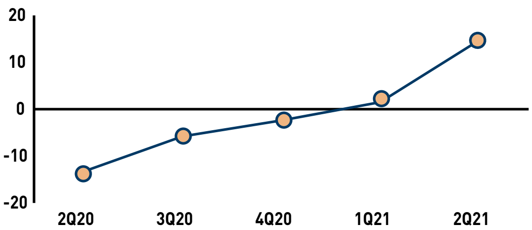
CHAPTER 1
THE SINGAPORE ECONOMY

ECONOMIC PERFORMANCE

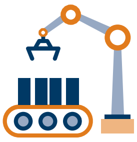
Real GDP grew by
14.7% in 2Q21

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 2Q21

Manufacturing



3.7%-point
contribution

Other Services Industries

1.6%-point
contribution

LABOUR MARKET

Resident
Unemployment Rate

3.7%
in 2Q21

Employment
(Q-O-Q Change)

-19,300
employed

Sectors with the Highest Employment Growth in 2Q21

+3,500
employed

Information & Communications

+1,600
employed

Professional Services

+100
employed

Finance & Insurance

PRODUCTIVITY

Value-Added per Actual Hour Worked increased by
1.7% in 2Q21

Sectors with the Highest Growth in Value-Added per Actual Hour Worked in 2Q21

25.9%

Real Estate

21.2%

Accommodation

COSTS

Overall Unit Labour Cost increased by

18.2% in 2Q21

Within the Manufacturing Sector

-2.6% Unit Business Cost

21.1% Unit Labour Cost

INTERNATIONAL TRADE

Total Merchandise Exports increased by

26.1% in 2Q21

EXPORTS

85.6% Oil Domestic Exports

26.4% Re-Exports

10.1% Non-Oil Domestic Exports

PRICES

The Consumer Price Index (CPI) rose by

2.3% in 2Q21

Categories with Price Increases

10.6% Transport

1.4% Household Durables & Services

1.1% Education

Total Services Exports grew by

10.3% in 2Q21

Services Exports Increase was led by...

5.0%-pt Other Business Services

1.8%-pt Transport Services

1.4%-pt Financial Services

OVERVIEW

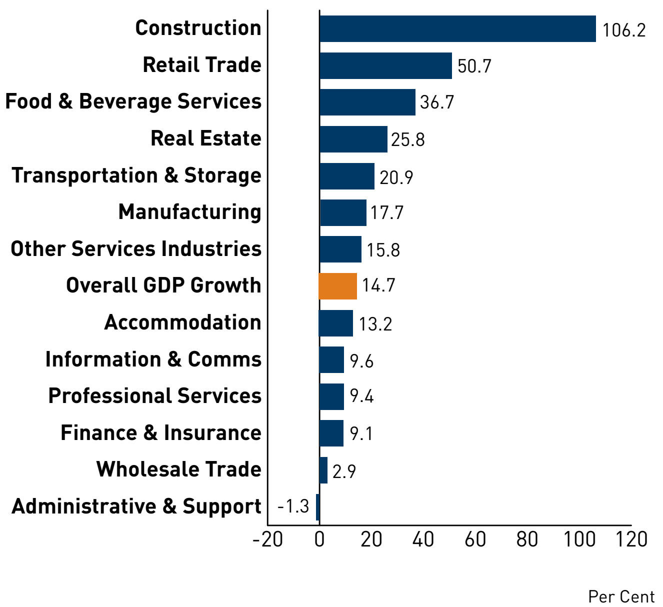
In the second quarter of 2021,

- The Singapore economy grew by 14.7 per cent on a year-on-year basis. The sectors that contributed the most to GDP growth were manufacturing, other services and construction.
- The seasonally-adjusted overall, resident and citizen unemployment rates declined in June 2021 as compared to March 2021, marking the third consecutive quarter of decline. On the other hand, the number of retrenchments rose slightly.
- Total employment fell by 19,300 on a quarter-on-quarter basis, a reversal from the growth registered in the previous quarter. Excluding Migrant Domestic Workers (MDWs), total employment contracted by 15,700, as a continued decline in non-resident employment outweighed a modest increase in resident employment.
- The Consumer Price Index-All Items (CPI-All Items) rose by 2.3 per cent on a year-on-year basis, faster than the 0.8 per cent increase in the previous quarter.

OVERALL PERFORMANCE

The Singapore economy expanded by 14.7 per cent on a year-on-year basis in the second quarter of 2021, faster than the 1.5 per cent growth in the preceding quarter (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted basis, the economy contracted by 1.8 per cent, a reversal from the 3.3 per cent growth in the previous quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 2Q 2021



The strong year-on-year growth in the second quarter was largely due to the low base in the same period last year when GDP fell by 13.3 per cent because of the Circuit Breaker (CB) measures implemented from 7 April to 1 June 2020, as well as the sharp fall in external demand amidst the COVID-19 pandemic. However, when compared to its pre-pandemic level in the corresponding quarter of 2019, GDP remained around 0.6 per cent lower in the second quarter of 2021.

