

CHAPTER 1

THE SINGAPORE ECONOMY

OVERVIEW

In the second quarter of 2009,

- Output contracted by 3.5 per cent compared to the same period last year.
- The manufacturing sector contracted at a much slower rate in the second quarter. This was a key contributor to the less severe contraction in output.
- Employment declined by 12,400.
- The consumer price index declined by 0.5 per cent.

OVERALL PERFORMANCE

- The economy contracted by 3.5 per cent in the second quarter of 2009, after a 9.5 per cent decline in the first quarter of 2009. On a seasonally adjusted annualised quarter-on-quarter basis, the economy expanded by 20.7 per cent, compared to a 12.2 per cent contraction in the previous quarter.
- Manufacturing output fell by 2.4 per cent compared to the same quarter a year ago. Wholesale and retail trade also fell by 14 per cent. The construction sector rose by 19 per cent.
- The services producing industries fell by 4.8 per cent, following a 5.1 per cent decline in the first quarter of 2009.
- The business services and the information and communications sectors were the other major sectors that showed positive growth in the second quarter.

Contribution to Growth

- Construction and business services contributed 1.0 percentage point to GDP growth.
- However, overall growth was dragged down by declines in the remaining sectors.

Exhibit 1.1: GDP and Sectoral Growth Rates in 2Q 2009

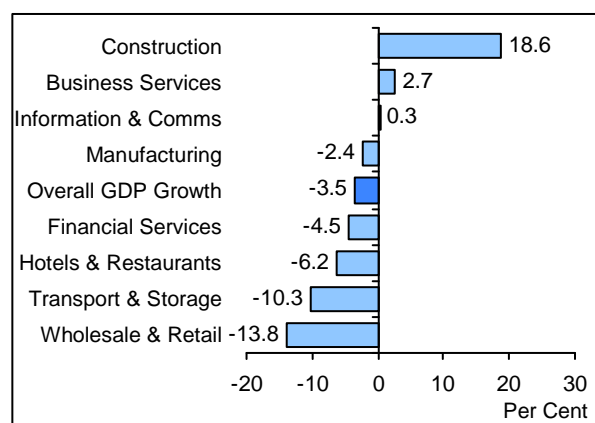
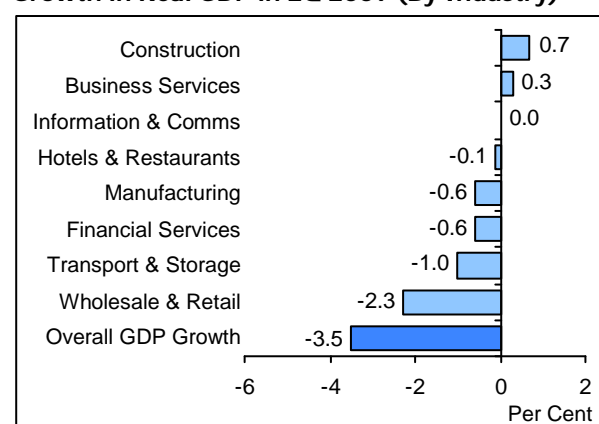


Exhibit 1.2: Percentage Point Contribution to Growth in Real GDP in 2Q 2009 (By Industry)



SOURCES OF GROWTH

- Total demand declined by 14 per cent, led mainly by the decline in external demand. Domestic demand also continued to decline.
- Gross fixed capital formation fell by 7.2 per cent, contributing towards the decline in total domestic demand.
- Private consumption expenditure contracted by 3.7 per cent, weighing down on total domestic demand.

Exhibit 1.3: Percentage Point Contribution to Total Demand Growth

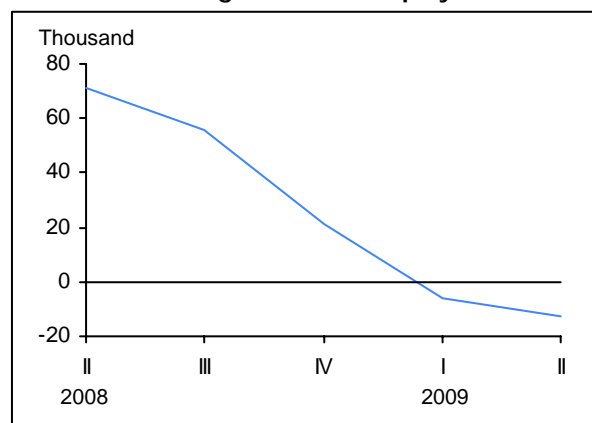
	2008			2009	2009
	III	IV	Annual	I	II
Total Demand	5.3	-5.6	4.4	-16.9	-13.6
External Demand	1.7	-7.3	1.0	-16.2	-12.0
Total Domestic Demand	3.6	1.7	3.4	-0.6	-1.6
Consumption Expenditure	0.6	-0.1	0.5	-0.5	-0.3
Public	0.3	0.1	0.2	-0.1	0.1
Private	0.3	-0.1	0.3	-0.5	-0.4
Gross Fixed Capital Formation	1.1	-0.8	1.1	-1.3	-0.6
Changes in Inventories	2.0	2.6	1.8	1.2	-0.7

