CHAPTER 1

THE SINGAPORE ECONOMY

OVERVIEW

In the first quarter of 2013,

- The economy grew by 0.2 per cent compared to the same period in 2012.
- Growth was mainly supported by the construction, finance & insurance and business services sectors.
- Gains in employment moderated to 20,800, while overall unemployment rate edged up to 1.9 per cent.
- The consumer price index increased by 4.0 per cent compared to a year ago.

OVERALL PERFORMANCE

- The economy grew by 0.2 per cent in the first quarter of 2013, slower than the 1.5 per cent growth in the preceding quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy grew by 1.8 per cent, moderating from the 3.3 per cent growth in the previous quarter.
- On a year-on-year basis, the finance & insurance, construction and business services sectors expanded by 10.5 per cent, 7.3 per cent and 4.3 per cent respectively. Similarly, the information & communications sector rose by 2.9 per cent while the accommodation & food services sector grew by 2.1 per cent.
- By contrast, externally-oriented sectors such as manufacturing, wholesale & retail and transportation & storage contracted by 6.8 percent, 1.1 per cent and 0.5 per cent respectively. In addition, the other services sector declined marginally by 0.1 per cent.
- The main drivers of growth were the finance & insurance, business services and construction sectors, which added 1.3, 0.5 and 0.3 percentage-points to overall GDP growth respectively.

Exhibit 1.1: GDP and Sectoral Growth Rates in 1Q 2013

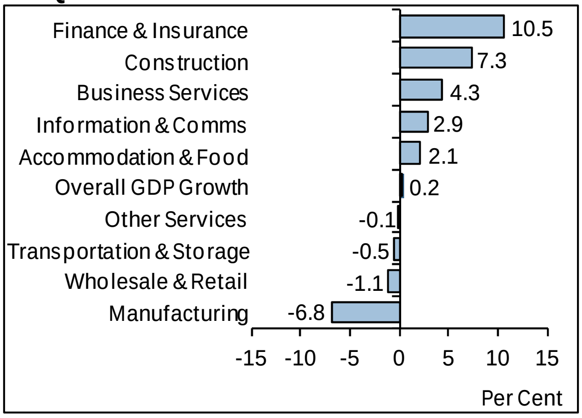
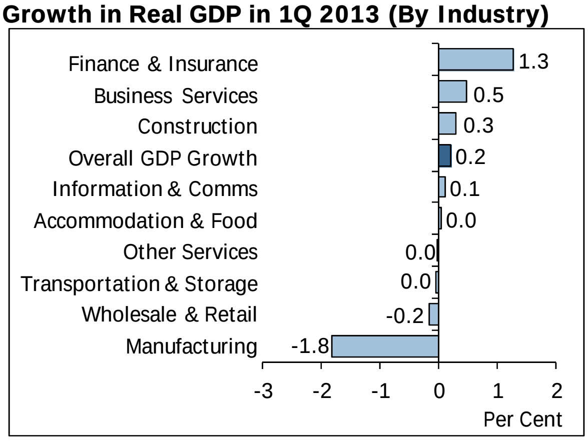


Exhibit 1.2: Percentage-Point Contribution to Growth in Real GDP in 1Q 2013 (By Industry)



SOURCES OF GROWTH

- Total demand contracted by 1.8 per cent in the first quarter, a reversal from the 2.6 per cent growth in the preceding quarter.
- The decline in total demand was due to a 4.2 per cent fall in external demand, following the 1.9 per cent contraction in the previous quarter. By contrast, domestic demand grew by 5.8 per cent, easing from the 18 per cent growth in the previous quarter.
- The expansion in domestic demand was mainly attributable to the 5.0 per cent increase in consumption expenditure, which was in turn supported by the 15 per cent growth in public consumption expenditure.
- Conversely, gross fixed capital formation shrank by 4.7 per cent. This was mainly due to the 7.0 per cent decline in private investment, which more than offset the 6.6 per cent increase in public investment.
- Inventories also increased, contributing 1.0 percentage-point to the growth in total demand.