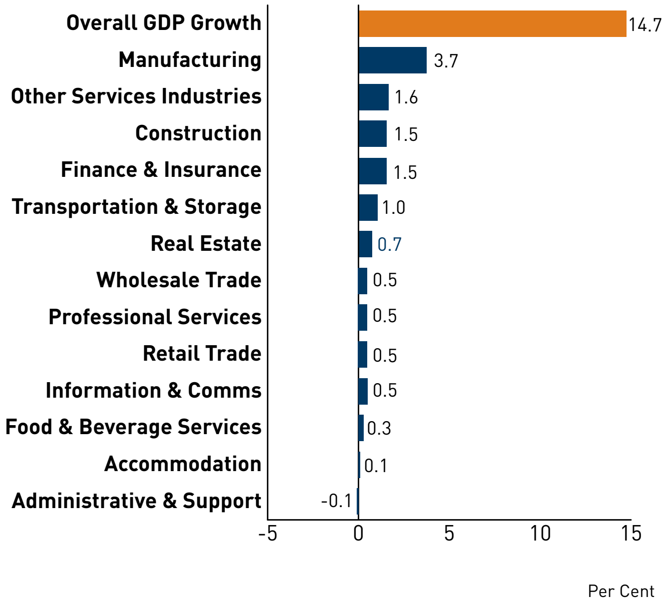
By sectors, the manufacturing sector expanded by 18 per cent year-on-year in the second quarter, extending the 11 per cent growth in the previous quarter. Growth was supported by output expansions in all manufacturing clusters, with the transport engineering (30 per cent) and precision engineering (24 per cent) clusters recording the largest gains.

The services producing industries posted growth of 10 per cent year-on-year in the second quarter, a reversal from the 0.3 per cent contraction recorded in the preceding quarter. All services sectors expanded during the quarter, except for the administrative & support services sector, which contracted by 1.3 per cent.

The construction sector grew by 106 per cent year-on-year in the second quarter, a sharp turnaround from the 23 per cent contraction in the previous quarter, as both public and private sector construction works expanded. The strong growth was due to low base effects as most domestic construction activities were suspended during the CB period last year.

The top three contributors to GDP growth in the second quarter were the manufacturing, other services and construction sectors (Exhibit 1.2).

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 2Q 2021 (By Industry)



SOURCES OF GROWTH

Total demand increased by 16 per cent year-on-year in the second quarter of 2021, rebounding from the 2.2 per cent decline in the previous quarter (Exhibit 1.3). The strong growth was supported by increases in both external and domestic demand from the low base in the second quarter of last year. Specifically, in the second quarter of last year, key external economies had imposed public health measures that curtailed economic activity in order to contain the spread of COVID-19, which had in turn affected Singapore's external demand. Domestically, the implementation of the CB measures from 7 April to 1 June 2020 adversely affected domestic demand, especially private consumption.

External demand grew by 14 per cent year-on-year, a turnaround from the 1.4 per cent decline in the previous quarter. Similarly, domestic demand increased by 20 per cent year-on-year, reversing the 4.4 per cent contraction in the previous quarter. Both consumption expenditure and gross fixed capital formation (GFCF) recorded notable gains, thereby supporting domestic demand during the quarter.

Within domestic demand, consumption expenditure grew by 17 per cent year-on-year, a reversal from the 3.8 per cent decline in the preceding quarter. This was largely due to a 23 per cent increase in private consumption expenditure, which outpaced a 1.8 per cent increase in public consumption expenditure.

Exhibit 1.3: Changes in Total Demand*

	2020			2021	
	II	III	IV	I	II
Total Demand	-15.3	-7.1	-4.5	-2.2	**15.9**
External Demand	-12.4	-5.0	-3.5	-1.4	**14.4**
Total Domestic Demand	-22.5	-12.5	-7.0	-4.4	**20.4**
Consumption Expenditure	-19.5	-6.7	-6.7	-3.8	**17.0**
Public	19.8	15.8	9.6	6.3	**1.8**
Private	-29.4	-13.0	-11.3	-7.5	**23.5**
Gross Fixed Capital Formation	-27.9	-23.0	-4.7	-5.3	**30.8**
Changes in Inventories	-0.4	-0.3	-0.8	-0.1	**-0.4**

