

CHAPTER 1

THE SINGAPORE ECONOMY

OVERVIEW

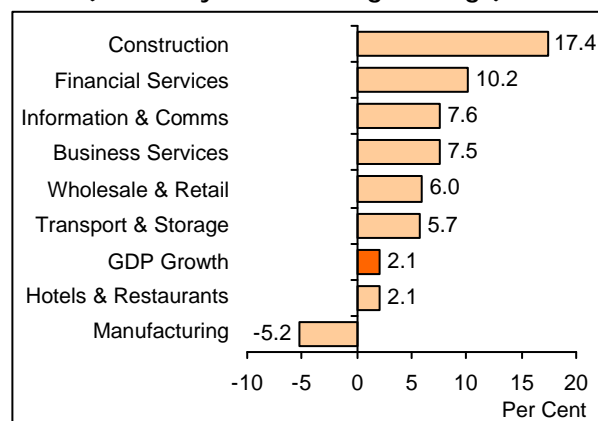
In the second quarter of 2008,

- Growth slowed down to 2.1 per cent.
- Financial services and the wholesale and retail sectors were the key contributors to economic growth.
- Employment continued to expand strongly, increasing by 70,600.
- The consumer price index increased by 7.5 per cent.

OVERALL PERFORMANCE

- Economic growth moderated to 2.1 per cent in the second quarter of 2008, compared to 6.9 per cent in the first quarter of 2008. On an annualised quarter-on-quarter basis, growth shrank by 6.0 per cent, from 15.7 per cent in the previous quarter.
- Manufacturing output fell by 5.2 per cent compared to the same quarter last year.
- Construction and financial services saw healthy growth, leading the growth in the rest of the sectors.

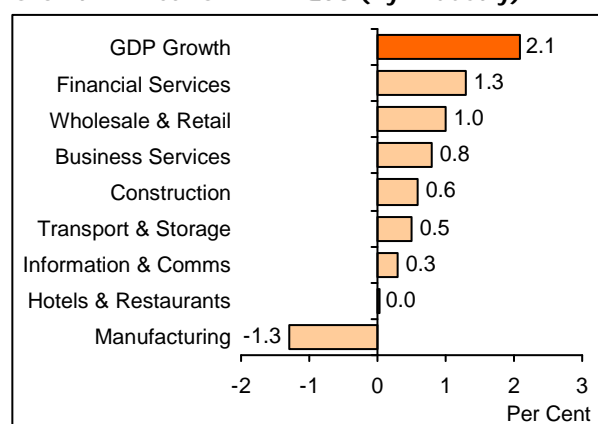
Exhibit 1.1: GDP and Sectoral Growth Rates in 2Q08 (Year-on-year Percentage Change)



Contribution to Growth

- Most sectors, except manufacturing, contributed positively to growth in the quarter.
- The fall in manufacturing offset the growth in financial services, the leading contributor to growth.
- Wholesale and retail, and business services, were next largest contributors to growth. The wholesale and retail sector was predominantly supported by growth in the wholesale trade segment, which forms the bulk of the sector.

Exhibit 1.2: Percentage Point Contribution to Growth in Real GDP in 2Q08 (By Industry)



SOURCES OF GROWTH

- Growth in total demand slowed, mainly due to the slower growth in external demand. Domestic demand growth also slowed down.
- Gross fixed capital formation continued to be the main contributor to growth within domestic demand, growing by 25 per cent in the quarter.
- Private consumption expenditure grew by 5.4 per cent and contributed 0.7 per cent to overall demand growth. Spending on communications and transport contributed significantly to the growth.

Exhibit 1.3: Percentage Contribution to Total Demand Growth

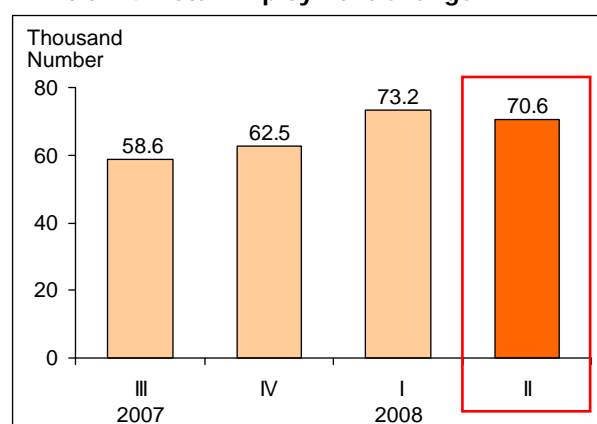
	2007			2008	2008
	III	IV	Annual	I	II
Total Demand	6.8	8.0	7.2	11.4	8.9
External Demand	5.9	5.1	5.2	6.9	5.4
Total Domestic Demand	0.9	2.9	2.0	4.5	3.5
Consumption Expenditure	0.7	0.8	0.6	1.1	0.7
Private	0.7	0.6	0.6	0.5	0.7
Public	0.0	0.2	0.1	0.6	0.1
Gross Fixed Capital Formation	1.2	1.3	1.4	2.4	2.0
Changes in Inventories	-0.9	0.9	0.0	1.1	0.8

