

Box Article 2.1

SINGAPORE'S WHOLESALE TRADE SECTOR

The wholesale trade sector is the largest services sector in Singapore, accounting for 18.6 per cent of Singapore's nominal value-added (VA) in 2022.¹ This article examines recent trends in the performance of the wholesale trade sector,² as well as its near-term outlook.

Activities in the wholesale trade sector range from the buying and selling of goods to storage and warehousing, as well as marketing

Wholesalers purchase goods in bulk from domestic or foreign manufacturers or other suppliers. They may then store these goods in warehouses, thereby reducing the storage and inventory management burden of manufacturers. To sell the goods purchased, wholesalers leverage their network of existing and past clients, as well as engage in marketing to attract new ones.³ Once the goods have been sold, wholesalers fulfil the orders through a distribution system. Wholesalers may also offer other services to their clients such as marketing support, training, post-sales services and financing.⁴

In Singapore, a large proportion of wholesale sales are to overseas buyers

Singapore-based (i.e., local) wholesalers perform transactions with both local and overseas buyers. Transactions between local wholesalers and local buyers are categorised as domestic wholesale trade, while those between local wholesalers and overseas buyers are categorised as foreign wholesale trade. Foreign wholesale trade activities account for the bulk of the revenue generated (91.0 per cent in 2021) in the wholesale trade sector (Exhibit 1).

Exhibit 1: Wholesale trade activities are categorised as domestic or foreign

Segment	Revenue Share (2021, Per Cent)	Description
Domestic Wholesale Trade	9.0	Refers to the sale of imported or locally manufactured goods to local buyers
Foreign Wholesale Trade	91.0	Refers to the sale of imported or locally manufactured goods to foreign buyers

Source: Singapore Department of Statistics

The performance of Singapore's wholesale trade sector is highly dependent on the global macroeconomic environment

Given the dominance of foreign wholesale trade activities undertaken by firms in the wholesale trade sector in Singapore, the performance of the sector is highly dependent on the global macroeconomic environment. Mirroring the growth in world merchandise trade volume, the real VA of the wholesale trade sector has risen steadily over the years (Exhibit 2). Between 2016 and 2019, world merchandise trade volume and the real VA of the wholesale trade sector rose by 2.8 per cent per annum (p.a.) and 2.4 per cent p.a. respectively. While both world merchandise trade volume and the real VA of the wholesale trade sector took a hit in 2020 as a result of the COVID-19 pandemic, they posted strong rebounds of 6.0 per cent p.a. and 6.3 per cent p.a. respectively from 2020 to 2022 to exceed their pre-pandemic levels.

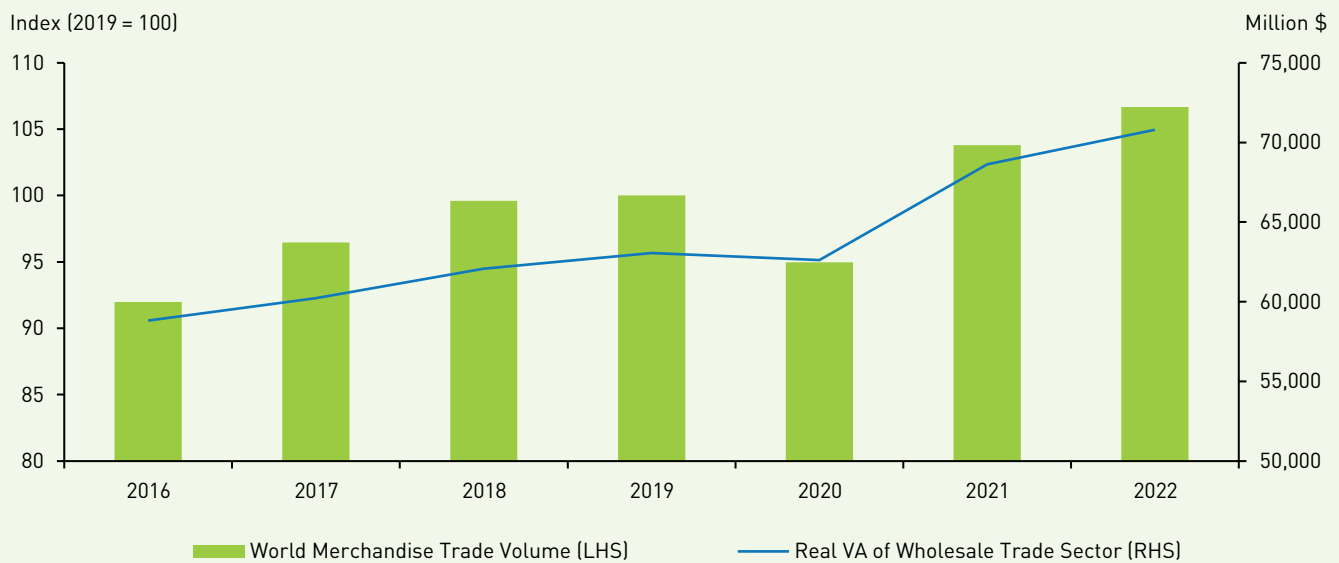
1 The sector's nominal VA share is second only to the manufacturing sector (21.6 per cent of Singapore's nominal VA in 2022).

