MTI MINISTRY OF TRADE AND INDUSTRY SINGAPORE

PRESS RELEASE

MTI Maintains 2021 GDP Growth Forecast at "4.0 to 6.0 Per Cent" Amidst Significant Uncertainties Arising from the COVID-19 Pandemic

25 May 2021. The Ministry of Trade and Industry (MTI) today announced that it would **maintain Singapore's GDP growth forecast for 2021 at "4.0 to 6.0 per cent",** in view of the heightened uncertainties in the economic environment, characterised by both upside and downside risks, especially arising from the COVID-19 pandemic (see section on Economic Outlook for 2021). MTI will review the forecast again in the next quarter, when there is more data, and greater clarity over the global and domestic economic situations.

Economic Performance in First Quarter 2021

The Singapore economy expanded by 1.3 per cent on a year-on-year basis in the first quarter, a reversal from the 2.4 per cent contraction in the previous quarter. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 3.1 per cent, extending the 3.8 per cent expansion in the fourth quarter of last year.

The manufacturing sector expanded by 10.7 per cent year-on-year, slightly faster than the 10.3 per cent growth recorded in the previous quarter. Growth was due to output expansions in the electronics, precision engineering and chemicals clusters, which outweighed output declines in the transport engineering, general manufacturing and biomedical manufacturing clusters. On a quarter-on-quarter seasonally-adjusted basis, the manufacturing sector grew by 10.8 per cent, rebounding from the 1.4 per cent contraction in the preceding quarter.

The construction sector contracted by 22.7 per cent year-on-year, improving from the 27.4 per cent contraction in the previous quarter. The performance of the sector was weighed down by declines in both public and private sector construction works. On a quarter-on-quarter seasonally-adjusted basis, the sector grew by 5.0 per cent, extending the 55.6 per cent expansion in the fourth quarter[1].

The wholesale trade sector expanded by 3.5 per cent year-on-year, faster than the 1.8 per cent growth registered in the previous quarter. Growth was supported by an expansion in the machinery, equipment & supplies segment, which came on the back of the strong wholesale sales of telecommunications equipment & computers in tandem with the robust performance of Singapore's electronics exports. On a quarter-on-quarter seasonally-adjusted basis, the sector's growth slowed to 1.2 per cent, from the 5.2 per cent achieved in the fourth quarter.

[1] The strong quarter-on-quarter real value-added growth seen in the fourth quarter of 2020 was due to the phased resumption of construction activities following the Circuit Breaker that was implemented between 7 April and 1 June 2020 as well as the gradual lifting of mobility restrictions at foreign worker dormitories.

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The retail trade sector grew by 1.4 per cent year-on-year, a reversal from the 4.7 per cent contraction in the preceding quarter. Growth was supported by higher motor vehicular and non-motor vehicular sales volumes, partly due to low base effects from last year when sales were dampened by the introduction of safe distancing measures. On a quarter-on-quarter seasonally-adjusted basis, the sector expanded by 0.9 per cent, similar to the 0.8 per cent growth in the previous quarter.

The transportation & storage sector shrank by 16.5 per cent year-on-year, extending the 27.4 per cent contraction in the fourth quarter. Within the sector, the air transport segment contracted on the back of a sustained plunge in air passengers handled amidst ongoing international and domestic travel restrictions. Similarly, the water transport segment shrank on account of a decline in total sea cargo handled. Meanwhile, the land transport segment contracted as ridership continued to be affected by prevailing safe distancing measures and work-from-home practices. On a quarter-on-quarter seasonally-adjusted basis, the transportation & storage sector grew by 5.7 per cent, better than the 3.4 per cent expansion in the previous quarter.

The accommodation sector expanded by 19.0 per cent year-on-year, a turnaround from the 19.7 per cent contraction in the preceding quarter. The strong growth seen in the sector was largely due to low base effects as international visitor arrivals had started to plunge in the first quarter of 2020 due to the tightening of border controls, although government and domestic tourism demand also provided some support. On a quarter-on-quarter seasonally-adjusted basis, the sector shrank by 11.6 per cent, reversing the 2.3 per cent growth registered in the previous quarter.

