

MTI Expects GDP Growth in 2018 to Moderate but Remain Firm

14 February 2018. The Ministry of Trade and Industry (MTI) announced today that the Singapore economy grew by 3.6 per cent in 2017. For 2018, MTI expects GDP growth to moderate from 2017's growth but remain firm. **MTI's central view is for GDP growth to come in slightly above the middle of the forecast range of "1.5 to 3.5 per cent"**.

Economic Performance in Fourth Quarter 2017

The Singapore economy grew by 3.6 per cent on a year-on-year basis in the fourth quarter, easing from the 5.5 per cent growth in the third quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the Singapore economy expanded by 2.1 per cent, a moderation from the 11.2 per cent growth in the preceding quarter.

The manufacturing sector expanded by 4.8 per cent year-on-year, a slowdown from the 19.1 per cent growth in the third quarter. Growth was driven primarily by the electronics and precision engineering clusters, which continued to grow on the back of healthy global demand for semiconductors, semiconductor equipment, as well as optical products. On the other hand, the transport engineering and biomedical manufacturing clusters contracted on account of the poor performance of the marine & offshore engineering segment as well as lower production of active pharmaceutical ingredients and biological products, respectively. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector contracted by 14.8 per cent, a pullback from the robust 34.9 per cent expansion in the preceding quarter.

The construction sector contracted by 5.0 per cent year-on-year, following the 9.3 per cent contraction in the third quarter, primarily due to weakness in private sector construction works. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector shrank marginally by 0.2 per cent, after posting a decline of 2.4 per cent in the previous quarter.

Growth in the wholesale & retail trade sector eased to 3.0 per cent year-on-year, from 3.3 per cent in the third quarter. The sector's growth was largely supported by the wholesale trade segment, which expanded as a result of improved sales in petroleum & petroleum-related products, telecommunications & computers and electronic components. Meanwhile, the retail trade segment grew on the back of a rise in both motor vehicle and non-motor vehicle retail sales volumes. On a quarter-on-quarter seasonally-adjusted annualised basis, the wholesale & retail trade sector expanded by 6.5 per cent, slower than the 9.0 per cent growth in the preceding quarter.

The transportation & storage sector posted growth of 5.3 per cent year-on-year, similar to the 5.2 per cent growth in the third quarter. Growth was largely driven by the water transport and air transport segments, which saw improvements in sea

cargo and air passengers handled respectively. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector recorded an expansion of 7.2 per cent, faster than the 5.2 per cent growth in the previous quarter.

The accommodation & food services sector expanded by 2.9 per cent year-on-year, higher than the 1.3 per cent growth in the third quarter. Growth was supported by the accommodation segment, which expanded on the back of higher gross lettings at gazetted hotels in tandem with a 9.8 per cent increase in visitor arrivals. The food services segment also grew, bolstered by a pickup in sales volumes at restaurants, food outlets and other eating places. On a quarter-on-quarter basis, the accommodation & food services sector expanded at a seasonally-adjusted annualised rate of 2.2 per cent, moderating from the 6.2 per cent growth in the previous quarter.

Growth in the information & communications sector came in at 6.0 per cent on a year-on-year basis, faster than the 5.1 per cent recorded in the third quarter. The sector's growth was primarily supported by the IT & information services segment, which continued to benefit from the robust demand for IT solutions. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded by 4.8 per cent, slowing from the 11.7 per cent growth in the preceding quarter.

The finance & insurance sector grew by 6.3 per cent year-on-year, moderating from the 7.1 per cent growth in the third quarter. The sector's strong performance was due to robust growth in the fund management segment, as well as continued expansions in the financial intermediation and insurance segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded at a faster pace of 12.6 per cent, compared to the 11.7 per cent growth in the previous quarter.

The business services sector recorded growth of 0.4 per cent on a year-on-year basis, similar to the 0.5 per cent growth achieved in the third quarter. Growth was supported by both the professional services and others segments, even as the real estate segment continued to contract. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew by 1.0 per cent, improving from the flat growth in the previous quarter.

The "other services industries" expanded by 2.7 per cent year-on-year, higher than the 2.0 per cent growth in the third quarter. Growth was mainly driven by the education, health & social services as well as the arts, entertainment & recreation segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew at a faster pace of 5.2 per cent, as compared to the 2.5 per cent growth in the preceding quarter.