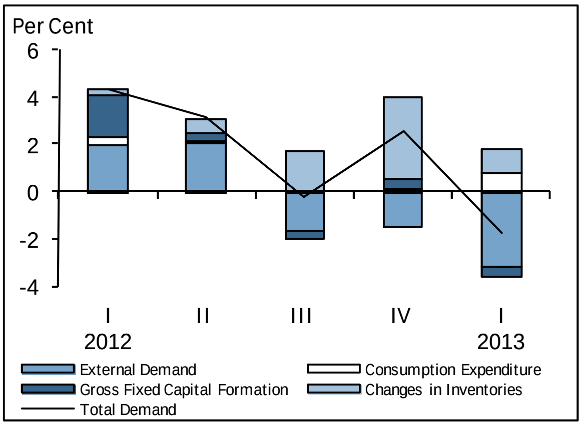
Exhibit 1.3: Changes in Total Demand[1]

Per Cent

	2012				2013
	I	II	III	IV	I
Total Demand	4.3	3.1	-0.2	2.6	-1.8
External Demand	2.6	2.7	-2.1	-1.9	-4.2
Total Domestic Demand	10.3	4.5	6.3	17.7	5.8
Consumption Expenditure	2.1	1.1	-0.1	0.7	5.0
Public	-4.4	-2.0	-2.4	-4.6	14.5
Private	4.7	1.6	0.5	2.0	1.6
Gross Fixed Capital Formation	23.7	3.7	-3.8	5.8	-4.7
Changes in Inventories	0.7	1.8	5.2	10.3	3.0

[1] For inventories, this refers instead to change as a percentage of GDP in the previous year.

Exhibit 1.4: Percentage-Point Contribution to Total Demand Growth

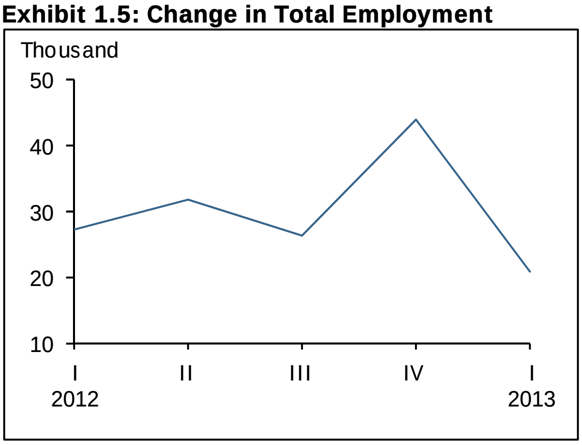


LABOUR MARKET

Employment

- Total employment grew by 20,800[1] in the first quarter, lower than the seasonal high gain of 44,000 in the preceding quarter, and the gain of 27,200 in the first quarter of 2012.

Exhibit 1.5: Change in Total Employment



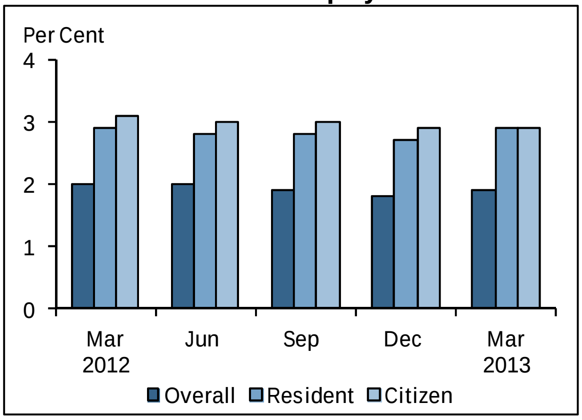
[1] Based on preliminary estimates.

- The moderation in employment growth was broad-based. The services and construction sectors added 14,600 and 7,800 workers respectively, lower than the gains of 15,800 and 8,700 in the first quarter of 2012. Employment in the manufacturing sector fell by 1,800, compared to the gain of 2,000 in the first quarter of 2012.

