Chapter 1

THE SINGAPORE ECONOMY

ECONOMIC PERFORMANCE

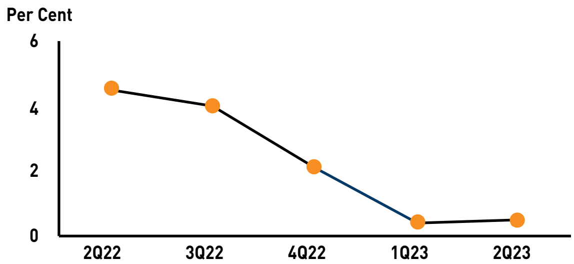
Real GDP grew by
0.5% in 2Q23

Main Drivers of Growth in 2Q23

Transportation & Storage
0.4%-point contribution

Other Services Industries
0.3%-point contribution

Quarterly Growth (YoY)



LABOUR MARKET

Resident Unemployment Rate
2.7% in June 23

Employment (QoQ Change)
+26,100 employed in 2Q23

Sectors with the Highest Employment Growth in 2Q23

+10,500 employed
Construction

+7,300 employed
Other Services Industries

+1,900 employed
Finance & Insurance

PRODUCTIVITY
(YoY Growth)

Value-Added per Actual Hour Worked decreased by
4.7% in 2Q23

Sectors with the Highest Growth in Value-Added per Actual Hour Worked in 2Q23

13.2%
Real Estate

8.9%
Administrative & Support Services

3.3%
Transportation & Storage

COSTS
(YoY Growth)

Overall Unit Labour Cost increased by

10.2% in 2Q23

Within the Manufacturing Sector

6.9% Unit Business Cost

15.8% Unit Labour Cost

PRICES
(YoY Growth)

The Consumer Price Index (CPI) rose by

5.1% in 2Q23

Categories with Price Increases

6.6% Food

6.5% Recreation & Culture

6.4% Transport

INTERNATIONAL TRADE
(YoY Growth)

Total Merchandise Exports decreased by

16.9% in 2Q23

-13.4% Non-Oil Domestic Exports

-14.5% Re-Exports

-28.1% Oil Domestic Exports

Total Services Exports decreased by

2.5% in 2Q23

Services Exports decline was led by...

-8.8%-pt Transport

-0.1%-pt Telecommunication, Computer and Information

OVERVIEW

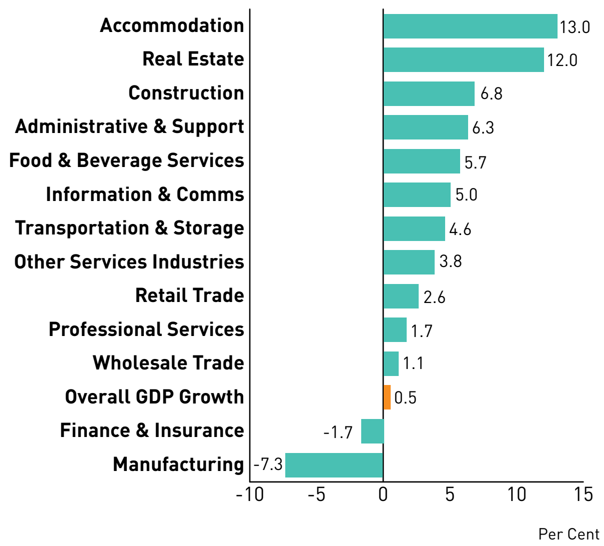
In the second quarter of 2023,

- The Singapore economy expanded by 0.5 per cent on a year-on-year basis. The sectors that contributed the most to GDP growth during the quarter were the transportation & storage, other services and real estate sectors.
- The seasonally-adjusted unemployment rate rose marginally at the overall level, and for residents and citizens, notwithstanding a decline in the number of retrenchments over the quarter.
- Total employment rose by 26,100 on a quarter-on-quarter basis, extending the gains in the preceding quarter. Excluding Migrant Domestic Workers (MDWs), total employment increased by 23,700, driven by employment gains for non-residents.
- The Consumer Price Index-All Items (CPI-All Items) rose by 5.1 per cent on a year-on-year basis, moderating from the 6.1 per cent increase in the preceding quarter.

OVERALL PERFORMANCE

The Singapore economy grew by 0.5 per cent on a year-on-year basis in the second quarter of 2023, extending the 0.4 per cent growth in the previous quarter (Exhibit 1.1). On a quarter-on-quarter seasonally-adjusted basis, the economy expanded marginally by 0.1 per cent, a reversal from the 0.4 per cent contraction in the preceding quarter.