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

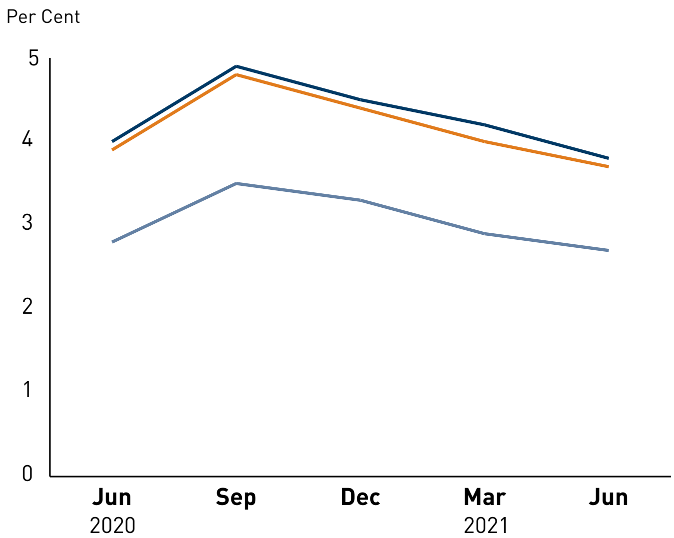
Meanwhile, GFCF expanded by 31 per cent year-on-year, a turnaround from the 5.3 per cent decline in the previous quarter. Overall GFCF was supported by a 60 per cent and 26 per cent increase in public and private sector GFCF respectively, both of which were largely due to increased investments in construction & works from a low base caused by the CB last year.

LABOUR MARKET

Unemployment and Retrenchment[1]

Compared to March 2021, the seasonally-adjusted unemployment rates in June 2021 fell at the overall level (from 2.9 per cent to 2.7 per cent), as well as for residents (from 4.0 per cent to 3.7 per cent) and citizens (from 4.2 per cent to 3.8 per cent) (Exhibit 1.4). Although unemployment rates declined for the third consecutive quarter, they remained elevated compared to pre-pandemic levels.[2]

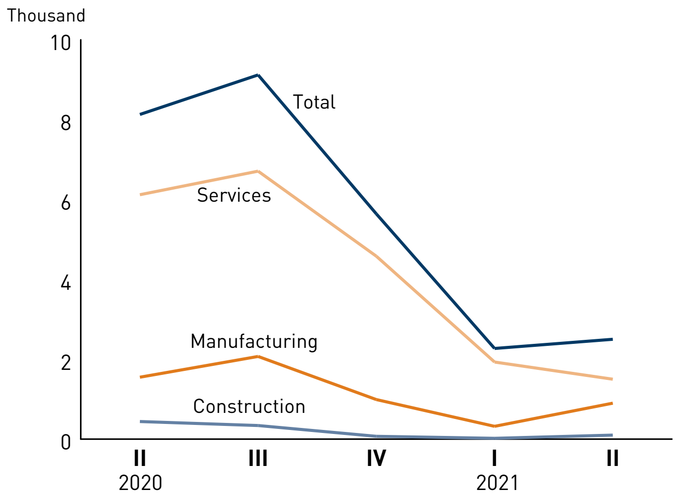
Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)



In June 2021, an estimated 86,600 residents, including 76,800 Singapore citizens, were unemployed. These were lower than the number of unemployed residents (95,500) and citizens (85,400) in March 2021.[3]

Total retrenchments increased slightly to 2,500 in the second quarter of 2021, from 2,270 in the preceding quarter (Exhibit 1.5). Over the quarter, retrenchments rose in the manufacturing (from 320 to 900) and construction (from 20 to 100) sectors, but fell in the services sector (from 1,930 to 1,500).

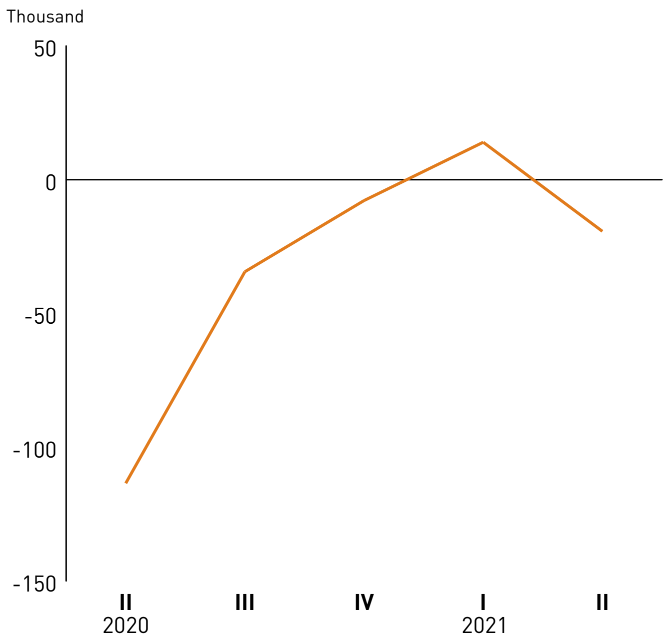
Exhibit 1.5: Retrenchments



Employment[4]

Total employment contracted by 19,300 on a quarter-on-quarter basis in the second quarter of 2021, a reversal from the 14,000 increase registered in the previous quarter (Exhibit 1.6). Excluding MDWs, total employment fell by 15,700, driven by a continued decline in non-resident employment, which outweighed a modest increase in resident employment.