Unemployment

- The seasonally-adjusted overall unemployment rate edged up slightly from 1.8 per cent in December 2012 to 1.9 per cent in March this year. Similarly, the seasonally-adjusted resident unemployment rate rose from 2.7 per cent to 2.9 per cent over the same period. The seasonally-adjusted citizen unemployment rate remained unchanged at 2.9 per cent.
- An estimated 57,800 residents, including 50,000 citizens, were unemployed in March 2013. The seasonally-adjusted figures were 60,600 for residents and 52,900 for citizens.

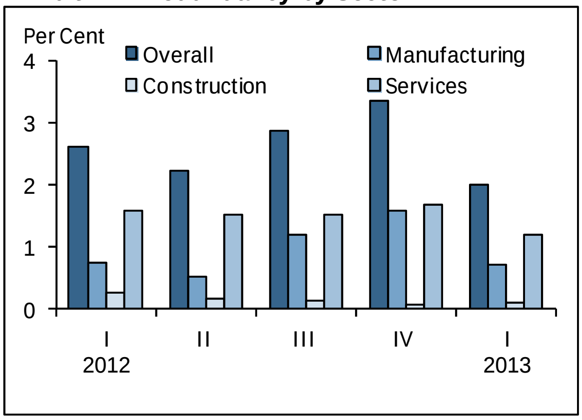
Exhibit 1.6: Seasonally-Adjusted Overall, Resident and Citizen Unemployment Rates



Redundancy[2]

- Layoffs in the first quarter fell to 2,000, from 3,350 in the preceding quarter and 2,600 in the first quarter of 2012. Redundancies fell in both the manufacturing (from 1,580 in the preceding quarter to 700) and services (from 1,690 to 1,200) sectors, while redundancies in the construction sector increased marginally (from 70 to 100).

Exhibit 1.7: Redundancy by Sector



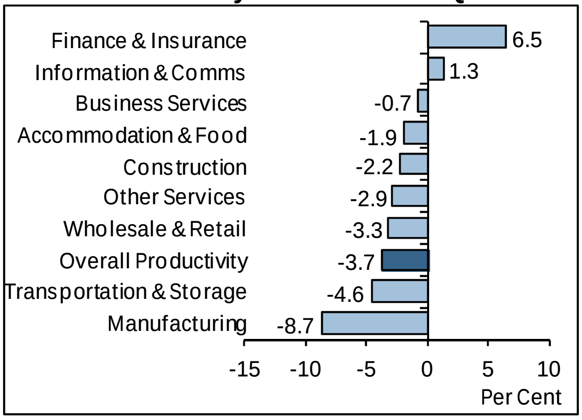
[2] Figures pertain to private sector establishments each with at least 25 employees and the public sector.

COMPETITIVENESS

Productivity

- Labour productivity fell by 3.7 per cent in the first quarter compared to the same period a year ago, following the 2.5 per cent decline in the previous quarter.
- Finance and insurance (6.5 per cent) and information & communications (1.3 per cent) were the only sectors to register productivity gains. The sectors with the sharpest declines in productivity were manufacturing (-8.7 per cent), transportation & storage (-4.6 per cent) and wholesale & retail trade (-3.3 per cent), as productivity fell in tandem with the declines in their value-added.

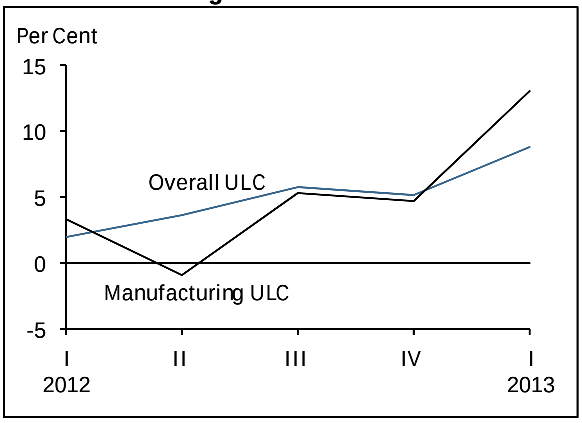
Exhibit 1.8: Changes in Labour Productivity for the Overall Economy and Sectors in 1Q 2013