LABOUR MARKET

Employment

- Employment continued its strong growth in the second quarter, increasing by 70,600, slightly lower than the increase of 73,200 in the previous quarter. As a result, employment grew by 143,800 in the first half of 2008.
- The services, construction and manufacturing sectors gained 37,600, 22,100 and 10,200 jobs respectively in the second quarter.

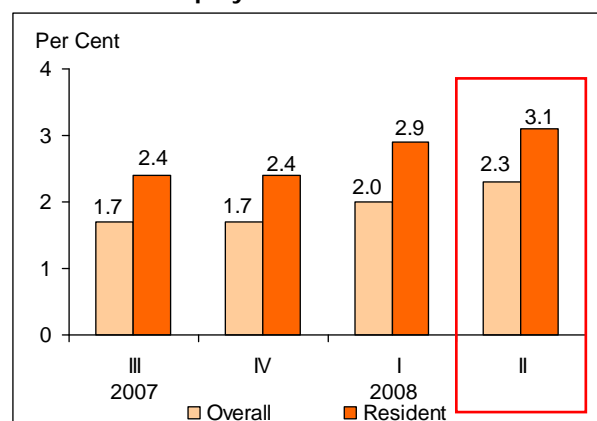
Exhibit 1.4: Total Employment Change



Unemployment

- The seasonally-adjusted overall unemployment rate rose slightly from 2.0 per cent in March 2008 to 2.3 per cent in June 2008.
- The resident unemployment rate increased from 2.9 per cent to 3.1 per cent.
- An estimated 77,800 residents were unemployed in June 2008.

Exhibit 1.5: Seasonally Adjusted Overall and Resident Unemployment Rate

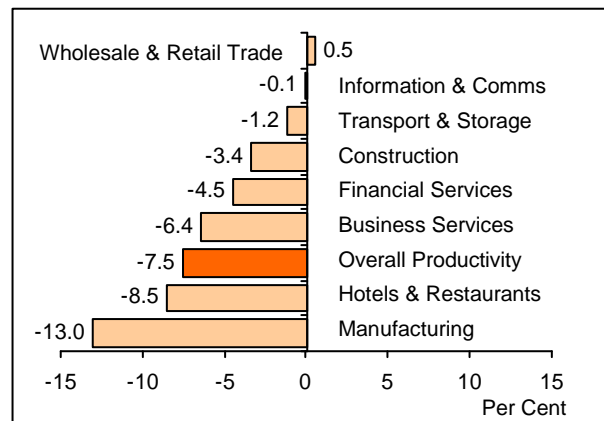


COMPETITIVENESS

Productivity

- Following a 2.7 per cent drop in the previous quarter, productivity declined further by 7.5 per cent.
- Most sectors saw negative productivity growth as the strong pace of employment creation in these sectors outweighed output growth.

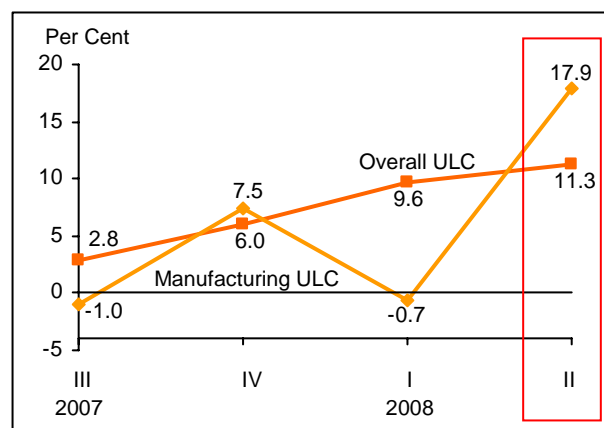
Exhibit 1.6: Growth Rates of Labour Productivity for the Overall Economy and Sectors in 2Q08