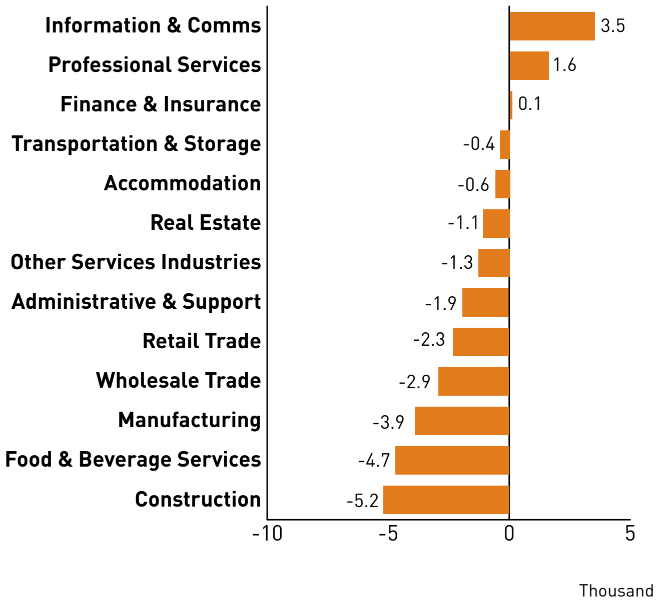
Exhibit 1.6: Change in Total Employment, Quarter-on-Quarter



Employment declines were observed across all broad sectors (i.e., overall manufacturing, services and construction) in the second quarter. Employment in the overall services sector fell by 10,000 (or -6,300 excluding MDWs), led by contractions in the food & beverage services (-4,700), wholesale trade (-2,900) and retail trade (-2,300) sectors (Exhibit 1.7). The construction (-5,200) and manufacturing (-3,900) sectors also saw employment declines over the same period.

1 *Retrenchment figures pertain to private sector establishments with at least 25 employees and the public sector.*
2 *The annual average overall, resident and citizen unemployment rates in 2019 were 2.3 per cent, 3.1 per cent and 3.3 per cent respectively.*
3 *Based on seasonally-adjusted data on the number of unemployed persons.*
4 *Based on preliminary estimates.*

Exhibit 1.7: Changes in Employment by Industry in 2Q 2021



Hiring Expectations

According to EDB's latest Business Expectations Survey for the Manufacturing Sector, hiring expectations in the sector were positive, with a net weighted balance of 8 per cent of manufacturers expecting to increase hiring in the third quarter of 2021 as compared to the second quarter. Firms in the infocomms & consumer electronics segment of the electronics cluster were the most optimistic, with a net weighted balance of 44 per cent of firms expecting to increase hiring in the third quarter. By contrast, firms in the land segment of the transport engineering cluster were the most pessimistic, with a net weighted balance of 20 per cent of firms expecting lower levels of hiring in the third quarter.

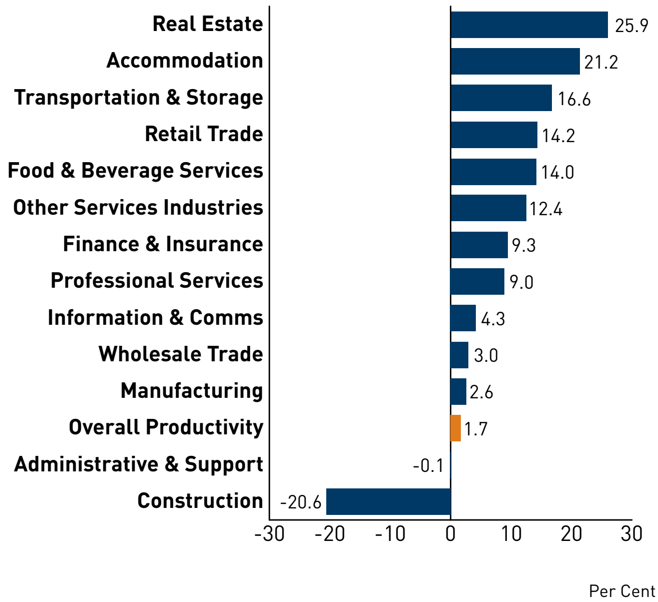
Hiring expectations for services firms were also positive. According to DOS' latest Business Expectations Survey for the Services Sector, a net weighted balance of 3 per cent of services firms expected to increase hiring in the third quarter of 2021 as compared to the second quarter. Firms in the wholesale trade sector had the strongest hiring sentiments, with a net weighted balance of 9 per cent of firms expecting to increase hiring in the third quarter. On the other hand, firms in the administrative & support services sector had the weakest hiring sentiments, with a net weighted balance of 4 per cent of firms expecting to hire fewer workers in the third quarter.