The food & beverage services sector contracted by 9.4 per cent year-on-year, improving from the 19.0 per cent contraction in the previous quarter. All segments within the sector saw a decline in sales volume. Food caterers continued to be badly affected by restrictions on large-scale events and gatherings. At the same time, the other segments such as restaurants were weighed down by capacity constraints arising from safe distancing measures, as well as the continued slump in visitor arrivals. On a quarter-on-quarter seasonally-adjusted basis, the sector registered flat growth, a slowdown from the 6.7 per cent expansion in the fourth quarter.

Growth of the information & communications sector accelerated to 6.4 per cent year-on-year, from the 2.6 per cent achieved in the previous quarter. The sector's strong performance was driven by the IT & information services and "others" segments, which came on the back of robust enterprise and consumer demand for digital solutions and services, as well as games & software publishing activities respectively. On a quarter-on-quarter seasonally-adjusted basis, the sector shrank by 1.1 per cent, a reversal from the 4.2 per cent expansion in the preceding quarter.

The finance & insurance sector grew by 4.7 per cent year-on-year, extending the 4.9 per cent expansion in the previous quarter. Growth was mainly supported by the banking segment, which expanded on account of a pickup in credit intermediation activities. At the same time, the fund management, insurance and activities auxiliary to financial services segments also posted healthy growth. On a quarter-on-quarter seasonally-adjusted basis, the sector expanded by 1.4 per cent, moderating from the 3.8 per cent growth recorded in the fourth quarter.

The real estate sector shrank by 3.9 per cent year-on-year, easing from the 10.8 per cent contraction in the previous quarter. The weak performance of the sector was largely due to a decline in commercial office and retail space rentals. On a quarter-on-quarter seasonally-adjusted basis, the sector's growth came in at 5.6 per cent, slower than the 8.8 per cent observed in the preceding quarter.

The professional services sector contracted by 4.5 per cent year-on-year, improving from the 7.5 per cent contraction in the previous quarter. All segments in the sector shrank, with the other professional, scientific & technical services and architectural & engineering, technical testing & analysis segments posting the steepest declines. On a quarter-on-quarter seasonally-adjusted basis, the sector contracted by 0.7 per cent, a reversal from the 3.1 per cent growth in the fourth quarter.

The administrative & support services sector shrank by 12.9 per cent year-on-year, extending the 14.9 per cent contraction in the previous quarter. Within the sector, the rental & leasing segment contracted on account of weakness in the rental and leasing of construction machinery & equipment and air transport equipment. Similarly, the other administrative & support services segment shrank due to ongoing travel restrictions which had adversely affected the activities of travel agencies, tour operators and MICE organisers. On a quarter-on-quarter seasonally-adjusted basis, the sector contracted by 1.8 per cent, a pullback from the 4.4 per cent growth recorded in the preceding quarter.

The "other services industries" expanded by 0.5 per cent year-on-year, a turnaround from the 5.7 per cent contraction in the fourth quarter. Growth was supported by expansions in the education, health & social services and public administration & defence segments. On a quarter-on-quarter seasonally-adjusted basis, the "other services industries" grew marginally by 0.3 per cent, moderating from the 4.5 per cent expansion in the preceding quarter.

Economic Outlook for 2021

Since February, the external economic environment has improved, even though the pandemic continues to disrupt activities in many economies and threatens to undermine any recovery.

In the US, the economy is projected to see robust expansion in 2021. The rollout of a large fiscal stimulus package, improvements in the domestic health situation and rapid deployment of vaccines are expected to boost labour market recovery, which will in turn bolster personal consumption expenditure in the US. The Eurozone economy, which has been adversely affected by disruptions caused by repeated waves of infections, is also expected to recover gradually this year as its vaccination drive makes more progress and domestic restrictions are eased in tandem.

In Asia, China's GDP growth is expected to strengthen in 2021, with the driver of growth increasingly shifting from investment to private consumption. In India, even though the recent surge in COVID-19 cases has disrupted its economy, GDP is projected to recover from the low base in 2020 and as the pace of vaccination picks up. Japan's economy is also expected to recover in 2021 on the back of stronger external demand given the global economic rebound.

Within Southeast Asia, economies such as Malaysia, Indonesia and Thailand are projected to rebound in 2021 from the contractions in 2020, supported in large part by external demand. However, the extent of their recovery hinges on their respective COVID-19 situations. While the number of new COVID-19 infections has appeared to stabilise in economies such as Indonesia, others like Malaysia, Thailand and Vietnam are grappling with a resurgence of infections, which is likely to be a drag on their economic recoveries.

