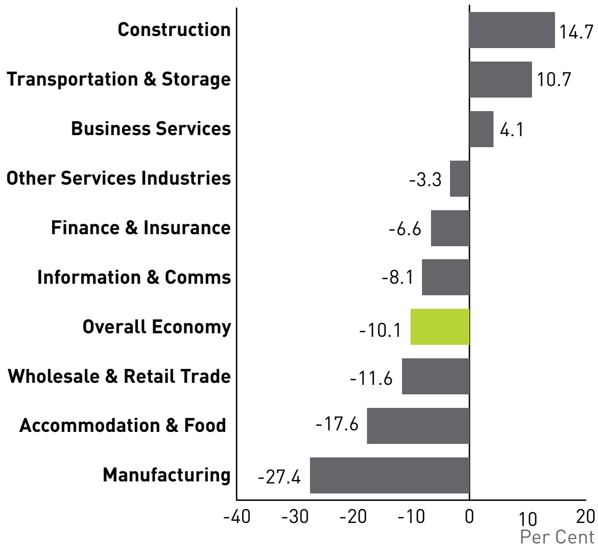
7 *Overall labour productivity, as measured by real value-added per worker, fell by 2.5 per cent in the third quarter as compared to the 12 per cent decline in the preceding quarter. The difference in trends between real value-added per actual hour worked and real value-added per worker in the third quarter was due to a fall 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 fell by 10 per cent on a year-on-year basis in the third quarter, moderating from the decline of 19 per cent in the preceding quarter (Exhibit 1.9). The drop in overall ULC was due to a fall in total labour cost per worker, which more than offset the decline in labour productivity as measured by real value-added per worker.

Exhibit 1.9: Changes in Unit Labour Cost in 3Q 2020



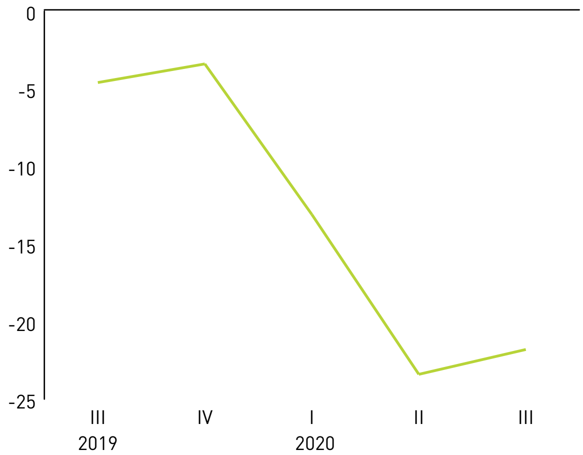
By sectors, the ULC for the manufacturing sector contracted by 27 per cent year-on-year, extending the fall of 37 per cent in the preceding quarter. The decline occurred on the back of productivity gains alongside a fall in total labour cost per worker in the sector.

Similarly, the ULC for services producing industries decreased by 4.4 per cent, a moderation from the 14 per cent fall in the preceding quarter. Most services sectors saw a decline in their ULCs, with the exception of the transportation & storage and business services sectors, which saw an increase in their ULCs as a fall in labour productivity outweighed a decline in total labour cost per worker in these sectors.

By contrast, the ULC for the construction sector rose by 15 per cent in the third quarter, slower than the 29 per cent increase in the previous quarter. The ULC of the sector increased 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 third quarter, extending the 23 per cent decline in the previous quarter (Exhibit 1.10). This came on the back of declines in the manufacturing ULC (-27 per cent), unit services cost (-20 per cent) and unit non-labour production taxes (-34 per cent).

Exhibit 1.10: Changes in the Manufacturing Unit Business Cost

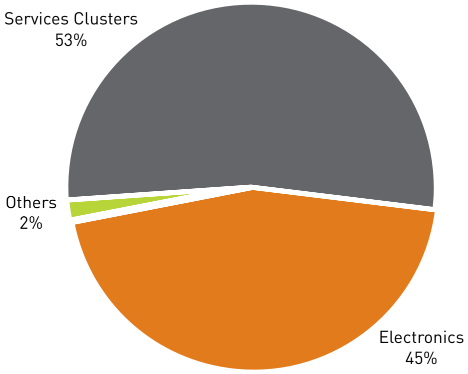


Investment Commitments

Investment commitments garnered by the Economic Development Board (EDB) in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $2.1 billion and $914 million respectively in the third quarter (Exhibit 1.11 and Exhibit 1.12).

