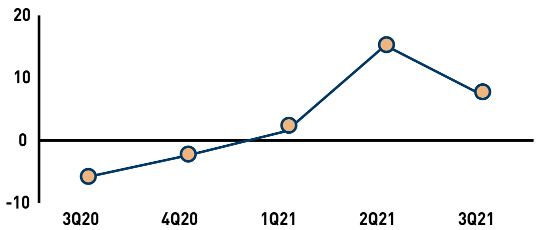
CHAPTER 1
THE SINGAPORE ECONOMY

ECONOMIC PERFORMANCE

Real GDP grew by
7.1% in 3Q21

Quarterly Growth (Year-on-Year)



Main Drivers of Growth in 3Q21

Manufacturing
1.5%-point contribution

Finance & Insurance
1.3%-point contribution

LABOUR MARKET

Resident Unemployment Rate
3.5% in 3Q21

Employment (Q-O-Q Change)
-9,400 employed

Sectors with the Highest Employment Growth in 3Q21

+3,600 employed
Information & Communications

+2,800 employed
Professional Services

+1,700 employed
Finance & Insurance

PRODUCTIVITY

Value-Added per Actual Hour Worked increased by
4.6% in 3Q21

Sectors with the Highest Growth in Value-Added per Actual Hour Worked in 3Q21

42.3%
Construction

18.2%
Real Estate

COSTS

Overall Unit Labour Cost increased by
6.1% in 3Q21

Within the Manufacturing Sector

- -0.3% Unit Business Cost
- 7.9% Unit Labour Cost

INTERNATIONAL TRADE

Total Merchandise Exports increased by
17.4% in 3Q21

- 49.2% Oil Domestic Exports
- 16.4% Re-Exports
- 9.0% Non-Oil Domestic Exports

PRICES

The Consumer Price Index (CPI) rose by
2.5% in 3Q21

Categories with Price Increases

- 8.7% Transport
- 2.1% Housing & Utilities
- 1.7% Health Care

Total Services Exports grew by
6.7% in 3Q21

Services Exports Increase was led by...

- 2.4%-pt Other Business Services
- 1.4%-pt Financial Services
- 0.7%-pt Maintenance and Repair Services

OVERVIEW

In the third quarter of 2021,

- The Singapore economy expanded by 7.1 per cent on a year-on-year basis. The sectors that contributed the most to GDP growth were manufacturing, finance & insurance and construction.

- The seasonally-adjusted overall unemployment rate declined between June 2021 and September 2021, while the resident and citizen unemployment rates remained unchanged over the quarter. The number of retrenchments also declined over the quarter.

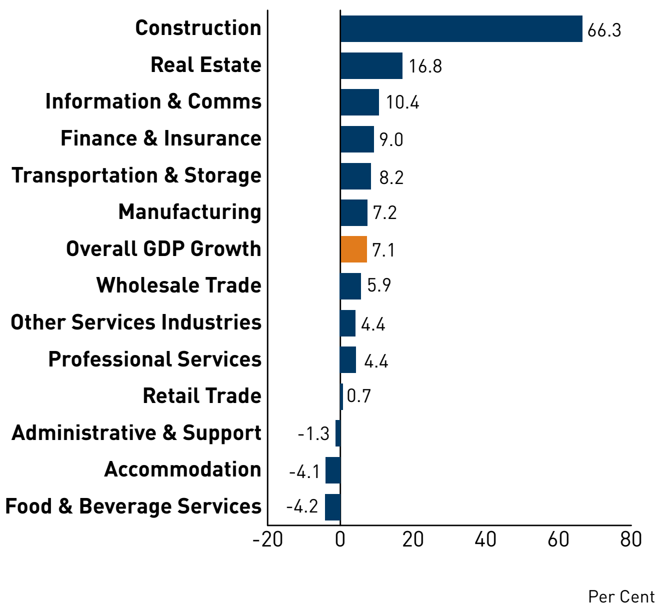
- Total employment fell by 9,400 on a quarter-on-quarter basis, moderating from the decline registered in the preceding quarter. Excluding Migrant Domestic Workers (MDWs), total employment contracted by 3,400, as a continued decline in non-resident employment outweighed an increase in resident employment.

- The Consumer Price Index-All Items (CPI-All Items) rose by 2.5 per cent on a year-on-year basis, extending the 2.3 per cent increase in the previous quarter.