LABOUR MARKET

Employment

- Employment contracted by 12,400 in the second quarter of 2009, double the 6,200 losses in the first quarter.
- Manufacturing's employment declined by 17,600. Employment in construction and the services sectors increased by 3,400 and 2,100 respectively, which were smaller increases than in the previous quarter.

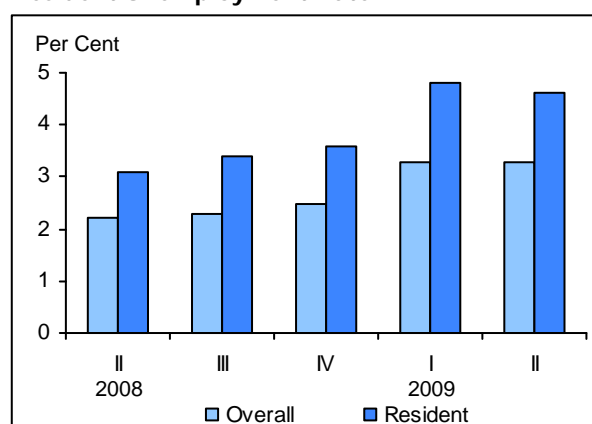
Exhibit 1.4: Changes in Total Employment



Unemployment

- The overall unemployment rate stabilised at a seasonally adjusted 3.3 per cent in June 2009, unchanged from a quarter ago.
- Among the resident labour force, the unemployment rate declined from 4.8 per cent in March 2009 to 4.6 per cent in June 2009, as more people deferred job searches and pursued courses amidst the difficult job market.
- An estimated 116,600 residents were unemployed in June 2009. The seasonally adjusted figure was 91,800.

Exhibit 1.5: Seasonally Adjusted Overall and Resident Unemployment Rate

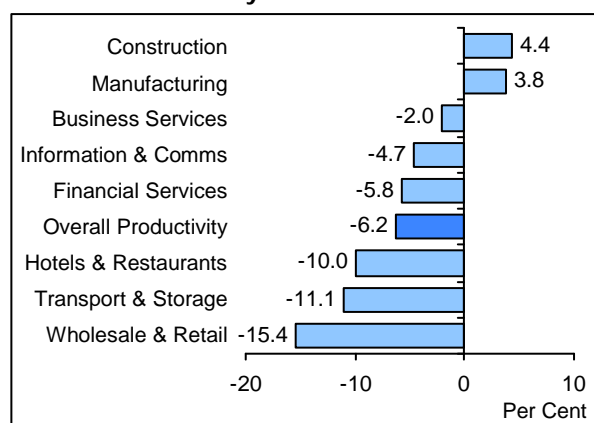


COMPETITIVENESS

Productivity

- The decline in productivity eased to 6.2 per cent in the second quarter of 2009, down from the 15 per cent decline in the first quarter.
- Construction and manufacturing productivity growth were positive in the second quarter of 2009. However, all the major services producing industries registered declines in productivity.

Exhibit 1.6: Changes in Labour Productivity for the Overall Economy and Sectors in 2Q 2009



Unit Labour Cost and Unit Business Cost

- Overall unit labour costs (ULC) for the whole economy rose by 2.1 per cent compared to the corresponding quarter last year. This is slower than the 9.9 per cent increase registered in the first quarter of 2009.
- Manufacturing ULC fell 7.0 per cent, a sharp decrease from the 28 per cent increase in the first quarter of 2009. The decrease in manufacturing ULC was largely due to the improvement in manufacturing labour productivity.
- Unit business costs (UBC) in manufacturing decreased by 6.5 per cent, following an increase of 10 per cent in the first quarter of 2009.
- The decrease in manufacturing UBC was due to declines in both services costs and manufacturing ULC.