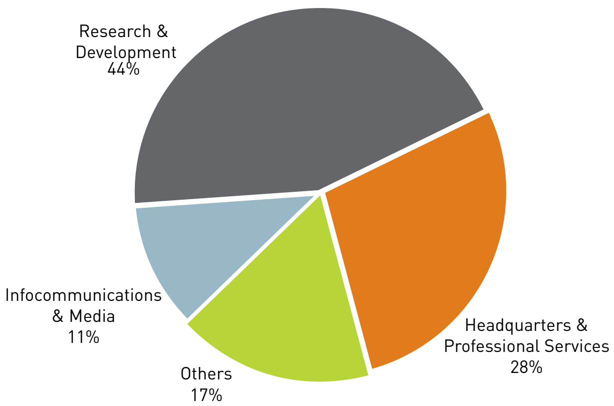
In terms of FAI, the largest contribution was from the services sector, which attracted $1.1 billion worth of commitments. Within the services sector, the research & development and infocommunications & media clusters saw the highest amounts of commitments, at $629 million and $374 million respectively. Meanwhile, the electronics cluster attracted $924 million worth of FAI commitments, the highest amongst the manufacturing clusters. Investors from the United States were the largest contributor to total FAI, with $1.0 billion (49 per cent) in commitments, followed by investors from Europe, with $931 million (45 per cent).

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 3Q 2020



For TBE, the services clusters attracted the highest amount of commitments, at $838 million. This was led by the research & development cluster, which secured $403 million in commitments, followed by the headquarters & professional services cluster, with $254 million. Among the manufacturing clusters, the electronics cluster pulled in the largest amount of TBE commitments, at $44.3 million. Local investors were the largest source of TBE commitments, at $288 million (32 per cent). They were followed by investors from the United States and Europe, with commitments of $262 million (29 per cent) and $217 million (24 per cent) respectively.

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 3Q 2020



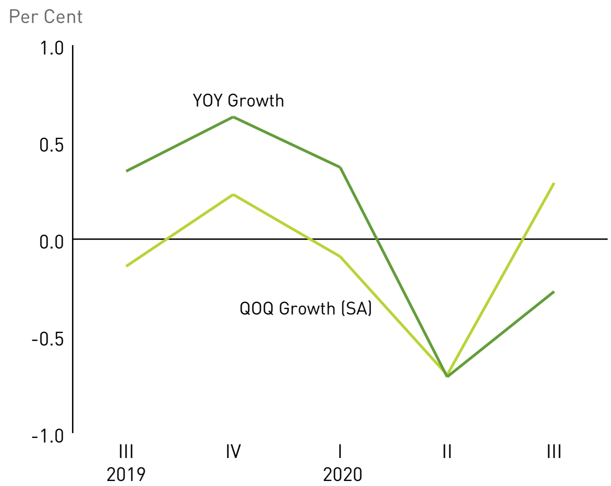
When these projects are fully implemented, they are expected to generate $7.5 billion of value-added and create more than 3,700 jobs in the coming years.

PRICES

Consumer Price Index

The Consumer Price Index-All Items (CPI-All Items) dipped by 0.3 per cent on a year-on-year basis in the third quarter, easing from the 0.7 per cent decline in the preceding quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, CPI-All Items rose by 0.3 per cent in the third quarter, a reversal from the 0.7 per cent decline in the previous quarter.

Exhibit 1.13: Changes in CPI



Price increases in the following CPI categories contributed positively to CPI-All Items inflation on a year-on-year basis in the third quarter (Exhibit 1.14). Food costs rose by 1.9 per cent on the back of an increase in the prices of non-cooked food items such as meat and vegetables, as well as food servicing services like hawker food and restaurant meals. Prices of household durables & services increased by 0.4 per cent on account of more expensive non-durable household goods and household durables. Communication costs climbed by 1.8 per cent due to higher telecommunication services and equipment costs.