OVERALL PERFORMANCE

The Singapore economy expanded by 7.1 per cent on a year-on-year basis in the third quarter of 2021, slower than the 15.2 per cent growth in the preceding quarter[1] (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.3 per cent, a turnaround from the 1.4 per cent contraction in the second quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 3Q 2021



By sectors, the manufacturing sector grew by 7.2 per cent year-on-year in the third quarter, moderating from the 18 per cent growth in the previous quarter. Growth during the quarter was supported by output expansions in all manufacturing clusters, except for the biomedical manufacturing cluster, which contracted by 4.3 per cent. Among the clusters that expanded, the precision engineering (24 per cent) and transport engineering (22 per cent) clusters recorded the largest increases in output.

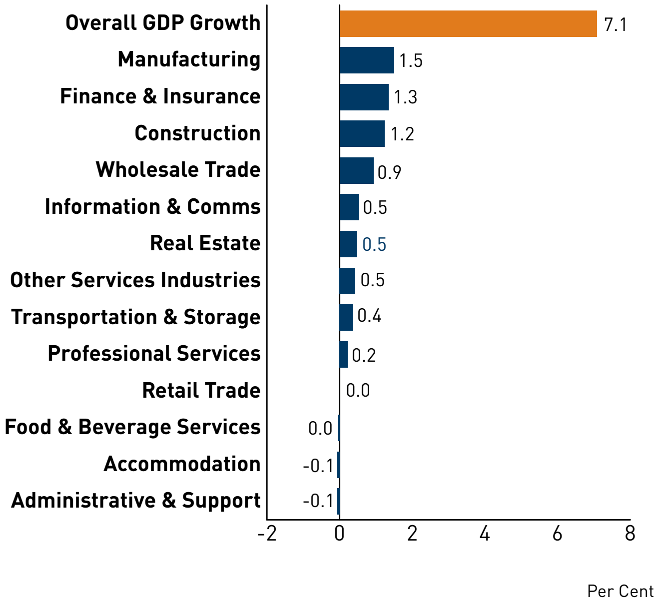
The services producing industries posted growth of 6.3 per cent year-on-year in the third quarter, a step-down from the 11 per cent growth recorded in the preceding quarter. All services sectors expanded during the quarter, except for the food & beverage services, accommodation and administrative & support services sectors, which contracted by 4.2 per cent, 4.1 per cent and 1.3 per cent respectively. Among the sectors that grew, real estate (17 per cent) and information & communications (10 per cent) recorded the strongest expansions.

1 *The strong year-on-year GDP growth recorded in the second quarter of 2021 was largely due to the low base in the corresponding quarter of 2020 when GDP fell by 13.3 per cent due to 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.*

The construction sector grew by 66 per cent year-on-year in the third quarter, slowing from the 117 per cent expansion in the previous quarter[2], as both public and private sector construction output rose. The strong growth during the quarter was mainly because of low base effects given the slow resumption of construction activities after the Circuit Breaker (CB) period last year.

The top three contributors to GDP growth in the third quarter were the manufacturing, finance & insurance and construction sectors (Exhibit 1.2).

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 3Q 2021 (By Industry)



SOURCES OF GROWTH

Total demand expanded by 7.1 per cent year-on-year in the third quarter of 2021, extending the 16 per cent growth in the previous quarter (Exhibit 1.3). Growth came on the back of higher external and domestic demand.

External demand rose by 6.3 per cent year-on-year, following the 15 per cent expansion in the previous quarter. Similarly, domestic demand increased by 9.1 per cent year-on-year, moderating from the 21 per cent expansion in the preceding quarter. Domestic demand was supported by gains in both consumption expenditure and gross fixed capital formation (GFCF).

Within domestic demand, consumption expenditure grew by 3.2 per cent year-on-year, moderating from the 17 per cent increase in the second quarter. Both public and private consumption expenditure rose during the quarter, at a rate of 3.3 per cent and 3.2 per cent respectively.

Meanwhile, GFCF expanded by 25 per cent year-on-year, extending the 31 per cent increase in the previous quarter. Overall GFCF was bolstered by a 55 per cent and 21 per cent increase in public and private sector GFCF respectively, as public and private investments in construction & works both stepped up from a low base last year caused by the slow resumption of construction activities after the CB period.

Exhibit 1.3: Changes in Total Demand*

	2020		2021		
	III	IV	I	II	III
Total Demand	-7.1	-4.5	-2.1	16.4	**7.1**
External Demand	-5.0	-3.5	-1.5	14.9	**6.3**
Total Domestic Demand	-12.5	-7.0	-3.8	20.9	**9.1**
Consumption Expenditure	-6.7	-6.7	-3.2	17.4	**3.2**
Public	15.8	9.6	7.3	1.5	**3.3**
Private	-13.0	-11.3	-7.1	24.3	**3.2**
Gross Fixed Capital Formation	-23.0	-4.7	-5.0	31.0	**25.4**
Changes in Inventories	-0.3	-0.8	-0.1	-0.3	**-0.3**