COMPETITIVENESS

Productivity

Overall labour productivity, as measured by real value-added per actual hour worked, rose by 1.7 per cent year-on-year in the second quarter of 2021, slower than the 7.3 per cent increase recorded in the previous quarter (Exhibit 1.8).[5]

Exhibit 1.8: Changes in Value-Added per Actual Hour Worked for the Overall Economy and Sectors in 2Q 2021



Most sectors registered productivity growth in the second quarter, with double-digit gains observed in the real estate (26 per cent), accommodation (21 per cent), transportation & storage (17 per cent), retail trade (14 per cent), food & beverage services (14 per cent) and other services (12 per cent) sectors. The finance & insurance (9.3 per cent), professional services (9.0 per cent), information & communications (4.3 per cent), wholesale trade (3.0 per cent) and manufacturing (2.6 per cent) sectors also posted productivity improvements. By contrast, productivity declines were observed in the construction (-21 per cent) and administrative & support services (-0.1 per cent) sectors.

In the second quarter, the productivity of outward-oriented sectors as a whole rose by 6.1 per cent year-on-year, slowing from the 7.9 per cent increase in the previous quarter.[6] The productivity of domestically-oriented sectors as a whole grew by 1.7 per cent year-on-year, an improvement from the 0.3 per cent increase observed in the preceding quarter.

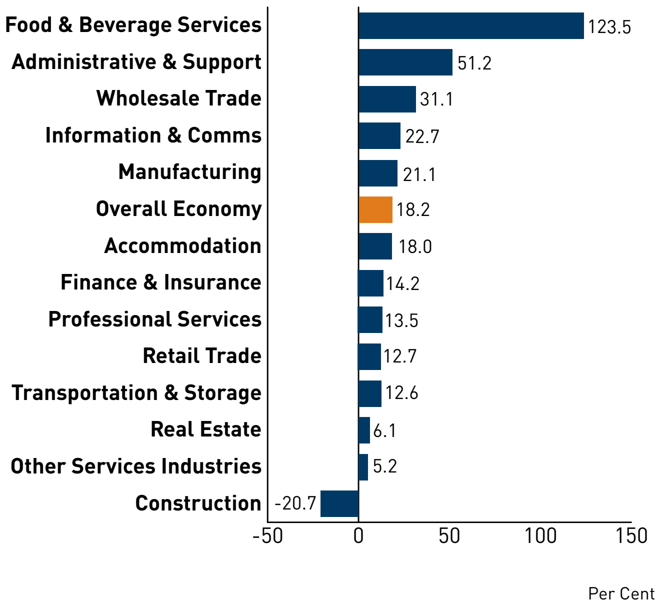
5 *Overall labour productivity, as measured by real value-added per worker, rose by 16.7 per cent in the second quarter as compared to the 6.1 per cent growth in the preceding quarter. The larger increase in real value-added per worker compared to real value-added per actual hour worked (1.7 per cent) in the second quarter was due to a significant increase in the number of actual hours worked per worker as a result of the low base in the second quarter of 2020 when the Circuit Breaker was in force.*

6 *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, real estate, administrative & support services and other services industries.*

Unit Labour Cost and Unit Business Cost

Overall unit labour cost (ULC) for the economy rose by 18 per cent on a year-on-year basis in the second quarter of 2021, a reversal from the 6.8 per cent decline in the preceding quarter (Exhibit 1.9). The increase in overall ULC was due to a rise in total labour cost per worker that outstripped the growth in labour productivity (as measured by real value-added per worker). In turn, the rise in total labour cost per worker was largely driven by a tapering of the wage subsidies provided by the Government through support measures such as the Jobs Support Scheme and the foreign worker levy waiver and rebate.

Exhibit 1.9: Changes in Unit Labour Cost in 2Q 2021



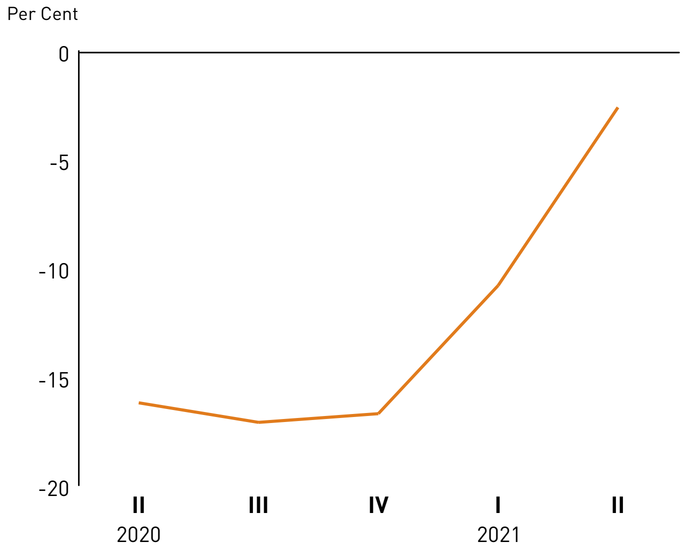
By broad sectors, the ULC for the manufacturing sector increased by 21 per cent year-on-year, a reversal from the 19 per cent decline in the first quarter. The rise was due to higher total labour cost per worker in the sector, which more than offset the gains in labour productivity.