Exhibit 1.1: GDP and Sectoral Growth Rates in 2Q 2023



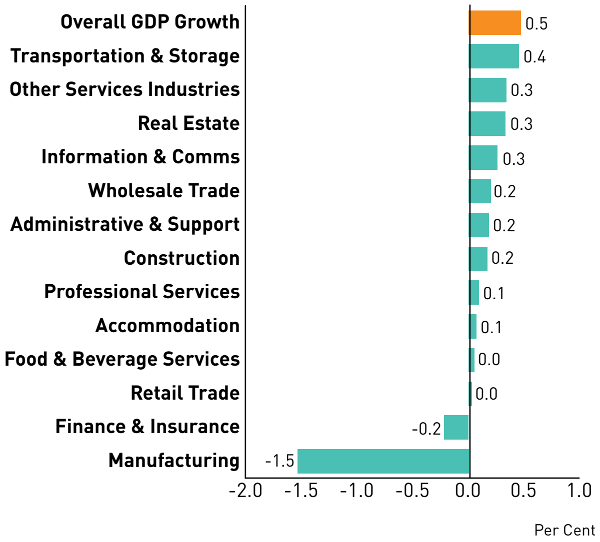
The manufacturing sector shrank by 7.3 per cent year-on-year, worse than the 5.4 per cent contraction in the previous quarter. The weak performance of the sector was due to output declines across all clusters except for the transport engineering cluster, which surged by 18.3 per cent. Among the clusters that contracted, electronics (-12.1 per cent) and precision engineering (-8.6 per cent) saw the largest declines.

The services producing industries grew by 2.6 per cent year-on-year, moderating from the 1.9 per cent growth registered in the previous quarter. Growth was supported by expansions in all services sectors except for the finance & insurance sector, which contracted by 1.7 per cent. Among the services sectors that expanded, accommodation (13.0 per cent), real estate (12.0 per cent) and administrative & support services (6.3 per cent) saw the fastest expansions.

The construction sector grew by 6.8 per cent year-on-year, similar to the 6.9 per cent growth in the preceding quarter. Both public and private sector construction output increased during the quarter.

The top three positive contributors to GDP growth in the second quarter were the transportation & storage, other services and real estate sectors (Exhibit 1.2).

Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 2Q 2023 (By Sector)



SOURCES OF GROWTH

Total demand decreased by 1.8 per cent year-on-year in the second quarter of 2023, a reversal from the 1.2 per cent increase in the previous quarter (Exhibit 1.3). The decline in total demand during the quarter was due to decreases in both domestic and external demand.

External demand fell by 0.6 per cent year-on-year, a pullback from the 1.9 per cent growth in the previous quarter. Meanwhile, domestic demand contracted by 5.6 per cent year-on-year, following the 0.8 per cent decline in the preceding quarter.

Within domestic demand, consumption expenditure rose by 0.7 per cent year-on-year, slowing from the 6.6 per cent increase in the preceding quarter. The increase in consumption expenditure was due to higher private consumption expenditure (2.4 per cent), which offset the decrease in public consumption expenditure (-4.7 per cent).

Meanwhile, gross fixed capital formation (GFCF) decreased by 3.2 per cent year-on-year, worsening from the 0.5 per cent decline in the previous quarter. The decrease in GFCF during the quarter was due to the decline in private sector GFCF (-4.6 per cent), which outweighed the increase in public sector GFCF (4.4 per cent). Public sector GFCF rose due to higher investments in public construction & works, transport equipment, machinery & equipment and intellectual property products. Meanwhile, private sector GFCF fell on the back of lower investments in private construction & works, transport equipment, machinery & equipment, which more than offset the higher investments in private intellectual property products.