Exhibit 1.7: Changes in Unit Labour Cost

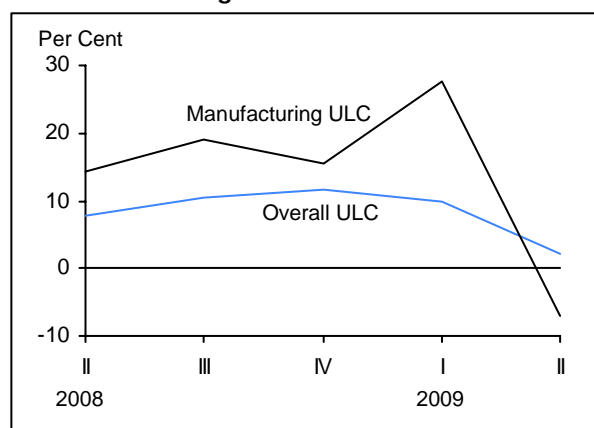
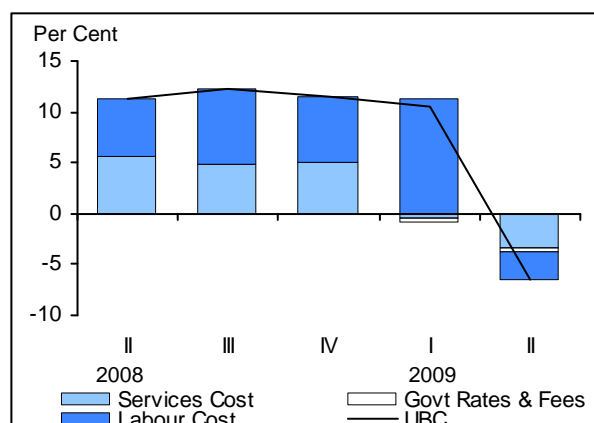


Exhibit 1.8: Percentage Contribution to Change in Unit Business Cost for Manufacturing



Investment Commitments

- Investment commitments in terms of total fixed asset investments (FAI) and total business spending (TBS) amounted to \$3.5 billion and \$1.9 billion respectively in the second quarter.
- For FAI, the chemicals cluster attracted strong foreign interest, garnering \$1.2 billion in commitments. This was followed by the electronics cluster which attracted \$751 million in commitments, mainly from the semiconductor segment.
- For TBS, the headquarters and professional services cluster attracted \$618 million worth of commitments, followed by the electronics cluster (\$382 million) and the engineering and environmental services cluster (\$188 million).
- Europe was the biggest foreign contributor to investment commitments, with 46 per cent of total FAI and total TBS commitments.
- When fully realised, these commitments are expected to generate value-added of \$4.2 billion and more than 5,100 skilled jobs.

Exhibit 1.9: Fixed Asset Investments by Industry Clusters in 2Q 2009

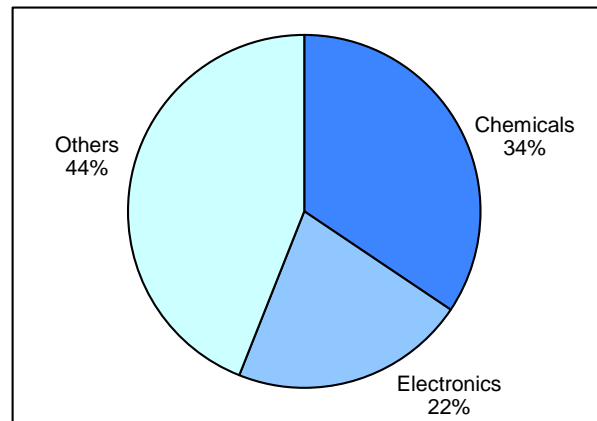
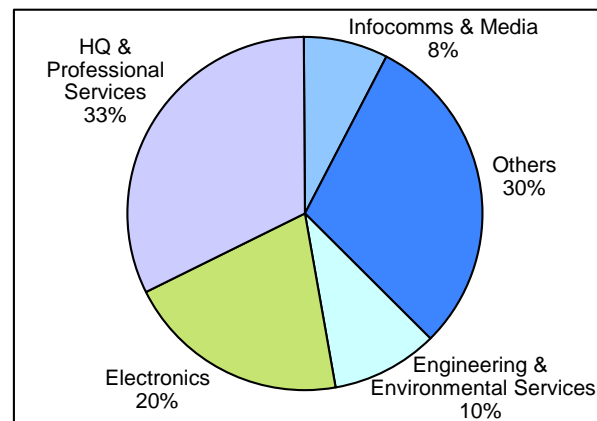