Similarly, the ULC for services producing industries rose by 18 per cent, in contrast to the 3.9 per cent fall recorded in the previous quarter. All services producing industries saw an increase in their ULCs, with the food & beverage services sector registering the largest increase (123 per cent). The latter was due to a significant rise in total labour cost per worker, which surpassed labour productivity growth in the sector.

By contrast, the ULC for the construction sector declined by 21 per cent, a turnaround from the increase of 6.6 per cent in the preceding quarter. The decrease came on the back of strong labour productivity gains that exceeded a rise in total labour cost per worker in the sector.

Unit business cost (UBC) for the manufacturing sector fell by 2.6 per cent year-on-year in the second quarter, moderating from the 11 per cent drop in the previous quarter (Exhibit 1.10). The decline in UBC during the quarter was on account of a fall in the unit services cost (-8.6 per cent), which outweighed the increases in manufacturing ULC (21 per cent) and unit non-labour production taxes (16 per cent).

Exhibit 1.10: Changes in the Manufacturing Unit Business Cost

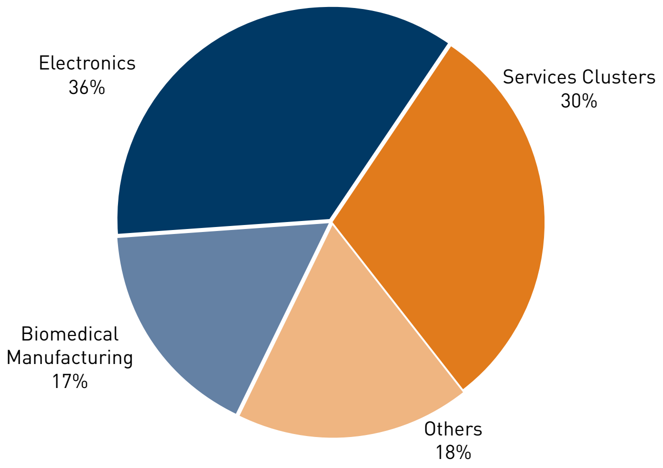


Investment Commitments

Investment commitments garnered by the Economic Development Board (EDB) in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $3.6 billion and $1.4 billion respectively in the second quarter of 2021 (Exhibit 1.11 and Exhibit 1.12).

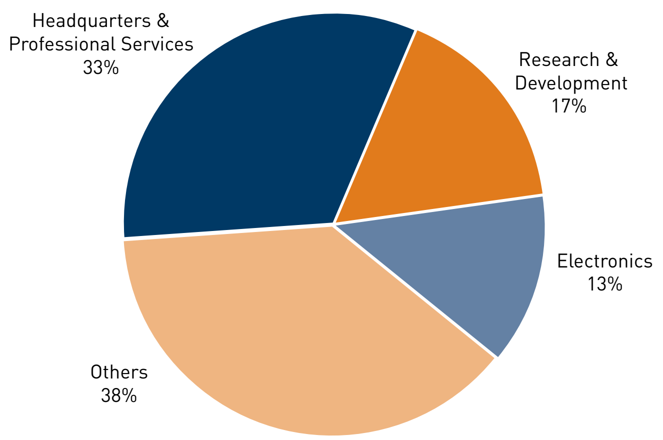
For FAI, the largest contribution came from the manufacturing sector, which attracted $2.5 billion worth of commitments. Within the manufacturing sector, the electronics and biomedical manufacturing clusters garnered the largest amount of commitments, at $1.3 billion and $603 million respectively. Meanwhile, the research & development cluster attracted the most FAI commitments within the services sector, at $594 million. Investors from the United States contributed the most to total FAI, at $2.1 billion (59 per cent).

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 2Q 2021



For TBE, the services clusters attracted the highest amount of commitments, at $823 million. This was led by the headquarters & professional services and research & development clusters, at $445 million and $227 million respectively. Among the manufacturing clusters, the electronics and biomedical manufacturing clusters garnered the largest amount of TBE commitments, at $178 million and $142 million respectively. Investors from the United States were the largest source of TBE commitments, with commitments of $494 million (36 per cent).