Overall Performance in 2017

For the whole of 2017, the Singapore economy grew by 3.6 per cent, faster than the 2.4 per cent growth in 2016.

The manufacturing sector expanded by 10.1 per cent, accelerating from the 3.7 per cent growth in 2016. Growth was largely driven by the electronics and precision engineering clusters, even as the biomedical manufacturing, transport engineering and general manufacturing clusters contracted.

The construction sector shrank by 8.4 per cent, a reversal of the 1.9 per cent growth in 2016. Output in the sector was primarily weighed down by the weakness in private sector construction works, which contracted by 29.1 per cent on the back of a decline in private residential and private industrial works.

The services producing industries grew by 2.8 per cent, higher than the 1.4 per cent growth in 2016. Growth was mainly supported by the finance & insurance, wholesale & retail trade and transportation & storage sectors, which expanded by 4.8 per cent, 2.3 per cent and 4.8 per cent respectively.

Economic Outlook for 2018

Since November 2017, the outlook for global growth has improved slightly, with the IMF upgrading its global growth forecast for 2018 to 3.9 per cent, partly on the back of higher growth expected in the US due to the recently approved tax reforms. However, as compared to 2017, growth in most of Singapore's key final demand markets such as the Eurozone, Japan, NIEs and ASEAN-5 is projected to moderate or remain unchanged in 2018.

In the US, GDP growth is projected to improve further in 2018, supported by domestic demand and fiscal stimulus arising from the recently approved tax reforms, although there are uncertainties around the extent to which investments would respond to the tax reforms. On the other hand, growth in the Eurozone economy is projected to moderate in 2018, following the rebound seen in 2017. Growth will be underpinned by continued improvements in labour market conditions and largely accommodative monetary policies. In Asia, China's growth is also expected to ease in 2018 on the back of a slowdown in investment, even as consumption is likely to remain stable and provide support to growth. Meanwhile, growth in the key ASEAN economies is expected to remain firm in 2018, supported by sustained improvements in domestic demand as well as merchandise exports.

On balance, the external demand outlook for Singapore is expected to be slightly weaker in 2018 as compared to 2017. Furthermore, while global macroeconomic risks have receded to some extent since the end of 2017, there remain some downside risks that could weigh on the global economy if they materialise. First,

concerns over protectionist sentiments and in particular, the US administration's trade policies remain. An increase in trade barriers could adversely affect global trade, with spillover effects on economic growth worldwide. Second, an upside surprise in inflation could cause monetary policy in the US to normalise faster than expected. This could in turn cause global financial conditions to tighten more than anticipated, and potentially lead to sharp corrections in financial markets. Should this occur, regional economies with elevated debt levels could be disproportionately affected, and there could be some pullback in investment and consumption growth in these economies.

Against this external backdrop, the pace of growth in the Singapore economy is expected to moderate in 2018 as compared to 2017, but remain firm. First, the manufacturing sector is likely to continue to expand and provide support to growth in the overall economy. In particular, the electronics and precision engineering clusters are projected to sustain a healthy, though more moderate, pace of growth in 2018 on the back of robust global demand for semiconductors and semiconductor equipment. Second, externally-oriented services sectors such as finance & insurance, transportation & storage and wholesale trade are expected to benefit from firm external demand, although their pace of growth is also likely to ease in 2018. Third, growth is expected to broaden to domestically-oriented services sectors like retail and food services on the back of an improvement in consumer sentiments amidst the on-going recovery in the labour market. Meanwhile, the information & communications and education, health & social services sectors are expected to remain resilient.

However, the performance of the construction sector is likely to remain lacklustre in 2018 as the earlier weakness in construction demand, particularly from the private sector, continues to weigh on construction activities in the sector. Apart from construction, the outlook for the marine & offshore engineering segment is also expected to remain challenging due to weak demand conditions faced by local yards and firms producing oilfield and gasfield equipment amidst the low oil price environment and excess capacity in the global offshore rig market.

Taking into account the global and domestic economic environment, MTI has maintained the 2018 GDP growth forecast at **"1.5 to 3.5 per cent"**. MTI's central view is that **growth will likely come in slightly above the middle of the forecast range**, barring the materialisation of downside risks.