Exhibit 1.3: Changes in Total Demand*

	2022			2023	
	II	III	IV	I	II
Total Demand	2.4	3.1	-4.1	1.2	**-1.8**
External Demand	0.7	3.2	-7.0	1.9	**-0.6**
Total Domestic Demand	7.5	2.8	4.6	-0.8	**-5.6**
Consumption Expenditure	10.1	7.9	6.7	6.6	**0.7**
Public	-0.1	-3.6	-1.5	4.8	**-4.7**
Private	13.4	12.0	9.5	7.2	**2.4**
Gross Fixed Capital Formation	2.1	3.4	-1.2	-0.5	**-3.2**
Changes in Inventories	0.3	-2.1	0.4	-3.1	**-3.1**

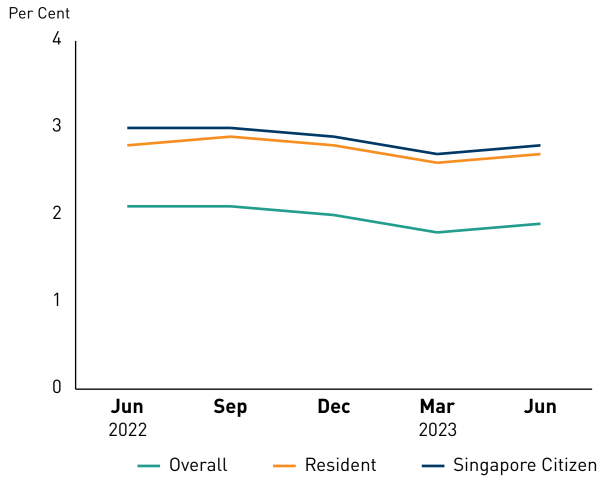
** For inventories, this refers to the contribution to GDP growth.*

LABOUR MARKET

Unemployment and Retrenchment[1]

Compared to March 2023, the seasonally-adjusted unemployment rate in June 2023 increased marginally at the overall level (from 1.8 per cent to 1.9 per cent), and for residents (from 2.6 per cent to 2.7 per cent) and citizens (2.7 per cent to 2.8 per cent) (Exhibit 1.4). As of June 2023, all three unemployment rates remained below their respective pre-pandemic levels.[2]

Exhibit 1.4: Unemployment Rate (Seasonally-Adjusted)

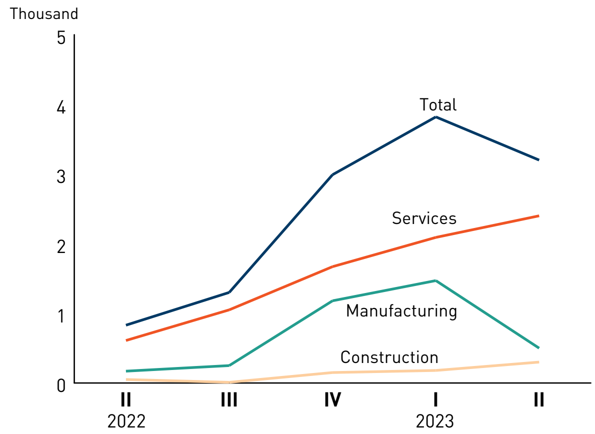


1 *Retrenchment figures pertain to private sector establishments with at least 25 employees and the public sector.*
2 *The average pre-pandemic (i.e., 2018 and 2019) overall, resident and citizen unemployment rates were 2.2 per cent, 3.0 per cent and 3.2 per cent respectively.*

In June 2023, an estimated 64,600 residents, including 56,800 Singapore citizens, were unemployed. These were slightly higher than the number of unemployed residents (62,200) and citizens (55,700) in March 2023.[3]

Total retrenchments fell to 3,200 in the second quarter of 2023, from 3,820 in the preceding quarter (Exhibit 1.5). Over the quarter, retrenchments increased in the services (from 2,090 to 2,400) and construction (from 180 to 300) sectors. On the other hand, retrenchments fell in the manufacturing sector (from 1,470 to 500) over the quarter.

Exhibit 1.5: Retrenchments



Employment[4]

Total employment increased by 26,100 on a quarter-on-quarter basis in the second quarter of 2023, moderating from the gains recorded in the preceding quarter (38,600) (Exhibit 1.6). Excluding MDWs, total employment rose by 23,700, on the back of non-resident employment growth. Resident employment contracted over the same period due to seasonal declines in the food & beverage services and retail sectors.

Total employment growth was partly driven by the services sector (+14,900; or +12,400 excluding MDWs), supported by employment gains in the other services (+7,300), finance & insurance services (+1,900), and transportation & storage (+1,600) sectors (Exhibit 1.7). Over the same period, employment in the construction and manufacturing sectors rose by 10,500 and 1,200, respectively.