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 2Q 2021



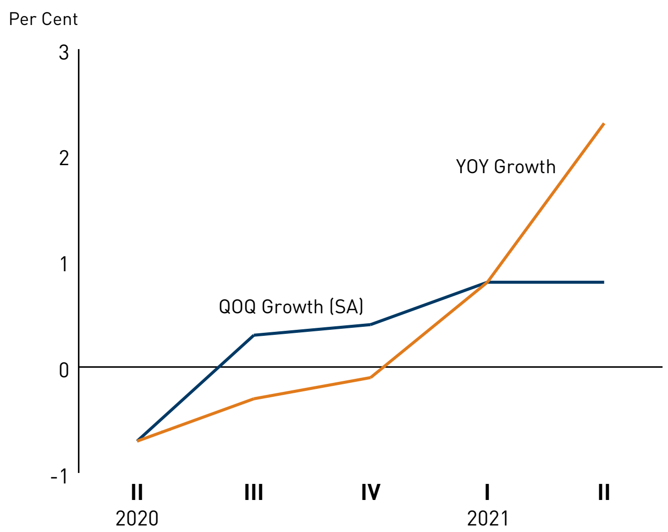
When these projects are fully implemented, they are expected to generate $3.6 billion of value-added and create more than 5,900 jobs in the coming years.

PRICES

Consumer Price Index

The Consumer Price Index-All Items (CPI-All Items) rose by 2.3 per cent on a year-on-year basis in the second quarter of 2021, faster than the 0.8 per cent increase in the previous quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, the CPI-All Items rose by 0.8 per cent, the same pace of increase as 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 second quarter (Exhibit 1.14). Food prices rose by 1.0 per cent on the back of an increase in the costs of food serving services like hawker food and restaurant meals, as well as non-cooked food items such as vegetables and fruits. Housing & utilities costs increased by 0.6 per cent as higher accommodation costs and gas tariffs more than offset a fall in electricity prices. Prices of household durables & services climbed by 1.4 per cent on account of more expensive domestic & household services and household durables. Healthcare costs edged up by 1.0 per cent as a rise in the costs of hospital services and health insurance outweighed a fall in the prices of medical products. Transport costs went up by 11 per cent due to an increase in the prices of cars and petrol. Communication costs inched up by 0.1 per cent on the back of a rise in telecommunication services costs. Recreation & culture prices picked up by 1.0 per cent as a result of the higher cost of recreational & cultural services. Education costs rose by 1.1 per cent as higher fees at universities and commercial institutions more than offset lower fees at childcare centres.

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

Per Cent

	2020			2021	
	II	III	IV	I	II
All items	-0.7	-0.3	-0.1	0.8	**2.3**
Food	2.2	1.9	1.7	1.5	**1.0**
Clothing & Footwear	-3.6	-4.0	-4.7	-5.3	**-6.0**
Housing & Utilities	0.1	-0.7	-0.3	-0.3	**0.6**
Household Durables & Services	-0.2	0.4	0.5	1.1	**1.4**
Health Care	-1.8	-1.9	-0.9	0.3	**1.0**
Transport	-3.9	-0.8	-0.1	3.1	**10.6**
Communication	-0.3	1.8	0.8	0.9	**0.1**
Recreation & Culture	-2.6	-1.6	-2.0	-0.2	**1.0**
Education	-0.6	-0.5	-0.9	0.9	**1.1**
Miscellaneous Goods & Services	-1.4	-1.7	-1.5	-1.3	**-0.2**

On the other hand, price declines in the following CPI categories contributed negatively to CPI-All Items inflation in the second quarter. Clothing & footwear prices fell by 6.0 per cent due to cheaper ready-made garments and footwear. Prices of miscellaneous goods & services declined by 0.2 per cent on account of a fall in the cost of personal care items.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade increased by 27 per cent on a year-on-year basis in the second quarter of 2021, a step-up from the 4.9 per cent expansion in the preceding quarter (Exhibit 1.15). The growth in total merchandise trade was due to an increase in both oil (98 per cent) and non-oil trade (19 per cent).

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

Per Cent

	2020				2021	
	II	III	IV	Ann	I	II
Merchandise Trade	-13.9	-4.8	-5.1	-5.2	4.9	**27.3**
Merchandise Exports	-11.4	-2.2	-2.9	-3.2	6.9	**26.1**
Domestic Exports	-16.2	-5.1	-10.3	-6.8	-0.2	**25.8**
Oil	-53.3	-29.1	-30.6	-28.1	-19.3	**85.6**
Non-Oil	5.8	6.5	-0.5	4.3	9.7	**10.1**
Re-Exports	-6.9	0.3	3.4	0.1	13.6	**26.4**
Merchandise Imports	-16.6	-7.6	-7.6	-7.4	2.7	**28.6**
Oil	-57.5	-32.3	-39.2	-34.0	-12.5	**115.4**
Non-Oil	-5.2	-1.5	0.4	-0.3	6.5	**17.7**

Total merchandise exports rose by 26 per cent in the second quarter, extending the 6.9 per cent growth in the preceding quarter. This was due to an increase in both re-exports (26 per cent) and domestic exports (26 per cent).

The expansion in domestic exports was on account of gains in both oil and non-oil domestic exports. In particular, oil domestic exports surged by 86 per cent from a low base, reflecting higher oil prices compared to a year ago. In volume terms, oil domestic exports fell by 3.2 per cent, easing from the 27 per cent decline in the previous quarter.