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

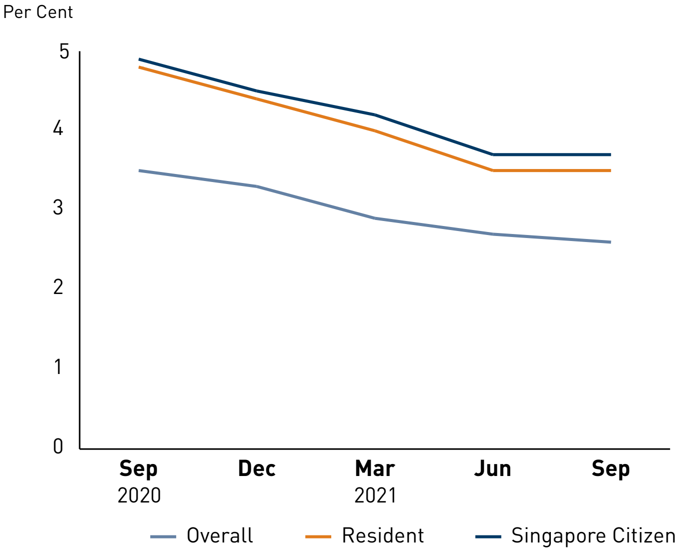
2 *The strong year-on-year growth in the second quarter of 2021 was due to low base effects as most construction activities were suspended during the CB period a year ago.*

LABOUR MARKET

Unemployment and Retrenchment[3]

Between June and September 2021, the seasonally-adjusted unemployment rates fell at the overall level (from 2.7 per cent to 2.6 per cent), but remained unchanged for residents (3.5 per cent) and citizens (3.7 per cent) (Exhibit 1.4). Although unemployment rates have declined from their respective peaks in September 2020[4], they remained above pre-pandemic levels[5].

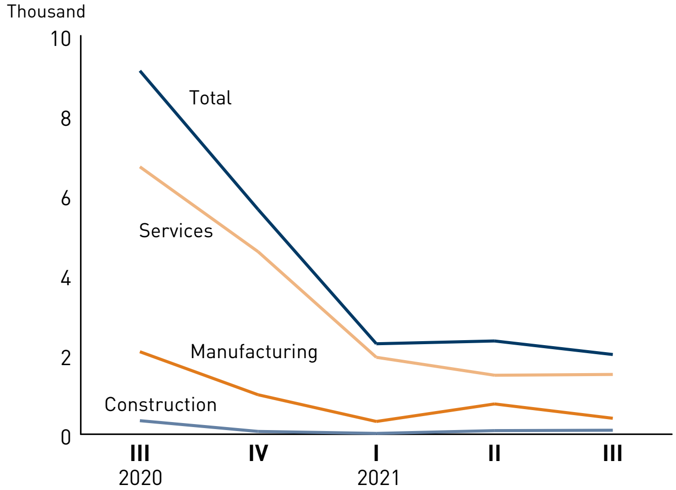
Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)



In September 2021, an estimated 83,000 residents, including 75,000 Singapore citizens, were unemployed. Compared to their levels in June 2021, the number of unemployed residents declined (from 84,500), while the number of unemployed citizens remained unchanged.[6]

Total retrenchments decreased to 2,000 in the third quarter, from 2,340 in the preceding quarter (Exhibit 1.5). Over the quarter, retrenchments fell in the manufacturing sector (from 760 to 400), but stayed broadly unchanged in the services (from 1,480 to 1,500) and construction (from 90 to 100) sectors.

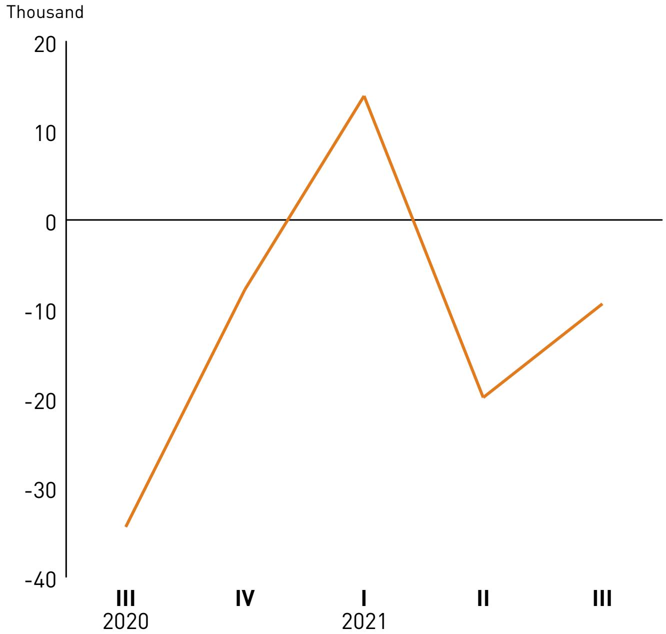
Exhibit 1.5: Retrenchments



Employment[7]

Total employment declined by 9,400 on a quarter-on-quarter basis in the third quarter, moderating from the contraction registered in the previous quarter (-19,900) (Exhibit 1.6). Excluding MDWs, total employment fell by 3,400 on the back of a decline in non-resident employment that more than offset an increase in resident employment.