Exhibit 1.10: Total Business Spending by Industry Clusters in 2Q 2009

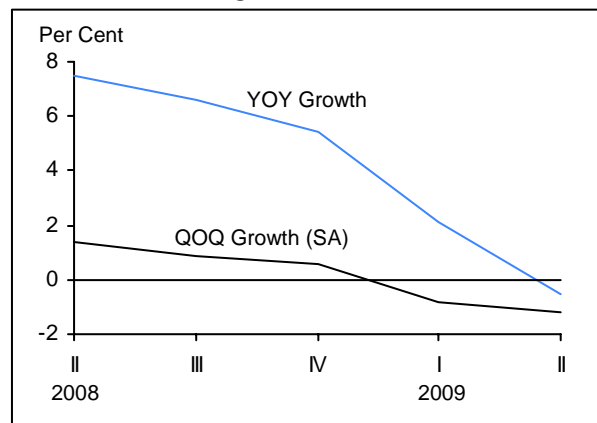


PRICES

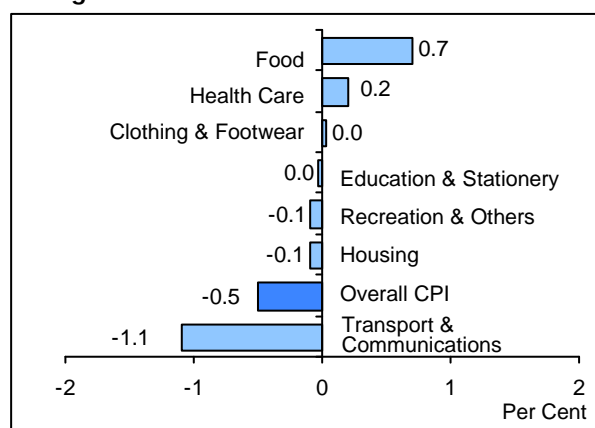
Consumer Price Index

- CPI declined by 0.5 per cent in the second quarter, after a 2.1 per cent increase in the previous quarter.
- On a quarter-on-quarter basis, the seasonally-adjusted CPI declined by 1.2 per cent, following a 0.8 per cent decline in the previous quarter.

Exhibit 1.11: Changes in CPI



- Transport and communications was the largest contributor to the decline in CPI as a result of cheaper petrol, as well as lower car prices and road tax.
- Housing costs declined largely because of lower electricity tariffs and housing maintenance.
- The lower cost of holiday travel also contributed to the decline in CPI.
- However, these price declines were partially moderated by higher prices of cooked food, rice and other cereals, fresh pork and poultry, fish and fruits.

Exhibit 1.12: Percentage Point Contribution to Change in Overall CPI in 2Q 2009

EXTERNAL BALANCE

Trade

- Total trade in nominal terms declined by 27 per cent in the second quarter. In volume terms, total trade shrank by 16 per cent, following the 19 per cent decrease in the previous quarter.
- Total exports continued to record a double-digit decline. Domestic exports declined at a slower 27 per cent, while re-exports registered a 24 per cent decrease following last quarter's 24 per cent decline.
- Within domestic exports, both oil and non-oil domestic exports decreased. Oil domestic exports decreased at a faster rate in the second quarter, following the contraction in the previous quarter.
- Total imports decreased at a faster rate, as both oil and non-imports decreased. Within non-oil imports, the decrease was mainly led by non-electronics imports, even though electronics imports also decreased in the quarter.

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

	2008				2009	2009
	II	III	IV	Annual	I	II
Total Trade	17.1	16.4	-9.6	9.6	-27.7	-26.8
Exports	13.2	11.4	-12.0	5.8	-27.8	-25.3
Domestic Exports	11.2	14.5	-15.5	5.4	-31.1	-26.8
Oil	53.4	77.4	-10.0	41.5	-43.1	-46.3
Non-Oil	-5.5	-8.6	-17.8	-7.9	-25.6	-14.3
Re-Exports	15.5	8.1	-8.1	6.2	-24.1	-23.7
Imports	21.4	22.2	-7.1	13.9	-27.6	-28.3
Oil	69.4	87.5	0.7	54.5	-36.8	-43.5
Non-Oil	8.0	5.6	-9.4	3.0	-24.2	-21.7

Balance of Payments

- The overall balance of payments recorded a surplus of \$1.0 billion in the second quarter of 2009, reversing from a deficit position of \$3.6 billion in the preceding quarter.
- This was underpinned by a smaller net outflow in the financial account and a slight increase in the current account surplus.

Current Account

- The larger current account surplus reflected an increase in the goods surplus, although this was partially offset by the smaller services surplus and the larger deficit in the income balance.
- Following two quarters of contraction, both goods exports and imports rose strongly in the second quarter of 2009. The increase in exports outpaced that of imports, resulting in a larger surplus in the goods account.
- Trade in services also increased after two quarters of decline, with imports rising by a larger extent. The travel and royalties categories recorded a larger deficit, while the surplus in financial services and other business services widened on account of stronger exports.

Capital and Financial Account

- The smaller net outflow from the financial account was largely driven by stronger direct investments into Singapore, as well as a reduction in the net outflow in portfolio and "other" investments.
- Net portfolio outflows fell slightly reflecting the reversal of net outflow in the domestic equity market. In the "other investment" account, the increase in net outflow from the banking sector was largely offset by the rise in net inflow to the private non-bank sector.

Exhibit 1.14: Balance of Payments