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

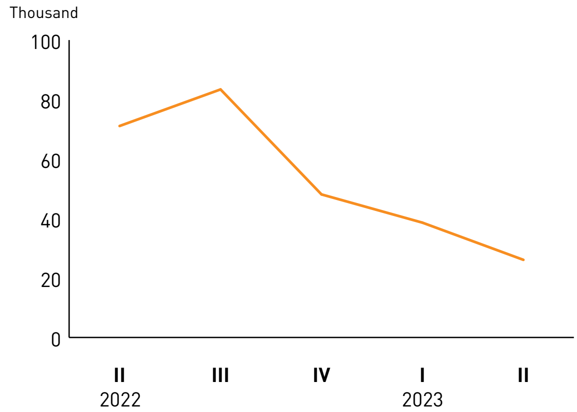
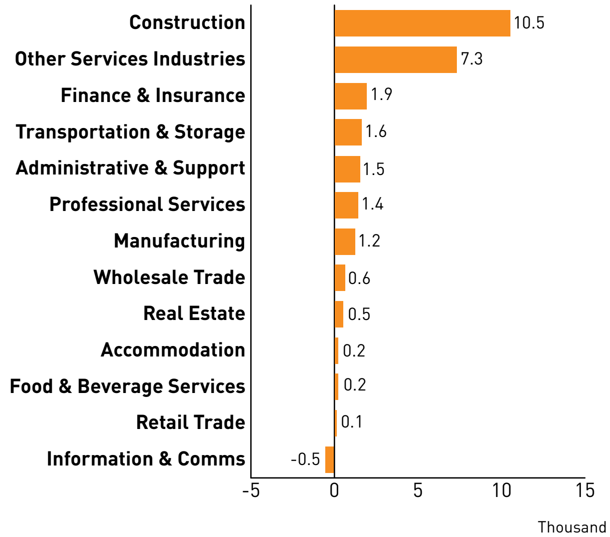


Exhibit 1.7: Changes in Employment by Sector in 2Q 2023



3 *Based on seasonally-adjusted data on the number of unemployed persons.*
4 *Based on preliminary estimates.*

Hiring Expectations

According to the Economic Development Board's (EDB) latest Business Expectations Survey for the Manufacturing Sector, hiring expectations in the sector were positive. Specifically, a net weighted balance of 4 per cent of manufacturers expect to increase hiring in the third quarter of 2023 as compared to the second quarter. Firms in the marine & offshore engineering segment of the transport engineering cluster were the most optimistic, with a net weighted balance of 41 per cent of firms expecting to increase hiring in the third quarter. By contrast, firms in the computer peripherals & data storage segment of the electronics cluster were the most pessimistic, with a net weighted balance of 48 per cent of firms expecting a lower level of hiring in the third quarter.

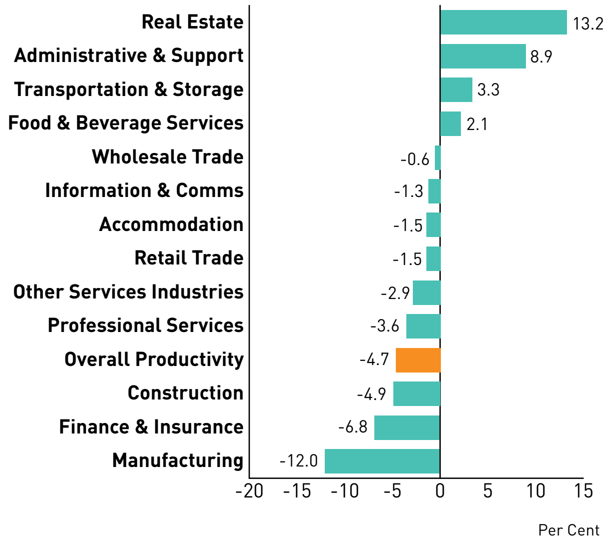
Hiring expectations for services firms remain positive. According to the Singapore Department of Statistics' (DOS) latest Business Expectations Survey for the Services Sector, a net weighted balance of 9 per cent of services firms expect to increase hiring in the third quarter of 2023 as compared to the second quarter. Among the services sectors, firms in the accommodation sector had the strongest hiring sentiments, with a net weighted balance of 41 per cent of firms expecting to increase hiring in the third quarter. On the other hand, firms in the wholesale trade sector were the most pessimistic, with a net weighted balance of 1 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, fell by 4.7 per cent year-on-year in the second quarter of 2023, moderating from the 6.6 per cent decline 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 2023



Among the sectors, the real estate (13.2 per cent) and administrative & support services (8.9 per cent) sectors recorded the strongest productivity gains in the second quarter. The transportation & storage (3.3 per cent) and food & beverage services (2.1 per cent) sectors also saw productivity improvements. By contrast, productivity declines were observed in the manufacturing (-12.0 per cent), finance & insurance (-6.8 per cent), construction (-4.9 per cent), professional services (-3.6 per cent), other services (-2.9 per cent), retail trade (-1.5 per cent), accommodation (-1.5 per cent), information & communications (-1.3 per cent) and wholesale trade (-0.6 per cent) sectors.