MINISTRY OF TRADE AND INDUSTRY
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ANNEX

SECTORAL GROWTH RATES

	4Q16	2016	1Q17	2Q17	3Q17	4Q17	2017
	Year-on-Year % Change						
Total	3.7	2.4	2.5	2.8	5.5	3.6	3.6
Goods Producing Industries	7.1	3.2	4.7	3.5	12.2	2.7	5.7
Manufacturing	11.8	3.7	8.5	8.4	19.1	4.8	10.1
Construction	-7.2	1.9	-6.9	-12.2	-9.3	-5.0	-8.4
Services Producing Industries	2.5	1.4	1.5	2.6	3.5	3.5	2.8
Wholesale & Retail Trade	3.6	1.0	0.5	2.2	3.3	3.0	2.3
Transportation & Storage	4.1	1.3	4.7	3.9	5.2	5.3	4.8
Accommodation & Food Services	2.3	3.8	-0.3	1.0	1.3	2.9	1.2
Information & Communications	2.1	3.6	1.6	0.8	5.1	6.0	3.3
Finance & Insurance	2.3	1.6	0.6	5.0	7.1	6.3	4.8
Business Services	-1.4	-0.3	1.3	0.4	0.5	0.4	0.6
Other Services Industries	4.8	3.5	2.4	3.3	2.0	2.7	2.6
	Annualised Quarter-on-Quarter Growth % (SA)						
Total	9.7	2.4	-1.5	2.8	11.2	2.1	3.6
Goods Producing Industries	25.0	3.2	1.5	-1.3	26.0	-11.8	5.7
Manufacturing	41.1	3.7	1.3	3.8	34.9	-14.8	10.1
Construction	-17.4	1.9	3.1	-18.5	-2.4	-0.2	-8.4
Services Producing Industries	6.6	1.4	-3.6	4.9	6.5	6.3	2.8
Wholesale & Retail Trade	7.7	1.0	-11.8	9.5	9.0	6.5	2.3
Transportation & Storage	8.5	1.3	4.9	3.0	5.2	7.2	4.8
Accommodation & Food Services	-4.7	3.8	-1.7	5.0	6.2	2.2	1.2
Information & Communications	1.2	3.6	4.1	3.5	11.7	4.8	3.3
Finance & Insurance	16.0	1.6	-6.0	7.9	11.7	12.6	4.8
Business Services	1.2	-0.3	2.5	-1.8	0.0	1.0	0.6
Other Services Industries	2.7	3.5	-1.2	4.1	2.5	5.2	2.6

OTHER ECONOMIC INDICATORS

	4Q16	2016	1Q17	2Q17	3Q17	4Q17	2017
Retail Sales Index* (yoy, %)	0.5	1.5	0.7	1.4	0.9	2.1	1.3
Value Added Per Worker^ (yoy, %)	3.2	1.4	2.5	3.1	5.9	3.8	3.8
Value Added Per Actual Hour Worked^ (yoy, %)	-	1.8	-	-	-	-	4.5
Unemployment Rate, SA (%)	2.2	2.1	2.2	2.2	2.2	2.1	2.2
Changes in Employment ('000)	2.3	16.8	-6.8	-7.3	-2.3	12.8	-3.6
Overall Unit Labour Cost (yoy, %)	-0.3	2.0	-0.1	0.2	-2.0	0.9	-0.3
Unit Business Cost of Manufacturing (yoy, %)	-4.5	-1.5	7.2	3.7	-3.7	6.2	3.4
Consumer Price Index (yoy, %)	0.0	-0.5	0.6	0.8	0.4	0.5	0.6
Fixed Asset Investments (\$ bil)	1.7	9.4	1.6	4.0	1.2	2.7	9.4
Total Merchandise Trade (yoy, %)	4.0	-4.9	16.3	9.5	11.6	7.8	11.1
Merchandise Exports	2.1	-5.1	16.9	8.3	10.1	6.6	10.3
Domestic Exports	7.6	-5.8	29.1	9.6	11.0	15.3	15.8
Oil	20.2	-12.6	72.0	26.9	19.3	26.1	33.4
Non-Oil	2.7	-2.8	15.0	3.0	7.6	10.4	8.8
Re-exports	-2.4	-4.4	6.5	7.0	9.3	-1.3	5.2
Merchandise Imports	6.1	-4.7	15.5	11.0	13.4	9.1	12.1
Total Services Trade (yoy, %)	2.6	0.0	4.1	3.9	6.6	4.1	4.7
Exports of Services	5.4	2.2	4.8	3.7	5.3	3.2	4.2
Imports of Services	0.1	-2.1	3.5	4.0	7.9	5.0	5.1

*At constant prices. ^Based on GDP at 2010 market prices.