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



Employment declines were observed across all broad sectors (i.e., manufacturing, construction and overall services) in the third quarter (Exhibit 1.7). The construction sector (-6,300) saw the largest decline, followed by the overall services (-2,000) and manufacturing (-1,000) sectors. Within the overall services sector, employment fell the most in the other services industries (-3,900), food & beverage services (-2,900) and retail trade (-1,500) sectors. Excluding MDWs, employment in the overall services sector rose by 4,000.

3 *Retrenchment figures pertain to private sector establishments with at least 25 employees and the public sector.*
4 *The seasonally-adjusted overall, resident and citizen unemployment rates in September 2020 were 3.5 per cent, 4.8 per cent and 4.9 per cent respectively.*
5 *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.*
6 *Based on seasonally-adjusted data on the number of unemployed persons.*
7 *Based on preliminary estimates.*

Exhibit 1.7: Changes in Employment by Industry in 3Q 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 11 per cent of manufacturers expecting to increase hiring in the fourth quarter of 2021 as compared to the third quarter. Firms in the aerospace segment of the transport engineering cluster were the most optimistic, with a net weighted balance of 42 per cent of firms expecting to increase hiring in the fourth 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 fourth quarter.

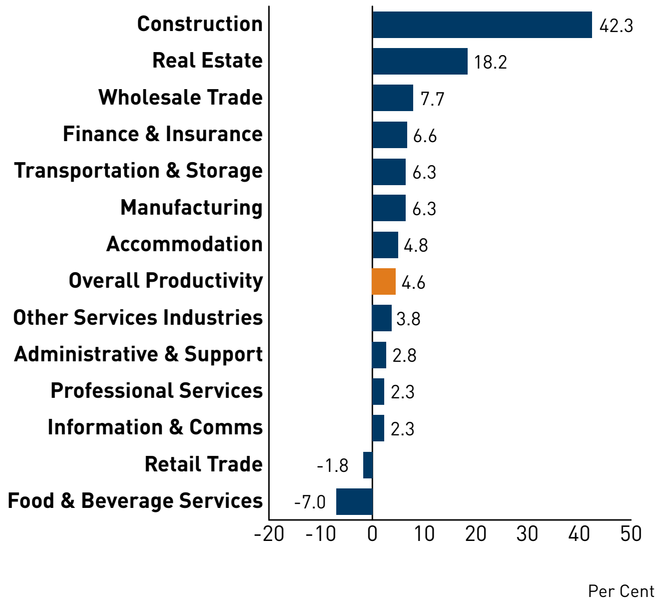
Hiring expectations for services firms were also positive. According to DOS' latest Business Expectations Survey for the Services Sector, a net weighted balance of 10 per cent of services firms expected to increase hiring in the fourth quarter of 2021 as compared to the third quarter. All services sectors reported a positive hiring outlook. Firms in the retail trade sector had the strongest hiring sentiments, with a net weighted balance of 29 per cent of firms expecting to increase hiring in the fourth quarter. On the other hand, firms in the real estate sector had the least positive hiring sentiments, with a net weighted balance of 4 per cent of firms expecting to hire more workers in the fourth quarter.

COMPETITIVENESS

Productivity

Overall labour productivity, as measured by real value-added per actual hour worked, rose by 4.6 per cent on a year-on-year basis in the third quarter of 2021, faster than the 2.1 per cent increase recorded in the previous quarter (Exhibit 1.8).[8]

Exhibit 1.8: Changes in Value-Added per Actual Hour Worked for the Overall Economy and Sectors in 3Q 2021



Most sectors registered productivity growth in the third quarter, with double-digit gains observed in the construction (42 per cent) and real estate (18 per cent) sectors. The wholesale trade (7.7 per cent), finance & insurance (6.6 per cent), transportation & storage (6.3 per cent), manufacturing (6.3 per cent), accommodation (4.8 per cent), other services industries (3.8 per cent), administrative & support services (2.8 per cent), professional services (2.3 per cent) and information & communications (2.3 per cent) sectors also saw productivity improvements. By contrast, productivity fell in the food & beverage services (-7.0 per cent) and retail trade (-1.8 per cent) sectors.