Unit Labour Cost and Unit Business Cost

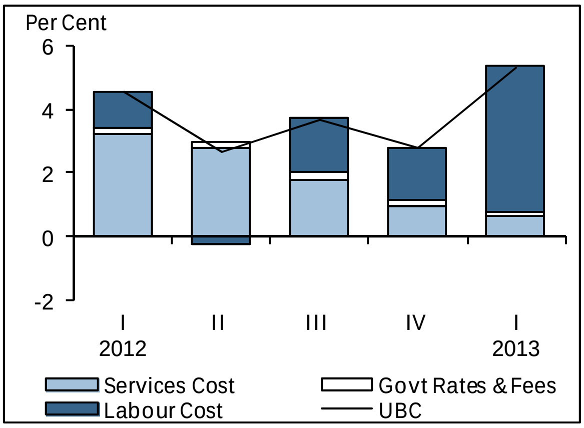
- Overall unit labour costs (ULC) for the economy grew by 8.7 per cent in the first quarter compared to the same period a year ago. This was a larger increase than the 5.2 per cent growth in the previous quarter.
- Manufacturing ULC rose by 13 per cent, up from 4.7 per cent in the previous quarter. The increase was due to both higher labour costs as well as the fall in productivity.

Exhibit 1.9: Change in Unit Labour Cost



- Unit business costs (UBC) in the manufacturing sector increased by 5.3 per cent, following the 2.8 per cent gain in the previous quarter.
- The faster rise in manufacturing UBC was mainly driven by the larger increase in ULC. On the other hand, growth in services costs moderated, largely due to a decline in utilities fees.

Exhibit 1.10: Percentage-Point Contribution to Change in Unit Business Costs for Manufacturing



Investment Commitments

- Investment commitments in terms of total fixed asset investments (FAI) and total business expenditure (TBE) amounted to $4.1 billion and $1.8 billion respectively in the first quarter.
- The electronics cluster garnered the largest amount of FAI ($2.1 billion), mainly in the semiconductors segment. This was followed by the services clusters which cumulatively attracted $1.2 billion in FAI.
- In terms of TBE, the engineering & environmental services cluster attracted the largest amount of commitments, at $486 million. The headquarters & professional services cluster came next, with $372 million of TBE.
- The United States was the biggest contributor to FAI, accounting for 49 per cent of total FAI. They were also the biggest foreign contributor to TBE, accounting for 27 per cent of total TBE.
- When fully realised, these FAI and TBE commitments are expected to generate $3.6 billion of value-added and create more than 6,300 skilled jobs.

Exhibit 1.11: Fixed Asset Investments by Industry Cluster in 1Q 2013

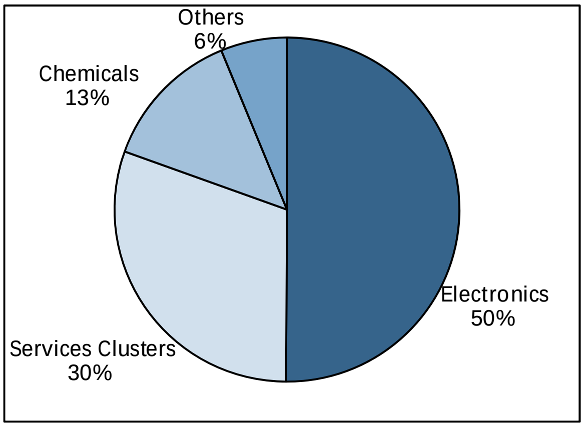
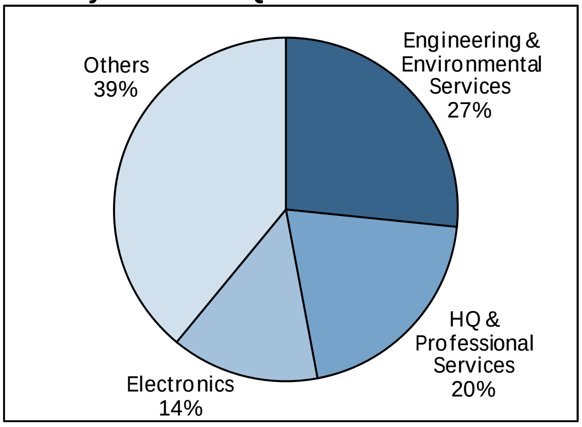