In the second quarter, the productivity of outward-oriented sectors as a whole fell by 5.1 per cent year-on-year, moderating from the 7.1 per cent decline in the previous quarter.[6] Meanwhile, the productivity of domestically-oriented sectors as a whole fell by 0.5 per cent year-on-year, moderating from the 2.0 per cent decline in the preceding quarter.

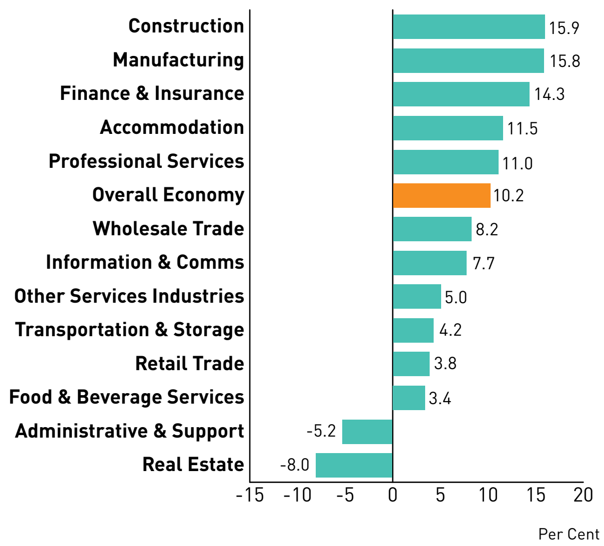
5 *Similarly, overall labour productivity as measured by real value-added per worker, fell by 4.9 per cent in the second quarter of 2023, moderating from the 5.9 per cent decline in the preceding quarter.*

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 10.2 per cent year-on-year in the second quarter of 2023 (Exhibit 1.9), extending the 10.1 per cent increase in the preceding quarter. The rise in overall ULC during the quarter was due to an increase in total labour cost per worker, along with a fall in labour productivity as measured by real value-added per worker.

Exhibit 1.9: Changes in Unit Labour Cost in 2Q 2023



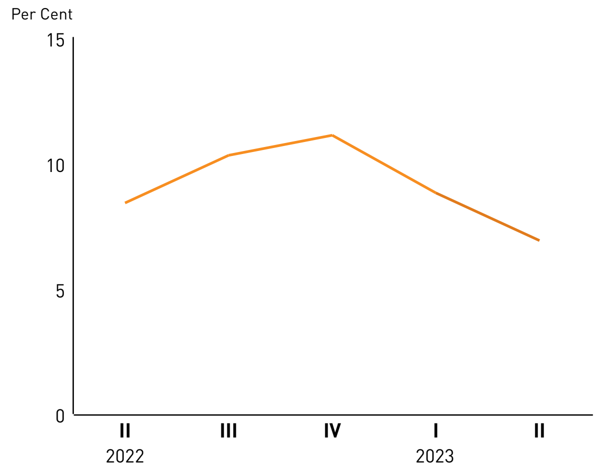
By sectors, the ULC for the construction sector was 15.9 per cent higher year-on-year in the second quarter as a fall in labour productivity was accompanied by an increase in total labour cost per worker.

The ULC for services producing industries rose by 7.4 per cent year-on-year. Among the services sectors, ULC increased the most in the finance & insurance sector (14.3 per cent), reflecting a pickup in total labour cost per worker alongside a decline in productivity. Meanwhile, ULC fell in the real estate (-8.0 per cent) and administrative & support services (-5.2 per cent) sectors. In these sectors, productivity gains surpassed the increase in total labour cost per worker.

Over the same period, the ULC for the manufacturing sector picked up by 15.8 per cent year-on-year. The rise in the sector's ULC was due to a fall in labour productivity while total labour cost per worker rose.

Unit business cost (UBC) for the manufacturing sector rose by 6.9 per cent year-on-year in the second quarter of 2023, moderating from the 8.8 per cent increase in the previous quarter (Exhibit 1.10). The rise in UBC during the quarter was due to the increase in manufacturing ULC (15.8 per cent), unit services costs (4.3 per cent) and unit non-labour production taxes (14.7 per cent).