Unit Labour Cost and Unit Business Cost

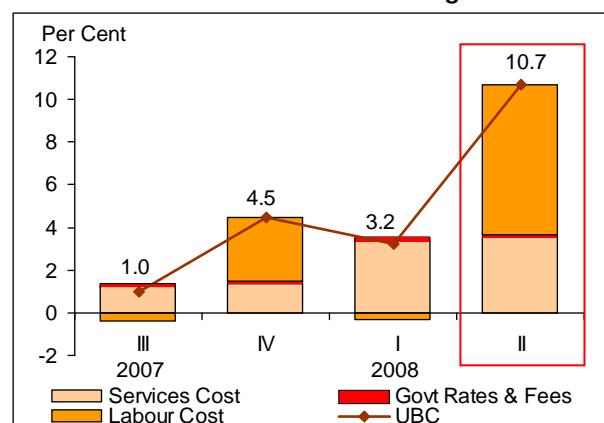
- Overall unit labour costs (ULC) for the whole economy rose by 11 per cent, higher than the 9.6 per cent registered in the first quarter of 2008.
- Manufacturing ULC rose even more steeply at 18 per cent, reversing a 0.7 per cent drop in the previous quarter.

Exhibit 1.7: Growth Rate of Unit Labour Cost



- Unit business costs (UBC) in Manufacturing increased by 11 per cent, higher than the 3.2 per cent in the first quarter.
- About two-thirds of the increase in UBC came from increases in labour costs, while another third came from increases in the costs of services.

Exhibit 1.8: Percentage Contribution to Change in Unit Business Cost for Manufacturing



Investment Commitments¹

- Investment commitments in terms of total fixed asset investments (FAI) and total business spending (TBS) amounted to \$10.5 billion and \$2.5 billion respectively in the second quarter.
- For FAI, the chemicals cluster attracted strong foreign interest, garnering \$9.4 billion in commitments, mainly in the petrochemicals sector.
- For TBS, the chemicals cluster attracted \$1.1 billion worth of commitments, followed by the infocomms and media cluster (\$570 million), and the headquarters and professional services cluster (\$312 million).
- The US was the biggest foreign contributor to investment commitments in both FAI and TBS, making up 87 per cent and 65 per cent of the respective foreign commitments.
- When fully realised, the combined FAI and TBS commitments are expected to generate value-added of \$5.0 billion and more than 4,800 skilled jobs.

Exhibit 1.9: Fixed Asset Investments by Industry Clusters in 2Q08

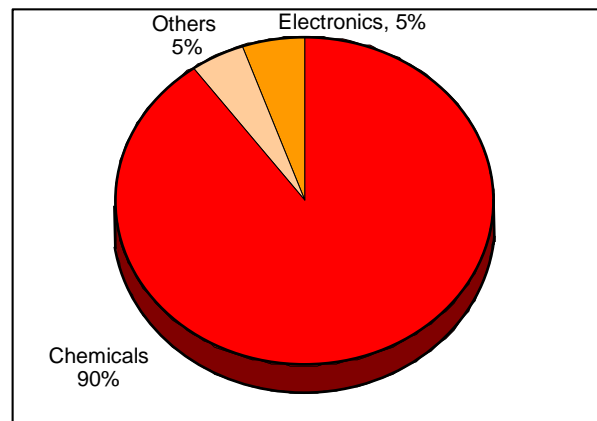
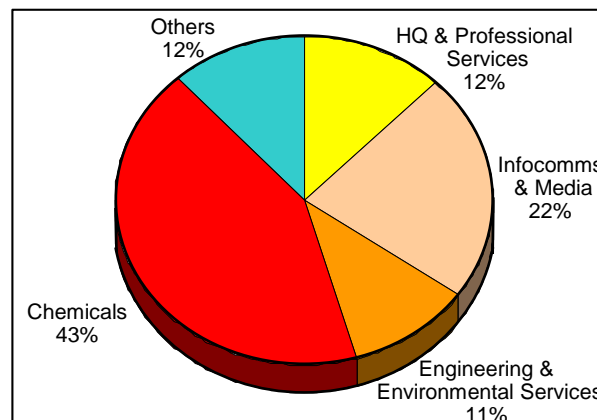