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

Per Cent

	2019		2020		
	III	IV	I	II	III
All items	0.4	0.6	0.4	-0.7	**-0.3**
Food	1.4	1.6	1.6	2.2	**1.9**
Clothing & Footwear	-2.5	-1.6	-3.1	-3.6	**-4.0**
Housing & Utilities	-1.3	-1.3	-0.2	0.1	**-0.7**
Household Durables & Services	0.6	0.4	0.4	-0.2	**0.4**
Health Care	1.1	0.2	-1.5	-1.8	**-1.9**
Transport	0.8	2.3	2.0	-3.9	**-0.8**
Communication	-1.4	0.3	0.5	-0.3	**1.8**
Recreation & Culture	0.6	0.5	-1.0	-2.6	**-1.6**
Education	2.2	2.1	-0.6	-0.6	**-0.5**
Miscellaneous Goods & Services	0.2	0.3	-0.1	-1.4	**-1.7**

By contrast, price declines in the following CPI categories contributed negatively to CPI-All Items inflation in the third quarter. Clothing & footwear prices dropped by 4.0 per cent because of cheaper ready-made garments and footwear. Housing & utilities costs fell by 0.7 per cent as lower electricity prices and gas tariffs more than offset a rise in accommodation costs. Healthcare costs declined by 1.9 per cent on the back of a fall in the prices of outpatient services and medical products, which outweighed an increase in the cost of hospital services. Transport costs edged down by 0.8 per cent due to a drop in the prices of petrol and Electronic Road Pricing (ERP) charges that more than offset higher car prices as well as bus & train fares. Recreation & culture prices fell by 1.6 per cent as a result of the lower cost of holiday travel. Education costs dipped by 0.5 per cent on account of lower fees at childcare centres and kindergartens due to the enhancement of preschool subsidies since January 2020. Prices of miscellaneous goods & services declined by 1.7 per cent on the back of cheaper personal effects and personal care items.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade decreased by 6.3 per cent year-on-year in the third quarter, an improvement from the contraction of 15 per cent in the preceding quarter (Exhibit 1.15). The fall in total merchandise trade was due to a decline in oil trade which outweighed the increase in non-oil trade. Oil trade contracted by 39 per cent in nominal terms amidst lower oil prices compared to a year ago, while non-oil trade grew by 0.8 per cent.

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

Per Cent

	2019			2020		
	III	IV	Ann	I	II	III
Merchandise Trade	-6.7	-5.3	-3.2	0.5	-15.3	**-6.3**
Merchandise Exports	-7.3	-4.3	-4.2	-1.4	-14.0	**-5.0**
Domestic Exports	-13.1	-11.5	-10.5	-6.4	-21.6	**-11.4**
Oil	-19.7	-21.5	-12.9	-28.9	-67.7	**-48.6**
Non-Oil	-9.6	-5.7	-9.2	5.4	5.9	**6.5**
Re-Exports	-1.7	2.8	2.3	3.2	-6.8	**0.4**
Merchandise Imports	-5.9	-6.3	-2.1	2.6	-16.6	**-7.6**
Oil	-18.2	-20.4	-13.5	-6.2	-57.5	**-32.3**
Non-Oil	-2.3	-1.9	1.5	5.1	-5.2	**-1.5**

Total merchandise exports declined by 5.0 per cent in the third quarter, moderating from the 14 per cent contraction in the preceding quarter. Domestic exports (-11 per cent) fell, while re-exports (0.4 per cent) expanded slightly.

The fall in domestic exports was 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 49 per cent, partly reflecting lower oil prices compared to a year ago. In volume terms, oil domestic exports decreased by 24 per cent.

On the other hand, NODX expanded by 6.5 per cent during the quarter, extending the 5.9 per cent growth in the previous quarter. The rise in NODX was supported by an increase in both non-electronics and electronics domestic exports.

Total merchandise imports declined by 7.6 per cent in the third quarter, smaller than the 17 per cent contraction in the previous quarter, as both oil and non-oil imports fell. Specifically, oil imports contracted by 32 per cent amidst lower oil prices compared to levels a year ago. At the same time, non-oil imports decreased by 1.5 per cent, as a decline in non-electronics imports outweighed an increase in electronics imports.