2 See Tee (2008) and Yeow and Tan (2011) for previous overviews of the wholesale trade sector.

3 Clients can include retailers, other wholesalers and industrial, commercial or institutional customers.

4 Akerman (2018) indicates that wholesalers are able to sell goods overseas at a lower cost than producers by spreading the fixed costs of exporting goods (e.g., establishing an international distribution network) across multiple goods, thus benefiting from economies of scope.

Exhibit 2: World merchandise trade volume and the real VA of Singapore's wholesale trade sector have recovered to above pre-COVID levels



Source: World Trade Organisation, Singapore Department of Statistics

For a better understanding of the drivers of the wholesale trade sector in recent years, the next two sections analyse the performance of the sector by the types of buyers (i.e., foreign versus domestic wholesale trade) and the types of products traded.

Over the years, foreign wholesale sales volume has grown more robustly than domestic wholesale sales volume

Prior to the pandemic, the sales volume of foreign wholesale trade, as measured by the foreign wholesale trade index (WTI),⁵ increased at a compounded annual growth rate (CAGR) of 1.3 per cent between 2016 and 2019, while that of domestic wholesale trade declined at a CAGR of 0.3 per cent over the same period (Exhibit 3). The key drivers of foreign wholesale sales volume over this period were growth in the sales of telecommunications & computers and petroleum & petroleum products, whereas domestic wholesale sales volume was weighed down by declines in the sales of electronic components.

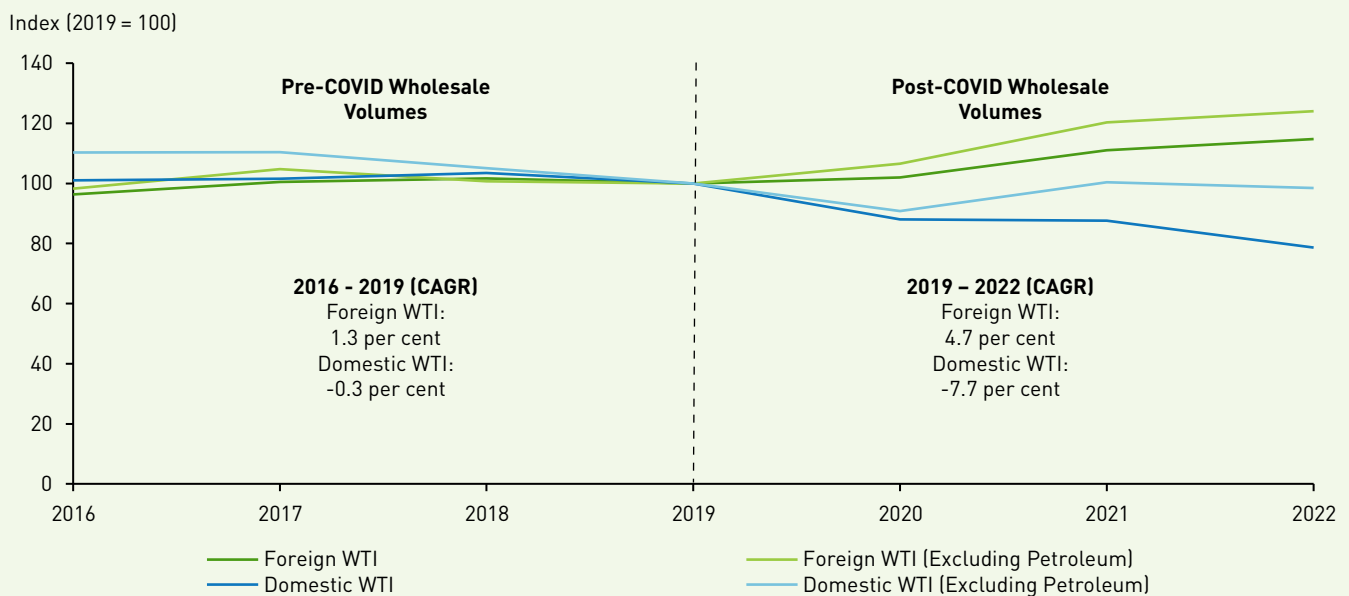
Over the subsequent pandemic and post-pandemic recovery period of 2019 to 2022, foreign wholesale sales volume expanded at a faster pace of 4.7 per cent p.a. on the back of robust growth in the foreign wholesale sales of electronic components and telecommunications & computers. This could in turn be attributed to a spike in global demand for PCs (e.g., desktops, laptops and high-performance workstations) as consumers worldwide spent more time working and learning from home as a result of social restriction measures. In particular, worldwide shipments of PCs surged by 31.3 per cent between 2019 and 2021, and even though shipments fell by 16.5 per cent in 2022, they remained well above pre-pandemic levels.⁶