Exhibit 1.10: Total Business Spending by Industry Clusters in 2Q08

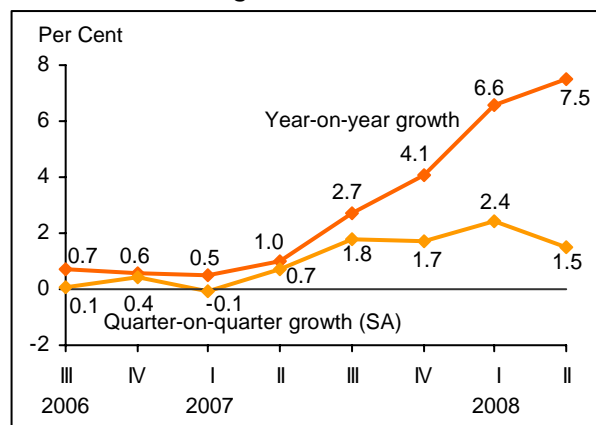


PRICES

Consumer Price Index

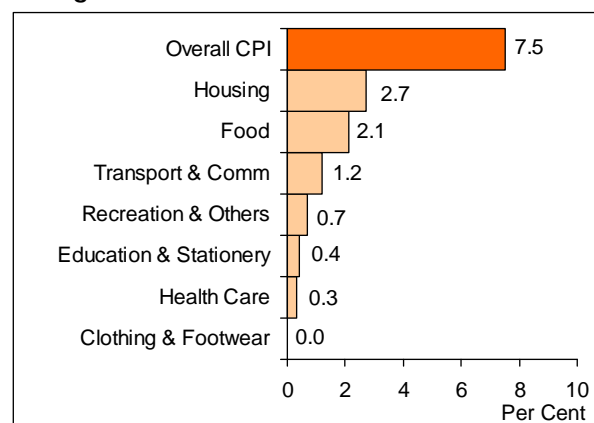
- CPI increased by 7.5 per cent in the second quarter.
- On a quarter-on-quarter basis, the seasonally-adjusted CPI rose at a slower pace of 1.5 per cent, compared to an increase of 2.4 per cent in the previous quarter.

Exhibit 1.11: Change in CPI



¹ EDB has been using fixed asset investments (FAI) to measure the level of manufacturing investments and total business spending (TBS) as the indicator for services investments. With the increasing overlap between manufacturing and services activities, FAI and TBS are better presented for the combined manufacturing and services sectors. Additionally, to reflect the nature of jobs which are targeted, the number of skilled jobs will be used as an indicator for employment creation.

- Housing cost was the largest contributor to the increase in CPI as a result of higher accommodation costs and electricity tariffs.
- Increases in the price of cooked food, rice, milk products, vegetables, seafood, cooking oils, fresh poultry and fruits also contributed to the rise in CPI.
- More expensive petrol, higher taxi fares and car prices raised the costs of transport and communication, offsetting lower road tax.

Exhibit 1.12: Percentage Point Contribution to Change in Overall CPI in 2Q08

EXTERNAL BALANCE

Trade

- Total trade in nominal terms grew by 17 per cent in the second quarter. In volume terms, total trade grew by 9.7 per cent, slower than the 11 per cent increase in the previous quarter.
- Total exports continued to record healthy double-digit growth. Domestic exports grew at a slower 11 per cent, while re-exports performed better compared to the last quarter at 15 per cent.
- Within domestic exports, growth in oil exports due to higher oil prices offset the decrease in non-oil domestic exports. Non-oil domestic exports fell this quarter, reversing the slight increase in the previous quarter.
- Total imports grew at a marginally slower rate, with growth attributed to strong oil imports and sustained expansion in non-oil imports. Within non-oil imports, growth was led largely by non-electronics imports.

Exhibit 1.13: Growth Rates (%) of Trade, Exports and Imports (In Nominal Terms)

	2007				2008	2008
	II	III	IV	Annual	I	II
Total Trade	2.6	2.5	9.8	4.5	16.1	17.0
Exports	2.9	4.2	7.2	4.4	11.5	13.2
Domestic Exports	0.0	4.7	10.1	3.3	12.7	11.2
Oil	-3.7	1.1	47.8	6.2	52.6	53.4
Non-Oil	1.5	6.1	-0.4	2.3	0.6	-5.5
Re-Exports	6.2	3.6	4.1	5.7	10.3	15.5
Imports	2.4	0.6	12.8	4.5	21.5	21.3
Oil	9.8	-8.8	58.8	11.7	75.6	69.4
Non-Oil	0.5	3.2	3.7	2.7	9.1	7.8

Balance of Payments

- The overall balance of payments surplus moderated to \$4.3 billion in the second quarter, from \$12 billion in the preceding quarter. This was largely due to the reversal of capital flows to a net outflow position, following two consecutive quarters of net inflow.

Current Account

- The surplus in the goods balance declined during the quarter, as the rise in imports outstripped that of exports.
- Meanwhile, the deficit in services widened slightly, reflecting larger payments for transportation and travel services.

Capital and Financial Account

- The net outflow in the financial account was largely driven by portfolio investments, which recorded an increase in net outflow by the non-bank private sector. There has been a pullback of some foreign funds from the domestic and regional capital markets amidst the renewed heightening of risk aversion among global investors.
- To a lesser extent, direct investments also contributed to the net financial outflow, as foreign investments in Singapore declined more than outbound investments by residents.

Exhibit 1.14: Balance of Payments