In the third quarter, the productivity of outward-oriented sectors as a whole rose by 5.6 per cent year-on-year, moderating from the 6.7 per cent increase in the previous quarter.[9] In comparison, the productivity of domestically-oriented sectors as a whole grew by 6.1 per cent year-on-year, improving from the 2.4 per cent increase observed in the preceding quarter.

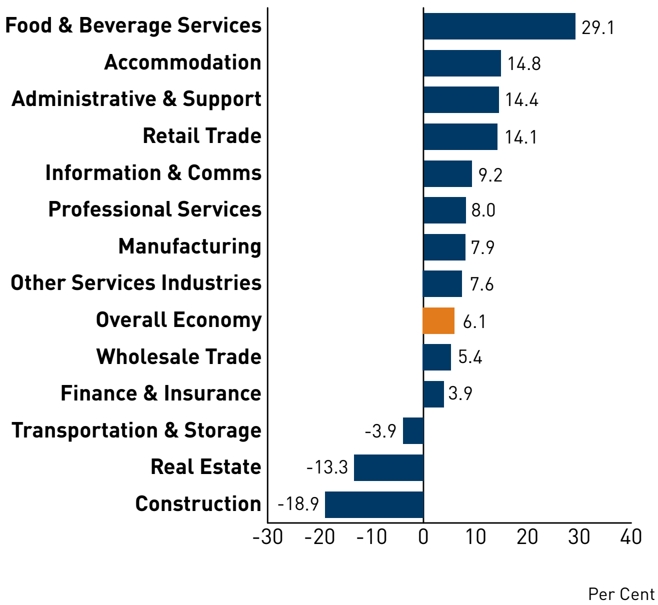
8 Overall labour productivity, as measured by real value-added per worker, rose by 8.2 per cent in the third quarter as compared to the 17 per cent growth in the preceding quarter. The larger increase in real value-added per worker compared to real value-added per actual hour worked (4.6 per cent) in the third quarter was due to an increase in the number of actual hours worked per worker as a result of the low base in the third quarter of 2020 when there was a phased resumption of activities after the CB.

9 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 6.1 per cent on a year-on-year basis in the third quarter, a moderation from the 18 per cent increase in the preceding quarter (Exhibit 1.9). The rise in overall ULC was due to higher total labour cost per worker which outstripped labour productivity growth (as measured by real value-added per worker).

Exhibit 1.9: Changes in Unit Labour Cost in 3Q 2021



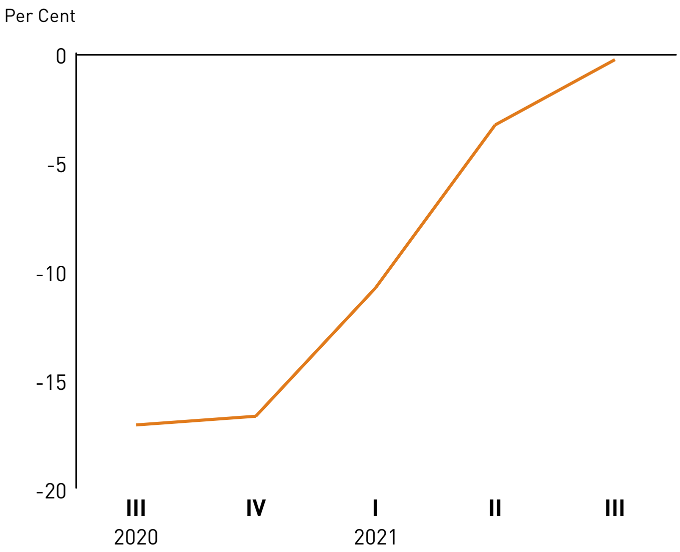
By broad sectors, the ULC for the manufacturing sector picked up by 7.9 per cent year-on-year in the third quarter, although this was lower than the 21 per cent increase seen in the second quarter. The rise in manufacturing ULC was due to higher total labour cost per worker which more than offset labour productivity gains in the sector.

Similarly, the ULC for services producing industries rose by 5.9 per cent, slower than the 18 per cent increase recorded in the previous quarter. Most services sectors saw a rise in their ULCs in the third quarter, with the food & beverage services sector registering the largest increase (29 per cent). The latter occurred as total labour cost per worker rose while labour productivity declined in the sector.

By contrast, the ULC for the construction sector fell by 19 per cent, a more moderate pace of decline as compared to the 24 per cent drop in the preceding quarter. The fall in ULC during the quarter came on the back of strong labour productivity gains, which exceeded an increase in total labour cost per worker in the sector.