Exhibit 1.12: Total Business Spending by Industry Cluster in 1Q 2013

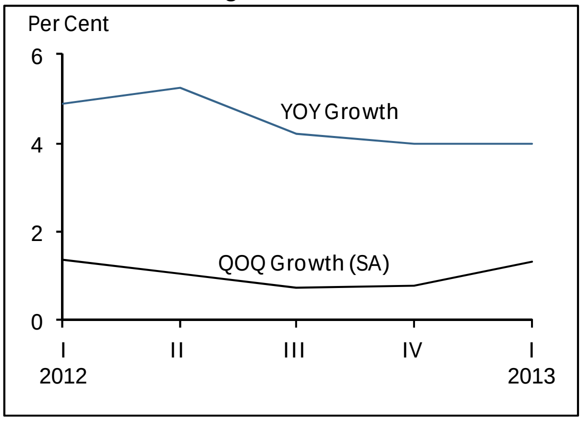


PRICES

Consumer Price Index

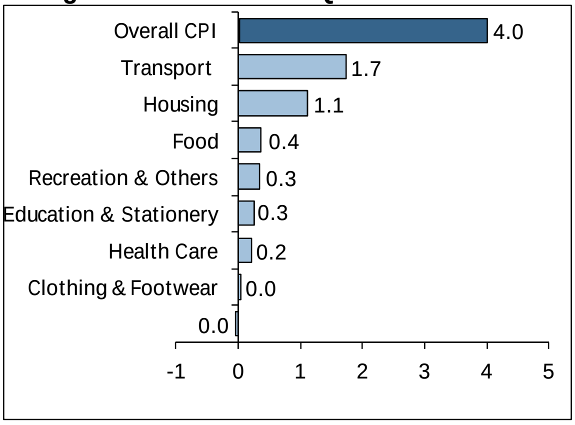
- On a year-on-year basis, the consumer price index (CPI) rose by 4.0 per cent in the first quarter, similar to the increase in the preceding quarter. On a quarter-on-quarter seasonally-adjusted basis, the CPI rose by 1.3 per cent, compared to the 0.8 per cent increase in the previous quarter.
- Transport costs were the largest contributor to CPI inflation, increasing by 9.7 per cent on a year-on-year basis due to higher car and petrol prices.
- Housing costs rose by 4.2 per cent, driven by higher accommodation costs which more than offset lower electricity tariffs.

Exhibit 1.13: Changes in CPI



- Food prices increased by 1.7 per cent, on account of more expensive prepared meals, dairy products, fruits, seafood and vegetables.
- The cost of "Recreation & others" went up by 2.4 per cent, due to the higher cost of employing foreign domestic helpers.
- Education & stationery costs rose by 3.5 per cent, driven by higher school fees as well as higher fees at commercial institutions, childcare centres, kindergartens and playgroups.
- The cost of healthcare increased by 3.6 per cent as a result of costlier medical treatment fees and proprietary medicines.