Exhibit 1.10: Changes in the Manufacturing Unit Business Cost

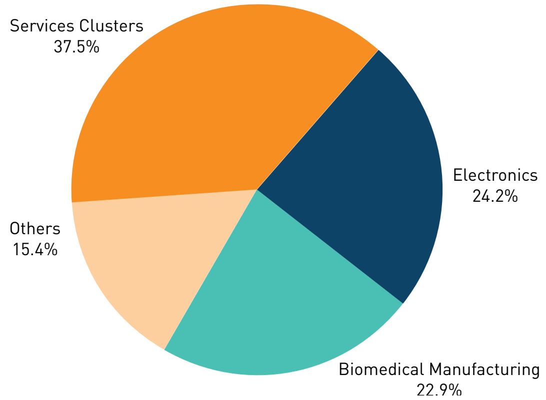


Investment Commitments

Investment commitments garnered by EDB in terms of Fixed Asset Investments (FAI) and Total Business Expenditure (TBE) amounted to $1.6 billion and $3.6 billion respectively in the second quarter of 2023 (Exhibit 1.11 and Exhibit 1.12).

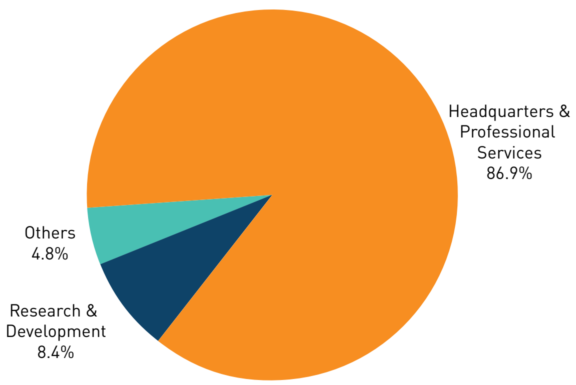
For FAI, the largest contribution came from the manufacturing sector, which attracted $979 million worth of commitments. Within the manufacturing sector, the electronics and biomedical manufacturing clusters garnered the largest amounts of commitments, at $379 million and $359 million respectively. Within the services sector, the engineering & environmental services cluster attracted the most FAI commitments at $473 million. Local investors contributed the most to total FAI, at $493 million (31.5 per cent).

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 2Q 2023



For TBE, the services sector attracted the highest amount of commitments, at $3.4 billion. Within the sector, the headquarters & professional services and research & development clusters garnered the most TBE commitments, at $3.1 billion and $299 million respectively. Among the manufacturing clusters, the electronics and transport engineering clusters attracted the largest amounts of TBE commitments, at $70.2 million and $46.3 million respectively. Local investors were the largest source of TBE commitments, with commitments of $2.4 billion (67.5 per cent).

Exhibit 1.12: Total Business Expenditure by Industry Cluster in 2Q 2023



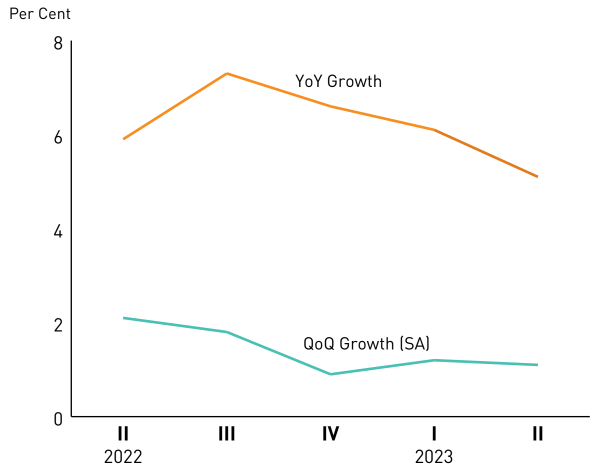
When these projects are fully implemented in the coming years, they are expected to generate $4.5 billion of value-added and create more than 4,500 jobs.

PRICES

Consumer Price Index

Consumer Price Index-All Items (CPI-All Items) rose by 5.1 per cent on a year-on-year basis in the second quarter of 2023, moderating from the 6.1 per cent increase in the preceding quarter (Exhibit 1.13). On a quarter-on-quarter seasonally-adjusted basis, CPI-All Items inflation came in at 1.1 per cent, following the 1.2 per cent recorded in the previous quarter.