Domestically, the performance of the Singapore economy in the first quarter of 2021 was stronger than expected. While the recent tightening of domestic restrictions and border controls represents a setback to segments of the economy, the broader economy should still see a recovery this year in tandem with the global economic rebound and further progress in the domestic vaccination programme.

Against this backdrop, the pace of recovery of the various sectors of the economy this year is likely to be more uneven than earlier expected. First, outward-oriented sectors, including trade-related services sectors (e.g., wholesale trade), are projected to benefit from the pickup in external demand. In particular, the manufacturing sector is expected to expand more strongly than earlier projected due to robust semiconductor demand from the 5G and automotive markets. At the same time, growth in the finance & insurance and information & communications sectors is likely to remain strong, supported in part by further improvements in domestic and foreign credit demand, as well as healthy demand for digital solutions and games & software publishing activities, respectively.

Second, tourism- and aviation-related sectors (e.g., air transport, accommodation and arts, entertainment & recreation) are likely to see further delay in their recovery. International travel restrictions are likely to be lifted much more slowly, even among countries that have contained their domestic COVID-19 situation, amidst rising global infections and uncertainties over the spread of more contagious variants of the virus. The recent reduction in operating capacity limits at attractions will also weigh on the recovery of the arts, entertainment & recreation segment. Taking these factors into account, activity in the tourism- and aviation-related sectors will remain significantly below pre-COVID levels even by the end of the year, and the prospects of a significant recovery remain challenging.

<u>Third</u>, the projected recovery in consumer-facing sectors (e.g., retail trade and food & beverage services), partly due to low base effects, will be affected by the recent tightening of domestic restrictions and a more subdued tourism outlook. These sectors are also expected to end the year below pre-COVID levels.

<u>Fourth</u>, the construction and marine & offshore engineering sectors are projected to see some recovery from the low base last year. However, recent border restrictions on the entry of foreign workers from South Asia will exacerbate ongoing severe labour shortages at construction worksites and shipyards. The manpower crunch, along with the requirement to comply with safe management measures, will significantly impede the recovery of these sectors. Their output is thus projected to be substantially below pre-COVID levels even by year-end.

While it is possible that the Singapore economy will outperform the "4.0 to 6.0 per cent" growth forecast for 2021, there are also significant downside risks. The most important is the trajectory of the COVID-19 pandemic. Countries are experiencing recurring waves of infections, with the emergence of more transmissible strains of the virus, the easing of safe management restrictions, and delays in vaccinating populations. These resurgences, as well as the countries' public health responses to them, will inevitably affect their economic growth. Given the experience of the last 15 months, there is hope that even if outbreaks flare up again, countries will be able to avoid repeated blanket lockdowns and their high economic cost, but this is far from certain. As these countries include some of our major economic partners in our region, the uncertainty in their outlook also affects Singapore.

Domestically, while COVID-19 is generally well under control, and we are making good progress vaccinating the entire population, there remain significant risks and uncertainties in our own COVID-19 situation. These non-economic risks can have a major impact on our GDP growth this year.

Taking into account the above factors, and **considering the larger-than-usual degree of uncertainty over the course of the pandemic globally as well as our domestic situation**, MTI has decided to **maintain the GDP growth forecast for 2021 at "4.0 to 6.0 per cent" for now**. A review of the forecast will be undertaken in August when there is another quarter of data, as well as greater clarity over the global and domestic economic situations.