Exhibit 1.14: Percentage-Point Contribution to Change in Overall CPI in 1Q 2013



EXTERNAL BALANCE

Trade

- Total trade in nominal terms contracted by 9.0 per cent in the first quarter. In volume terms, total trade shrank by 3.9 per cent, compared to the 2.2 per cent increase in the previous quarter.
- Total exports decreased by 8.7 per cent, following the 5.1 per cent decline in the previous quarter. Domestic exports fell by 11 per cent, while re-exports declined by 6.1 per cent.
- Within domestic exports, oil and non-oil domestic exports declined by 7.7 per cent and 13 per cent respectively.
- Total imports decreased by 9.3 per cent, on the back of the 18 per cent decline in oil imports. Within non-oil imports, non-electronic imports contracted by 7.8 per cent while electronic imports increased by 0.8 per cent.

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

Per Cent

	2012					2013
	I	II	III	IV	Annual	I
Total Trade	7.5	2.9	-2.8	-2.9	1.1	**9.0**
Exports	4.8	1.4	-4.2	-5.1	-0.9	**-8.7**
Domestic Exports	10.0	6.0	-7.2	-2.5	1.3	**-10.7**
Oil	17.4	9.9	-13.6	0.2	2.8	**-7.7**
Non-Oil	6.0	3.7	-3.2	-4.2	0.5	**-12.5**
Re-Exports	-1.3	-4.1	-0.2	-8.1	-3.5	**-6.1**
Imports	10.5	4.6	-1.3	-0.4	3.2	**-9.3**
Oil	16.5	5.3	-9.8	1.2	3.2	**-17.8**
Non-Oil	7.5	4.2	2.8	-1.1	3.2	**-4.7**

Balance of Payments

- The overall balance of payments recorded a smaller surplus of $8.7 billion in the first quarter, compared with the surplus of $14 billion in the preceding quarter.
- This was due to an increase in the net deficit in the capital and financial account, even as the current account surplus grew slightly.

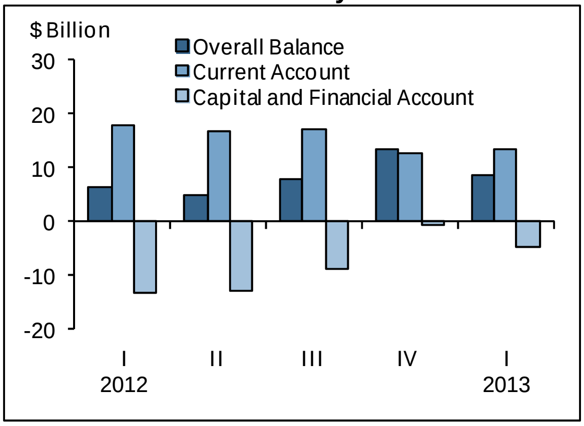
Current Account

- The current account surplus rose by $0.8 billion in the first quarter, as larger surpluses in the goods and services accounts more than offset the slightly wider deficit in the primary income balance. The secondary income balance remained largely unchanged.
- The surplus in the goods account increased by $0.4 billion to $17 billion, as imports fell more than exports.
- The services account registered a surplus of $0.7 billion in the first quarter, a reversal from the slight deficit recorded in the preceding quarter. This was mainly due to the reduction in net payments for travel services and the increase in net receipts from transport services.
- The primary income deficit widened by $0.5 billion to $1.5 billion, as income payments rose while receipts declined.

Capital and Financial Account

- The deficit in the capital and financial account increased to $4.6 billion in the first quarter, from $0.5 billion in the preceding quarter. This was largely due to a sharp fall in net inflows of "other investment". Meanwhile, net outflows of financial derivatives increased. Together, their drag on the capital and financial account outweighed the lift provided by the larger net inflows from direct investment and the reduction in net outflows of portfolio investment.

Exhibit 1.16: Balance of Payments



- The fall in net inflows of “other investment” was mainly driven by the reversal from net inflows to net outflows in the private sector excluding banks. At the same time, net inflows into the banking sector fell.
- However, net inflows of direct investment picked up as the increase in foreign investment in Singapore more than offset the increase in residents’ direct investment overseas.
- Meanwhile, net outflows of portfolio investment declined. This reflected a substantial reduction in resident banks’ purchases of securities abroad. The reduction in net portfolio outflows from the banking sector exceeded the increase recorded by the non-bank private sector.