

MTI Narrows 2017 GDP Growth Forecast to “2.0 to 3.0 Per Cent”

11 August 2017. The Ministry of Trade and Industry (MTI) announced today that it has narrowed the GDP growth forecast for 2017 to “2.0 to 3.0 per cent”, from “1.0 to 3.0 per cent”.

Economic Performance in Second Quarter 2017

The Singapore economy grew by 2.9 per cent on a year-on-year basis in the second quarter, faster than the 2.5 per cent growth in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 2.2 per cent, a reversal from the contraction of 2.1 per cent in the preceding quarter.

The manufacturing sector continued to grow at a robust pace of 8.1 per cent year-on-year in the second quarter, following the 8.5 per cent growth in the previous quarter. Growth during the quarter was primarily supported by the electronics and precision engineering clusters, which expanded on the back of strong global demand for semiconductors and semiconductor-related equipment. On the other hand, the biomedical manufacturing, general manufacturing and transport engineering clusters saw a decline in output. On a quarter-on-quarter seasonally-adjusted annualised basis, the manufacturing sector expanded by 2.9 per cent, accelerating from the 0.3 per cent growth in the previous quarter.

The construction sector contracted by 5.7 per cent year-on-year, extending the 6.3 per cent decline in the previous quarter. The weak performance of the sector was due to a fall in both private sector and public sector construction output. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector rebounded from the 15.0 per cent contraction in the preceding quarter to post growth of 4.9 per cent.

The wholesale & retail trade sector grew by 1.5 per cent year-on-year, faster than the 0.1 per cent growth in the previous quarter. Growth was supported by both the wholesale trade and retail trade segments, with the former in turn bolstered by the wholesaling of machinery, equipment & supplies. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded by 6.2 per cent, a turnaround from the 3.7 per cent decline in the preceding quarter.

Growth in the transportation & storage sector came in at 3.5 per cent year-on-year, following the 4.4 per cent expansion in the previous quarter. Growth was supported mainly by the water transport segment, which expanded on the back of an increase in container throughput and sea cargo handled at Singapore’s ports. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew by 1.5 per cent, extending the 1.0 per cent growth in the previous quarter.

The accommodation & food services sector contracted by 2.2 per cent year-on-year, continuing the 1.7 per cent decline in the previous quarter. The sector was

weighed down primarily by the weak performance of the food services segment, which contracted on the back of sluggish sales volume at restaurants. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector shrank by 1.8 per cent, following the 4.3 per cent contraction in the preceding quarter.

Growth in the information & communications sector eased to 1.8 per cent year-on-year, from 2.1 per cent in the previous quarter, largely due to a sharper pullback in the telecommunications segment. By contrast, the IT & information services segment saw robust growth as a result of strong corporate demand for IT solutions. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew by 2.2 per cent, moderating from the 7.0 per cent growth in the preceding quarter.

The finance & insurance sector expanded by 3.8 per cent year-on-year, accelerating from the 0.7 per cent growth in the previous quarter. Growth was underpinned by the strong performance of the financial intermediation, fund management and insurance segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew by 3.9 per cent, rebounding from the 18.7 per cent decline in the previous quarter.

The business services sector recorded growth of 1.8 per cent year-on-year, higher than the 0.9 per cent growth in the previous quarter, supported mainly by the head offices & business representative offices and other administrative & support services segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded by 0.5 per cent, a slowdown from the 8.0 per cent growth in the previous quarter.

The “other services industries” grew by 3.1 per cent year-on-year, similar to the 3.0 per cent growth in the previous quarter. Growth was largely supported by the education, health & social services and the arts, entertainment & recreation segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded by 3.9 per cent, an improvement from the 1.2 per cent growth in the preceding quarter.

Economic Outlook for 2017

The outlook for the global economy has remained stable in recent months, with global growth on track to come in higher in 2017 as compared to 2016.

In the US, the economy rebounded to grow at a faster pace in the second quarter of the year as compared to the first quarter. The growth momentum is expected to be sustained in the second half of 2017, supported primarily by domestic demand. In particular, resilient labour market conditions will continue to boost private consumption. Private investment is also expected to pick up on the back of a recovery in mining and equipment investments. For 2017 as a whole, the US economy is expected to grow at a faster pace as compared to 2016.