Exhibit 1.13: Changes in CPI



All CPI categories saw price increases on a year-on-year basis, thus contributing positively to CPI-All Items inflation in the second quarter (Exhibit 1.14). Food prices rose by 6.6 per cent on the back of increases in the costs of food servicing services like hawker food and restaurant meals, as well as non-cooked food items such as meat, bread & cereals and fish & seafood. Clothing & footwear prices picked up by 4.5 per cent, mainly driven by more expensive footwear and ready-made garments. Housing & utilities costs increased by 4.4 per cent because of a rise in the costs of accommodation and electricity. Prices of household durables & services edged up by 1.9 per cent as the prices of household durables and domestic & household services increased. Healthcare costs rose by 4.6 per cent on account of the higher costs of outpatient services, hospital services, and health insurance. Transport costs climbed by 6.4 per cent due to an increase in the cost of cars, as well as higher road tax and bus & train fares. Communication costs picked up by 2.7 per cent on the back of a rise in the prices of telecommunication services. Recreation & culture prices increased by 6.5 per cent as a result of the higher costs of holiday travel, as well as recreational & cultural services. Education costs rose by 2.7 per cent due to higher fees at commercial institutions and universities. Prices of miscellaneous goods & services went up by 3.6 per cent on account of a rise in the costs of personal care items and alcoholic drinks & tobacco.

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

Per Cent

	2022			2023	
	II	III	IV	I	II
All items	5.9	7.3	6.6	6.1	**5.1**
Food	4.7	6.5	7.3	8.0	**6.6**
Clothing & Footwear	2.8	7.1	5.2	6.8	**4.5**
Housing & Utilities	5.1	6.0	5.7	5.3	**4.4**
Housing Durables & Services	2.1	2.1	2.3	2.6	**1.9**
Healthcare	1.6	2.7	2.8	4.0	**4.6**
Transport	16.6	19.4	14.3	9.2	**6.4**
Communication	-0.9	-0.8	-0.5	2.1	**2.7**
Recreation & Culture	3.8	5.6	6.3	6.8	**6.5**
Education	2.2	2.2	2.0	3.0	**2.7**
Miscellaneous Goods & Services	0.2	0.5	1.1	2.6	**3.6**

INTERNATIONAL TRADE

Merchandise Trade

Singapore's total merchandise trade contracted by 18.7 per cent year-on-year in the second quarter, following the 7.8 per cent decrease in the preceding quarter (Exhibit 1.15). The decline in total merchandise trade was due to decreases in both non-oil trade (-15.3 per cent) and oil trade (-30.9 per cent).

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

Per Cent

	2022				2023	
	II	III	IV	ANN	I	II
Merchandise Trade	28.0	25.7	-1.0	17.7	-7.8	**-18.7**
Merchandise Exports	24.9	23.4	-2.3	15.6	-6.5	**-16.9**
Domestic Exports	28.5	27.9	-2.1	18.2	-7.9	**-19.5**
Oil	72.9	75.2	21.6	52.4	8.5	**-28.1**
Non-Oil	8.9	7.1	-14.0	3.0	-16.1	**-13.4**
Re-Exports	21.7	19.8	-2.4	13.5	-5.3	**-14.5**
Merchandise Imports	31.6	28.1	0.5	20.1	-9.3	**-20.6**
Oil	66.7	58.8	8.2	43.9	-7.4	**-34.4**
Non-Oil	23.5	21.2	-1.4	14.6	-9.8	**-16.3**

Total merchandise exports shrank by 16.9 per cent year-on-year in the second quarter, following the 6.5 per cent decrease in the preceding quarter. This was due to decreases in both domestic exports (-19.5 per cent) and re-exports (-14.5 per cent).

The decline in domestic exports was due to decreases in both oil domestic exports (-28.1 per cent) and non-oil domestic exports (NODX) (-13.4 per cent). In volume terms, oil domestic exports grew by 8.9 per cent.

Meanwhile, NODX decreased by 13.4 per cent in the second quarter, following the 16.1 per cent contraction in the previous quarter. The decline in NODX was due to decreases in both electronics and non-electronics domestic exports.

Total merchandise imports fell by 20.6 per cent in the second quarter, following the 9.3 per cent contraction in the previous quarter. The decline in imports was due to decreases in both oil and non-oil imports. Specifically, oil imports contracted by 34.4 per cent, while non-oil imports declined by 16.3 per cent on account of lower electronics and non-electronics imports.