On the other hand, domestic wholesale sales volume fell by 7.7 per cent p.a. between 2019 and 2022. Domestic wholesale sales volume was weighed down by a decline in the sales of petroleum & petroleum products as the reduced consumption of fuel by aircraft and private vehicles amidst travel restrictions during the pandemic led to a fall in domestic oil demand.

⁵ The Department of Statistics (DOS) compiles the quarterly Wholesale Trade Index (WTI) to measure the short-term performance of the wholesale trade sector. The index consists of the Domestic WTI and Foreign WTI, and is based on data from DOS' Quarterly Survey of Services (QSS) and other administrative sources.

⁶ According to the International Data Corporation (IDC) Worldwide Quarterly Personal Computing Device Tracker, worldwide PC shipments reached 350.1 million units in 2021, the highest level of shipments recorded since 2012. Despite falling to 292.3 million units in 2022, worldwide PC shipments remained above the 266.7 million units posted in 2019.

Exhibit 3: Between 2019 and 2022, the foreign wholesale trade index (WTI) rose at a quicker pace compared to the pre-pandemic period, while domestic WTI further contracted



Source: Singapore Department of Statistics

In terms of the types of products traded, the wholesaling of fuels & chemicals was the fastest growing segment prior to the pandemic...

Pre-pandemic, the wholesaling of fuels & chemicals (F&C) represented the fastest growing segment in the wholesale trade sector (Exhibit 4). Between 2016 and 2019, the real VA of the F&C segment grew at a CAGR of 7.5 per cent on account of the robust expansion of the wholesale sales of petroleum & petroleum products (including fuel oil, liquefied petroleum gases and lubricating oils).

Meanwhile, the real VA from the wholesale sales of machinery, equipment & supplies (MES) increased by 1.5 per cent p.a. over the same period, driven by growth in the wholesaling of electronic components (e.g., capacitors, semiconductor devices and microchips), as well as telecommunications equipment & computers (e.g., handphones and peripheral equipment, smart watches and tablets).

On the other hand, the others⁷ segment contracted marginally by 0.1 per cent p.a. due to a decline in general wholesale trade.

...but the machinery, equipment & supplies segment became the fastest growing segment in more recent years

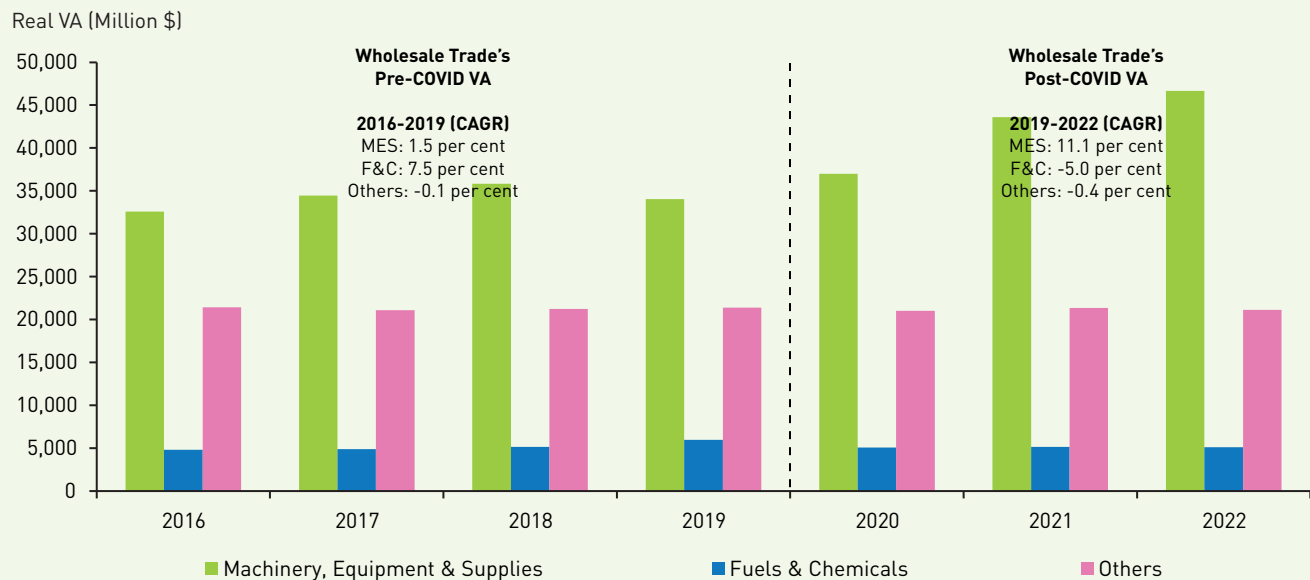
Over the more recent period of 2019 to 2022, the MES segment outperformed the F&C segment, with the real VA of the MES segment increasing at a CAGR of 11.1 per cent even as that of the F&C segment contracted by 5.0 per cent p.a.. At the same time, the others segment continued to decline by 0.4 per cent p.a. over this period.