Non-oil domestic exports (NODX) expanded by 10 per cent in the second quarter, extending the 9.7 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 grew by 29 per cent in the second quarter, accelerating from the 2.7 per cent increase in the previous quarter. The expansion in imports was due to increases in both oil (115 per cent) and non-oil imports (18 per cent). Both non-electronics and electronics imports rose.

Services Trade

Total services trade expanded by 9.3 per cent on a year-on-year basis in the second quarter of 2021, a reversal from the 9.8 per cent decline in the previous quarter (Exhibit 1.16). Both exports and imports of services recorded growth during the quarter.

Services exports rose by 10 per cent, a turnaround from the 7.4 per cent decline in the preceding quarter. The growth in services exports was largely attributable to a rise in the exports of other business services, transport services and financial services. Meanwhile, services imports increased by 8.2 per cent, a reversal from the 12 per cent fall in the previous quarter. The rise in services imports was mainly due to an increase in the imports of other business services, transport services, and telecommunications, computer & information services. Exhibit 1.16: Growth Rates of Total Services Trade, Services

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

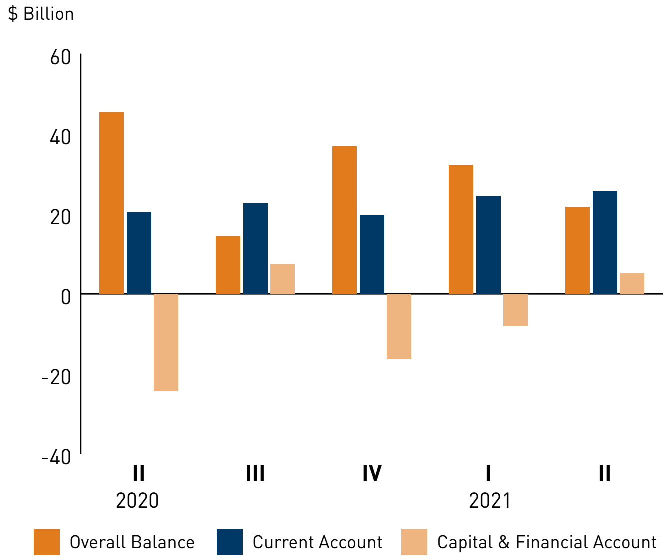
Per Cent

	2020				2021	
	II	III	IV	Ann	I	II
Total Services Trade	-21.4	-16.3	-16.3	-14.3	-9.8	**9.3**
Services Exports	-19.1	-14.1	-13.8	-12.7	-7.4	**10.3**
Services Imports	-23.7	-18.7	-18.9	-16.1	-12.3	**8.2**

BALANCE OF PAYMENTS

The overall balance of payments recorded a smaller surplus of $22 billion in the second quarter of 2021, compared to the surplus of $32 billion in the preceding quarter (Exhibit 1.17).

Exhibit 1.17: Balance of Payments



Current Account

The current account surplus rose to $26 billion in the second quarter, from $24 billion in the first quarter, due to increases in the goods and services trade surpluses, which more than offset larger deficits in the primary and secondary income balances.

The surplus in the goods balance went up to $37 billion in the second quarter, from $31 billion in the previous quarter, as goods exports increased by more than goods imports.

At the same time, the surplus in the services balance climbed to $6.5 billion in the second quarter, from $5.1 billion in the preceding quarter. Although net payments for manufacturing services as well as charges for the use of intellectual property rose and net receipts for financial services fell, these were more than compensated for by a shift from net payments to net receipts for other business services, and higher net receipts for insurance services.

On the other hand, the deficits in the primary and secondary income balances widened by $5.6 billion and $0.2 billion respectively. This was due to a larger fall in primary income receipts compared to payments, while secondary income payments rose more than receipts.

Capital and Financial Account[7]

The capital and financial account registered a net outflow of $5.1 billion in the second quarter, a reversal from the net inflow of $8.0 billion seen in the preceding quarter. This was due to a sharp rise in the net outflows of portfolio investment, followed by a turnaround to a net outflow position from a net inflow position in the "other investment" account and higher net outflows of financial derivatives. These more than offset an increase in the net inflows of direct investment.

Net outflows of portfolio investment rose to $26 billion in the second quarter, from $15 billion in the previous quarter. This was largely due to a shift to a net outflow position for resident deposit-taking corporations from a net inflow position in the preceding quarter, which outweighed a decrease in net outflows from the non-bank private sector.

At the same time, the "other investment" account recorded a net outflow of $0.1 billion in the second quarter, following net inflows of $2.6 billion in the preceding quarter. This was partly attributable to movements in the banking sector as net inflows to resident deposit-taking corporations declined.

In comparison, net inflows of direct investment rose to $26 billion in the second quarter, from $23 billion in the previous quarter, as foreign direct investments into Singapore increased while residents' direct investments abroad fell.

Finally, net outflows of financial derivatives stepped up to $4.9 billion in the second quarter, from $2.5 billion in the preceding quarter.

7 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".