Unit business cost (UBC) for the manufacturing sector dipped by 0.3 per cent year-on-year in the third quarter, moderating from the 3.3 per cent decline in the preceding quarter. The fall in the manufacturing UBC was on account of a decline in its unit services cost (-2.8 per cent), even as ULC (7.9 per cent) and unit non-labour production taxes (19 per cent) rose.

Exhibit 1.10: Changes in the Manufacturing Unit Business Cost

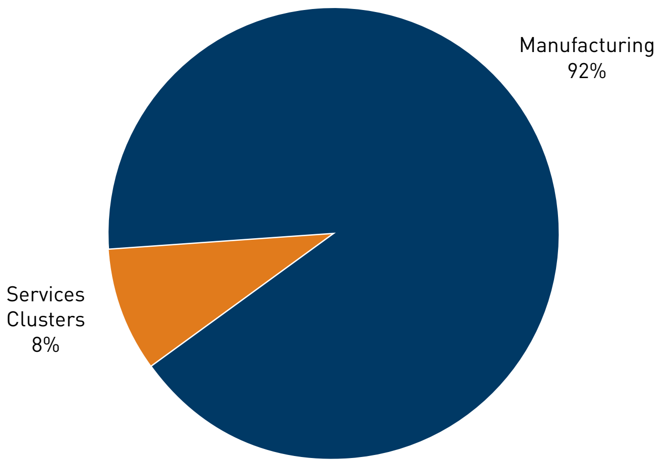


Investment Commitments

Investment commitments garnered by the Economic Development Board (EDB) in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $3.7 billion and $230 million respectively in the third quarter of 2021 (Exhibit 1.11 and Exhibit 1.12).

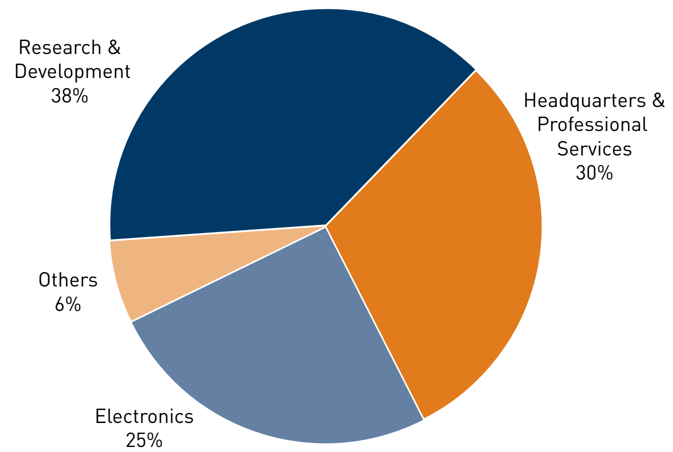
For FAI, the largest contribution came from the manufacturing sector, which attracted $3.4 billion worth of commitments, driven mainly by the electronics cluster. Meanwhile, the research & development cluster garnered the most FAI commitments within the services sector, at $311 million. Investors from the United States contributed the most to total FAI, at $3.3 billion (90 per cent).

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 3Q 2021



For TBE, the services clusters attracted the highest amount of commitments, at $158 million, with the research & development and headquarters & professional clusters accounting for $88 million and $70 million of the commitments respectively. Within the manufacturing sector, the electronics and biomedical manufacturing clusters garnered $59 million and $14 million worth of TBE commitments respectively. Investors from the United States were the largest source of TBE commitments, with commitments of $117 million (51 per cent).

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 3Q 2021



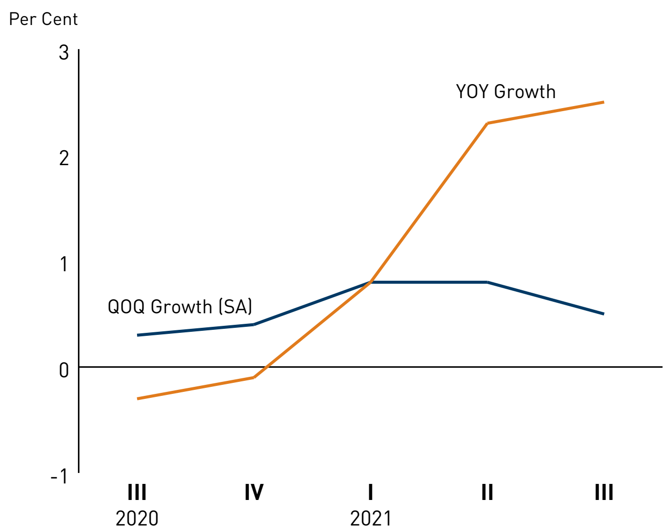
When these projects are fully implemented, they are expected to generate $2.0 billion of value-added and create close to 900 jobs in the coming years.