Services Trade

Total services trade contracted by 18 per cent on a year-on-year basis in the third quarter, smaller than the 22 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 18 per cent, extending the 21 per cent decline in the preceding quarter. The fall in services exports was largely attributable to declines in the exports of travel services, transport services and maintenance & repair services. Meanwhile, services imports contracted by 19 per cent, moderating from the 24 per cent fall in the previous quarter. The decline in services imports was mainly due to a drop in the 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)

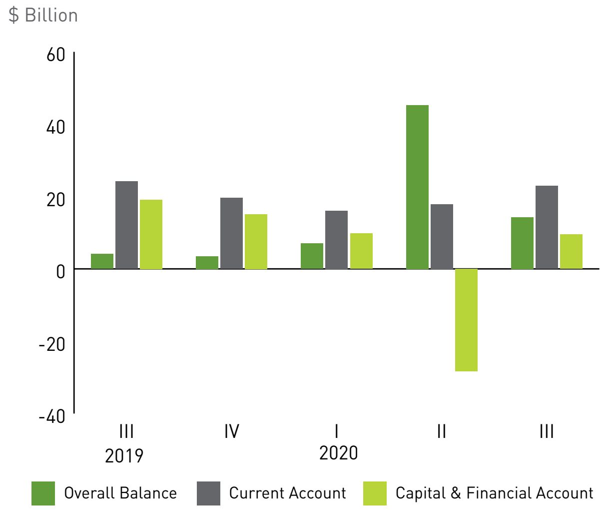
Per Cent

	2019			2020		
	III	IV	Ann	I	II	III
Total Services Trade	0.6	2.5	1.3	-3.3	-22.4	**-18.5**
Services Exports	1.9	4.5	2.2	-3.3	-20.8	**-17.8**
Services Imports	-0.8	0.6	0.4	-3.3	-24.1	**-19.2**

BALANCE OF PAYMENTS

The overall balance of payments recorded a surplus of $14 billion in the third quarter, lower than the surplus of $45 billion in the second quarter (Exhibit 1.17).

Exhibit 1.17: Balance of Payments



Current Account

The current account surplus rose to $23 billion in the third quarter, from $18 billion in the preceding quarter. This was due to increases in both the goods and services account surpluses as well as a decline in the primary income deficit. In comparison, the secondary income deficit was broadly unchanged.

The surplus in the goods balance was $32 billion in the third quarter, up from $30 billion in the previous quarter, as goods exports rose by more than goods imports.

At the same time, the surplus in the services balance edged up to $3.7 billion in the third quarter, from $3.4 billion in the preceding quarter. This was mainly due to rising net receipts of financial services and travel services, which more than offset an increase in the net payments for other business services and manufacturing services on physical inputs owned by others, as well as a fall in the net receipts of telecommunications, computer & information services.

Meanwhile, the deficit in the primary income balance fell to $10 billion in the third quarter, from $13 billion in the second quarter, as primary income payments declined by a larger magnitude compared to primary income receipts. In comparison, the deficit in the secondary income balance was broadly unchanged.

CAPITAL AND FINANCIAL ACCOUNT[9]

The capital and financial account registered a net outflow of $9.5 billion in the third quarter, a reversal from the net inflow of $28 billion seen in the preceding quarter. This was due to declines in the net inflows of "other investment" and direct investment, as well as an increase in the net outflows of portfolio investment.

Net inflows of "other investment" decreased significantly to $3.3 billion in the third quarter, from $28 billion in the preceding quarter. This was partly attributable to an increase in net outflows from resident deposit-taking corporations.

At the same time, the net inflows of direct investment fell to $14 billion in the third quarter, from $19 billion in the second quarter, as foreign direct investments into Singapore decreased by more than the fall in residents' direct investments abroad.

Meanwhile, the net outflows of portfolio investment increased from $15 billion in the second quarter to $23 billion in the third quarter, partly due to resident deposit-taking corporations shifting to a net outflow position from a net inflow position previously.

Finally, the net outflows of financial derivatives remained at $4.1 billion in the third quarter, broadly unchanged from that in the second quarter.

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".