The robust growth of the MES segment between 2019 and 2022 was driven by strong expansions in the wholesaling of electronic components (e.g., semiconductors) and telecommunications & computers on the back of sustained demand for automotive and consumer electronics, with the latter partly arising from more prevalent work-from-home practices during and after the pandemic. By contrast, the decline in the real VA of the F&C segment was driven by a contraction in the wholesale sales of petroleum & petroleum products due to a fall in jet fuel demand as international travel was badly hit by the pandemic.

⁷ The others segment comprises a diverse range of products including metals, timber & construction materials, household equipment & furniture as well as food, beverages & tobacco, among others.

By 2022, the MES segment's share of the nominal VA of the wholesale trade sector had risen to 49.7 per cent, from its 2019 share of 43.5 per cent. On the other hand, the F&C segment's share had fallen to 21.4 per cent, from 26.6 per cent, over the same period. The others segment accounted for the remaining 28.9 per cent of the sector's nominal VA in 2022.

Exhibit 4: While growth of the fuels & chemicals segment outpaced that of the machinery, equipment & supplies segment prior to the pandemic, the trend reversed in more recent years



Source: Singapore Department of Statistics

Looking ahead, global economic headwinds have dampened the outlook of the wholesale trade sector

With the slowdown in the global economy, the wholesale trade sector contracted in the first quarter of 2023 (-1.7 per cent year-on-year), the first quarterly decline since the onset of the COVID-19 pandemic in 2020. The contraction was due to a decline in wholesaling activity in the others segment on the back of a fall in the wholesale sales of metals, timber & construction materials, even as the performance of the MES segment remained lacklustre on account of the electronics downcycle. While the sector returned to growth in the second quarter (1.1 per cent year-on-year) due to expansions in the MES (specifically, the wholesale sales of telecommunications & computers) and F&C segments, the sector's near-term outlook remains weak given continued global economic headwinds.

Notably, the global economic outlook for the rest of the year remains tepid. Growth in the advanced economies such as the US and Eurozone is expected to weaken in the second half of the year as the cumulative effects of tighter monetary policy weigh on demand. Meanwhile, China's growth is projected to moderate in the second half as the post-pandemic recovery in its services activity slows in line with waning consumer confidence, even as its property sector remains weak and subdued external demand continues to weigh on its industrial activity. At the same time, the global electronics downturn is likely to be protracted, with a gradual recovery expected towards the end of the year at the earliest. Against this backdrop, the International Monetary Fund (IMF) has projected that global trade growth will moderate to 2.0 per cent in 2023, below the 2016 to 2019 average of 3.2 per cent.

Given the external economic headwinds, full-year growth in Singapore's wholesale trade sector is expected to moderate in 2023 from that in 2022 (3.2 per cent). Nonetheless, the longer-term outlook for the sector remains bright given that Singapore is poised to remain as a dynamic advanced manufacturing and global trade hub under our Manufacturing 2030⁸ and Trade 2030⁹ strategies.

⁸ For example, under Manufacturing 2030, Singapore is aiming to grow a vibrant core of innovative Singapore global manufacturers that can deliver distinctive offerings, thereby enhancing the competitiveness of our local wholesalers in the supply chain.

⁹ For example, one of the strategies under Trade 2030 is to grow Singapore's trading volume and widen the types of trading activities that take place here, such as by attracting leading global traders to Singapore.

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