PRICES

Consumer Price Index

The Consumer Price Index-All Items (CPI-All Items) rose by 2.5 per cent on a year-on-year basis in the third quarter of 2021, extending the 2.3 per cent increase in the previous quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, CPI-All Items edged up by 0.5 per cent, moderating from the 0.8 per cent increase 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 prices rose by 1.4 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 2.1 per cent due to higher accommodation costs, as well as electricity and gas tariffs. Prices of household durables & services went up by 1.6 per cent on account of more expensive domestic & household services and household durables. Healthcare costs rose by 1.7 per cent because of an increase in the costs of health insurance, hospital services and outpatient services. Transport costs climbed by 8.7 per cent due to a rise in the prices of cars and petrol. Recreation & culture prices picked up by 1.4 per cent as a result of the higher cost of recreational & cultural services.[10] Education costs rose by 1.3 per cent as higher fees at universities and commercial institutions more than offset lower fees at childcare centres.

10 *Holiday expenses also contributed to the increase in recreation & culture costs. However, as overseas travel remained limited in the third quarter of 2021, the CPI for holiday expenses was still largely imputed using the overall change in CPI-All Items, in line with international practice. As such, it might not fully reflect actual price changes for holiday services.*

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

Per Cent

	2020		2021		
	III	IV	I	II	III
All items	-0.3	-0.1	0.8	2.3	**2.5**
Food	1.9	1.7	1.5	1.0	**1.4**
Clothing & Footwear	-4.0	-4.7	-5.3	-6.0	**-5.6**
Housing & Utilities	-0.7	-0.3	-0.3	0.6	**2.1**
Household Durables & Services	0.4	0.5	1.1	1.4	**1.6**
Health Care	-1.9	-0.9	0.3	1.0	**1.7**
Transport	-0.8	-0.1	3.1	10.6	**8.7**
Communication	1.8	0.8	0.9	0.1	**-2.0**
Recreation & Culture	-1.6	-2.0	-0.2	1.0	**1.4**
Education	-0.5	-0.9	0.9	1.1	**1.3**
Miscellaneous Goods & Services	-1.7	-1.5	-1.3	-0.2	**-0.4**

By contrast, price declines in the following CPI categories contributed negatively to CPI-All Items inflation in the third quarter. Clothing & footwear prices fell by 5.6 per cent due to cheaper ready-made garments and footwear. Communication costs dropped by 2.0 per cent on the back of lower telecommunication services and equipment costs. Prices of miscellaneous goods & services edged down by 0.4 per cent on account of a fall in the cost of personal care items.

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade rose by 19 per cent on a year-on-year basis in the third quarter of 2021, extending the 27 per cent expansion in the preceding quarter (Exhibit 1.15). Both oil (50 per cent) and non-oil (15 per cent) trade increased during the quarter.

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

Per Cent

	2020			2021		
	III	IV	Ann	I	II	III
Merchandise Trade	-4.8	-5.1	-5.2	4.9	27.3	**19.1**
Merchandise Exports	-2.2	-2.9	-3.2	6.9	26.1	**17.4**
Domestic Exports	-5.1	-10.3	-6.8	-0.2	25.8	**18.8**
Oil	-29.1	-30.6	-28.1	-19.3	85.5	**49.2**
Non-Oil	6.5	-0.5	4.3	9.6	10.1	**9.0**
Re-Exports	0.3	3.4	0.1	13.6	26.4	**16.4**
Merchandise Imports	-7.6	-7.6	-7.4	2.7	28.6	**21.1**
Oil	-32.3	-39.2	-34.0	-12.5	115.4	**51.9**
Non-Oil	-1.5	0.4	-0.3	6.5	17.7	**15.8**

Total merchandise exports expanded by 17 per cent in the third quarter, moderating from the 26 per cent growth in the preceding quarter. The expansion in merchandise exports was due to an increase in both domestic exports (19 per cent) and re-exports (16 per cent).

The increase in domestic exports was on account of gains in both oil and non-oil domestic exports. In particular, oil domestic exports rose by 49 per cent from a low base, reflecting higher oil prices compared to a year ago. In volume terms, oil domestic exports declined by 6.5 per cent, following the 3.3 per cent contraction in the previous quarter.

Meanwhile, non-oil domestic exports (NODX) grew by 9.0 per cent, extending the 10 per cent increase in the previous quarter. The gains made in NODX were supported by an increase in both non-electronics and electronics domestic exports.

Total merchandise imports rose by 21 per cent in the third quarter, following the 29 per cent increase in the previous quarter. The expansion in imports was due to higher oil (52 per cent) and non-oil (16 per cent) imports. Within non-oil imports, both non-electronics and electronics imports rose.