Services Trade

Total services trade decreased by 1.9 per cent year-on-year in the second quarter, a reversal from the 1.9 per cent increase in the previous quarter (Exhibit 1.16). Both the exports and imports of services saw negative year-on-year growth during the quarter.

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

Per Cent

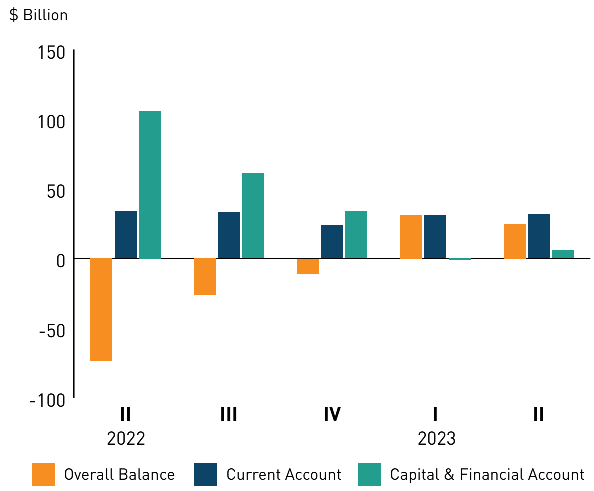
	2022				2023	
	II	III	IV	ANN	I	II
Total Services Trade	13.1	12.5	7.0	10.8	1.9	**-1.9**
Services Exports	14.3	14.1	8.2	12.1	0.2	**-2.5**
Services Imports	11.8	10.6	5.7	9.3	3.8	**-1.1**

Services exports fell by 2.5 per cent in the second quarter, a turnaround from the 0.2 per cent increase in the preceding quarter. The decrease in services exports was largely attributable to the fall in the exports of transport services, which more than offset increases in the exports of travel services, financial services and other business services. Meanwhile, services imports contracted by 1.1 per cent, a pullback from the 3.8 per cent increase in the previous quarter. The fall in services imports was mainly due to the decrease in the imports of transport services, which outweighed increases in the imports of travel services, other business services and telecommunications, computer and information services.

BALANCE OF PAYMENTS

Singapore recorded an overall balance of payments surplus of $25.1 billion in the second quarter of 2023, narrower than the surplus of $31.3 billion in the preceding quarter (Exhibit 1.17).

Exhibit 1.17: Balance of Payments



Current Account

The current account surplus widened marginally to $31.0 billion in the second quarter of 2023, from $30.6 billion in the previous quarter. This was due to increases in both the goods and services trade surpluses, which offset higher primary and secondary income deficits.

The surplus in the goods balance increased by $8.8 billion to $53.6 billion in the second quarter, as goods exports rose while goods imports declined.

The surplus in the services balance rose by $2.3 billion to $9.5 billion in the second quarter. Other business services recorded net receipts, a reversal from net payments in the previous quarter, while net receipts for maintenance and repair services, as well as financial services increased. These more than offset the increase in net payments for manufacturing services on physical inputs, as well as the decrease in net receipts for personal, cultural and recreational services.

At the same time, the primary income deficit increased by $10.3 billion to $30.2 billion in the second quarter, as primary income receipts declined more than the fall in payments.

The secondary income deficit widened by $0.4 billion to $1.9 billion as secondary income payments rose while receipts declined.

Capital and Financial Account[7]

The capital and financial account registered a net outflow of $5.7 billion in the second quarter of 2023, a reversal from a net inflow of $1.7 billion in the preceding quarter. This was due to increased net outflows of "other investment" and portfolio investment, as well as financial derivatives recording net outflows compared to net inflows in the previous quarter. These more than offset the higher net inflows of direct investment.

"Other investment" recorded net outflows of $5.0 billion in the second quarter, larger than the $0.8 billion in the previous quarter. This was driven by the non-bank private sector switching from a net inflow to a net outflow position, which more than offset the shift of resident deposit-taking corporations from a net outflow to a net inflow position.

Net outflows of portfolio investment increased to $27.7 billion in the second quarter, from $26.0 billion in the first quarter. This was driven in part by the increase in net outflows recorded by resident deposit-taking corporations.

Meanwhile, financial derivatives recorded net outflows of $3.0 billion in the second quarter, a reversal from the net inflows of $0.7 billion in the first quarter.

In comparison, net inflows of direct investment rose to $30.1 billion in the second quarter, from $27.8 billion in the preceding quarter, as the increase in foreign direct investments into Singapore exceeded the rise in residents' direct investments abroad.

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".*