MINISTRY OF TRADE AND INDUSTRY
25 May 2021

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ANNEX

SECTORAL GROWTH RATES

	1Q20	2Q20	3Q20	4Q20	2020	1Q21
	Year-on-Year % Change					
Total	0.0	-13.3	-5.8	-2.4	-5.4	1.3
Goods Producing Industries	6.7	-10.0	1.1	3.9	0.3	5.5
Manufacturing	8.3	-0.4	11.0	10.3	7.3	10.7
Construction	-0.3	-65.6	-52.5	-27.4	-35.9	-22.7
Services Producing Industries	-1.9	-12.7	-8.3	-4.7	-6.9	-0.5
Wholesale Trade	-3.8	-3.0	-5.0	1.8	-2.4	3.5
Retail Trade	-10.4	-41.3	-8.6	-4.7	-16.0	1.4
Transportation & Storage	-7.4	-37.5	-29.0	-27.4	-25.4	-16.5
Accommodation	-39.8	-35.5	-20.5	-19.7	-28.7	19.0
Food & Beverage Services	-11.8	-45.9	-24.1	-19.0	-25.1	-9.4
Information & Communications	5.2	-0.8	1.4	2.6	2.1	6.4
Finance & Insurance	8.1	3.1	4.2	4.9	5.0	4.7
Real Estate	-2.1	-26.4	-17.7	-10.8	-14.2	-3.9
Professional Services	-3.7	-16.8	-10.7	-7.5	-9.7	-4.5
Administrative & Support Services	-4.4	-20.7	-19.4	-14.9	-15.1	-12.9
Other Services Industries	-3.4	-18.0	-8.7	-5.7	-8.9	0.5
	Quarter-on-Quarter Growth % (SA)					
Total	-0.6	-13.1	9.0	3.8	-5.4	3.1
Goods Producing Industries	7.9	-15.4	11.9	1.8	0.3	9.5
Manufacturing	10.5	-7.6	9.7	-1.4	7.3	10.8
Construction	-1.5	-65.6	37.5	55.6	-35.9	5.0
Services Producing Industries	-3.2	-10.4	5.5	4.1	-6.9	1.1
Wholesale Trade	-0.4	-0.2	-2.7	5.2	-2.4	1.2
Retail Trade	-5.5	-35.5	54.9	0.8	-16.0	0.9
Transportation & Storage	-7.9	-32.0	12.4	3.4	-25.4	5.7
Accommodation	-40.4	5.3	25.2	2.3	-28.7	-11.6
Food & Beverage Services	-10.6	-38.9	38.9	6.7	-25.1	0.0
Information & Communications	-4.9	-2.8	6.4	4.2	2.1	-1.1
Finance & Insurance	1.5	-1.4	0.9	3.8	5.0	1.4
Real Estate	-1.9	-25.7	12.3	8.8	-14.2	5.6
Professional Services	-4.1	-13.1	7.5	3.1	-9.7	-0.7
Administrative & Support Services	-4.9	-16.4	1.9	4.4	-15.1	-1.8
Other Services Industries	-5.8	-14.8	12.5	4.5	-8.9	0.3

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OTHER ECONOMIC INDICATORS

	1Q20	2Q20	3Q20	4Q20	2020	1Q21
Retail Sales Index* (yoy, %)	-10.5	-40.6	-8.7	-4.5	-15.8	1.0
Value Added Per Worker^ (yoy, %)	-1.3	-11.9	-2.5	2.4	-3.4	6.0
Value Added Per Actual Hour Worked^ (yoy, %)	-3.1	2.4	2.2	3.8	1.3	7.3
Unemployment Rate, SA (%)	2.5	2.8	3.5	3.3	3.0	2.9
Changes in Employment ('000)	-25.4	-113.5	-34.4	-7.8	-181.0	6.7
Overall Unit Labour Cost (yoy, %)	1.1	-18.0	-10.2	-10.7	-9.1	-6.6
Unit Business Cost of Manufacturing (yoy, %)	-7.4	-16.2	-17.1	-16.7	-14.4	-10.1
Consumer Price Index (yoy, %)	0.4	-0.7	-0.3	-0.1	-0.2	0.8
Fixed Asset Investments ($ bil)	10.3	1.9	2.1	3.0	17.2	2.8
Total Merchandise Trade (yoy, %)	3.4	-13.9	-4.8	-5.1	-5.2	4.9
Merchandise Exports	4.0	-11.4	-2.2	-2.9	-3.2	6.9
Domestic Exports	4.9	-16.2	-5.1	-10.3	-6.8	-0.2
Oil	3.9	-53.3	-29.1	-30.6	-28.1	-19.3
Non-Oil	5.4	5.8	6.5	-0.5	4.3	9.7
Re-exports	3.2	-6.9	0.3	3.4	0.1	13.6
Merchandise Imports	2.6	-16.6	-7.6	-7.6	-7.4	2.7
Total Services Trade (yoy, %)	-3.0	-21.4	-16.3	-16.3	-14.3	-10.1
Exports of Services	-3.3	-19.1	-14.1	-13.8	-12.7	-7.8
Imports of Services	-2.7	-23.7	-18.7	-18.9	-16.1	-12.4

* In Chained Volume Terms.

^ Based on GDP at market prices in chained (2015) dollars.

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