Services Trade

Total services trade expanded by 7.5 per cent on a year-on-year basis in the third quarter of 2021, moderating from the 12 per cent increase in the previous quarter (Exhibit 1.16). Both the exports and imports of services recorded growth during the quarter.

Services exports rose by 6.7 per cent in the third quarter, compared to the 13 per cent increase in the preceding quarter. The growth in services exports was largely due to a rise in the exports of other business services, financial services and maintenance & repair services. Meanwhile, services imports expanded by 8.3 per cent, extending the 11 per cent increase in the previous quarter. The rise in services imports mainly reflected an increase in the imports of other business services, manufacturing services and telecommunications, computer & information services.

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

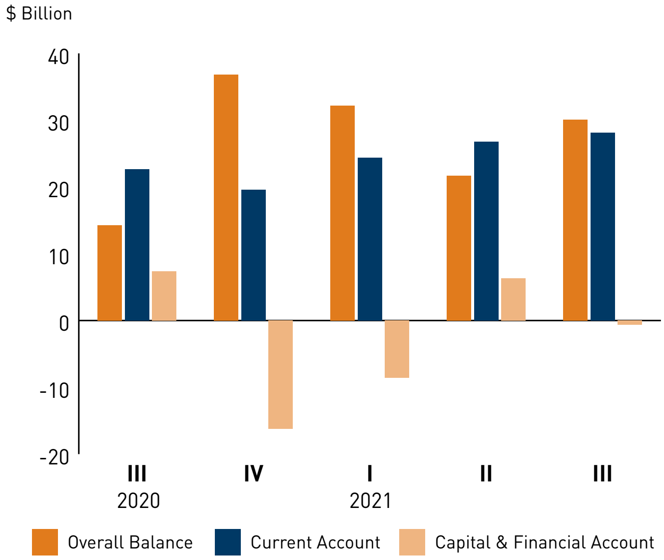
Per Cent

	2020			2021		
	III	IV	Ann	I	II	III
Total Services Trade	-16.3	-16.3	-14.3	-9.2	12.3	**7.5**
Services Exports	-14.1	-13.8	-12.7	-7.1	13.3	**6.7**
Services Imports	-18.7	-18.9	-16.1	-11.4	11.2	**8.3**

BALANCE OF PAYMENTS

The overall balance of payments recorded a larger surplus of $30 billion in the third quarter of 2021, compared to the surplus of $22 billion in the preceding quarter (Exhibit 1.17).

Exhibit 1.17: Balance of Payments



Current Account

The current account surplus rose slightly to $28 billion in the third quarter, from $27 billion in the previous quarter. This was due to an increase in the goods trade surplus and a narrowing of the primary income deficit, which more than offset a decline in the services trade surplus.

The surplus in the goods balance edged up by $0.3 billion quarter-on-quarter to $38 billion in the third quarter, as goods exports rose more than goods imports.

At the same time, the primary income deficit narrowed to $13 billion in the third quarter, from $15 billion in the preceding quarter, as higher primary income receipts outweighed an increase in primary income payments.

By contrast, the surplus in the services balance fell from $6.7 billion in the second quarter to $6.3 billion in the third quarter. An increase in net receipts for financial services and maintenance & repair services was more than offset by a fall in net receipts for other business services and an increase in net payments for telecommunications, computer & information services.

Meanwhile, the secondary income deficit was broadly unchanged from the previous quarter at $2.4 billion, as secondary income payments and receipts rose by similar magnitudes.

Capital and Financial Account[11]

The capital and financial account registered a net inflow of $0.6 billion in the third quarter, a reversal from the net outflow of $6.3 billion seen in the preceding quarter. This was due to a sharp turnaround to a net inflow position from a net outflow position in the "other investment" account and a fall in the net outflows of financial derivatives. These more than offset an increase in the net outflows of portfolio investment and a decrease in the net inflows of direct investment.

"Other investment" recorded a net inflow of $7.3 billion in the third quarter, following a net outflow of $3.4 billion in the previous quarter. This was partly attributable to an increase in net inflows to the non-bank private sector.

At the same time, net outflows of financial derivatives fell to $0.5 billion in the third quarter, from $4.1 billion in the preceding quarter.

In comparison, net outflows of portfolio investment rose to $30 billion in the third quarter, from $25 billion in the previous quarter. This was partly because of an increase in net outflows from the non-bank private sector, which outweighed a fall in net outflows from resident deposit-taking corporations.

Finally, net inflows of direct investment fell to $23 billion in the third quarter, from $26 billion in the preceding quarter, as residents' direct investments abroad rose while foreign direct investments into Singapore fell.

11 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".