Meanwhile, the Eurozone economy is expected to remain stable, and to continue to grow at a modest pace for the rest of 2017. Within the Eurozone, labour market conditions have improved, with unemployment rates on a downward trend even though they remain elevated. At the same time, improving business and consumer sentiments, coupled with accommodative monetary policies, are also likely to support domestic demand. On balance, growth in the Eurozone is expected to pick up slightly in 2017 as compared to 2016.

In Asia, China's growth is projected to ease slightly in the second half of 2017, following stronger-than-expected growth in the first half of the year. In particular, real investments are likely to see a modest slowdown over the course of the year. However, exports are expected to remain robust, with the recent pickup in external demand likely to be sustained into the second half of the year, thereby supporting GDP growth. In ASEAN, growth in the Indonesian and Malaysian economies is projected to remain resilient for the remaining quarters of the year on the back of healthy domestic demand and a sustained improvement in merchandise exports.

While the global economic recovery is expected to continue on a firm footing for the rest of the year, downside risks remain. First, anti-globalisation sentiments could adversely affect global trade if they lead to increased protectionism, with knock-on effects on economic growth worldwide. Global political risks and policy uncertainty also remain elevated, reflecting in part uncertainties over the policies of the US administration and on-going Brexit negotiations. Second, at this advanced stage of the US' economic expansion, monetary policy could normalise faster than expected, thus causing global financial conditions to tighten more than anticipated. There also remains the risk of a steeper-than-intended pullback of credit in China as efforts to contain leverage and risks in the financial system continue. Nonetheless, the potential for these downside risks to have a significant impact on global growth in 2017 has eased compared to three months ago.

Against this external backdrop, the manufacturing sector is likely to continue to provide support to the Singapore economy in the second half of the year. In particular, the strong performance of the electronics and precision engineering clusters is expected to be sustained into the second half of the year on the back of robust global demand for semiconductors and semiconductor-related equipment, although the pace of expansion may moderate given less favourable base effects. Likewise, externally-oriented services sectors such as the transportation & storage, wholesale trade and finance & insurance sectors are expected to benefit from the pickup in global trade. Meanwhile, the information & communications and education, health & social services sectors are likely to remain resilient. On the other hand, the performance of the construction sector is expected to remain lacklustre, weighed down by the continued weakness in private and public sector construction activities.

Taking into account the global and domestic economic environment, as well as the GDP growth of 2.7 per cent achieved in the first half of the year, the full-year growth forecast for the Singapore economy is narrowed upwards to “**2.0 to 3.0 per cent**”, from “1.0 to 3.0 per cent”. Barring unexpected outcomes in the global economy and key sectors in the domestic economy for the rest of the year, MTI’s central view is that GDP growth for the full year is likely to come in at around 2.5 per cent.

MINISTRY OF TRADE AND INDUSTRY
11 August 2017

ANNEX

SECTORAL GROWTH RATES

| | 2016 | 3Q16 | 4Q16 | 2016 | 1Q17 | 2017 |
|-------------------------------|---|-------|------|------|-------|------|
| | Year-on-Year % Change | | | | | |
| Total | 1.9 | 1.2 | 2.9 | 2.0 | 2.5 | 2.9 |
| Goods Producing Industries | 1.8 | 0.9 | 7.9 | 2.8 | 5.0 | 4.9 |
| Manufacturing | 1.5 | 1.8 | 11.5 | 3.6 | 8.5 | 8.1 |
| Construction | 2.7 | -2.2 | -2.8 | 0.2 | -6.3 | -5.7 |
| Services Producing Industries | 1.1 | 0.4 | 1.0 | 1.0 | 1.4 | 2.4 |
| Wholesale & Retail Trade | 0.4 | 0.1 | 0.4 | 0.6 | 0.1 | 1.5 |
| Transportation & Storage | 2.9 | 0.7 | 5.4 | 2.3 | 4.4 | 3.5 |
| Accommodation & Food Services | 2.4 | 2.5 | -0.2 | 1.7 | -1.7 | -2.2 |
| Information & Communications | 3.5 | 1.3 | 1.4 | 2.3 | 2.1 | 1.8 |
| Finance & Insurance | 0.1 | 0.1 | 0.6 | 0.7 | 0.7 | 3.8 |
| Business Services | -0.1 | -1.8 | -1.9 | -0.9 | 0.9 | 1.8 |
| Other Services Industries | 2.6 | 3.6 | 3.9 | 3.1 | 3.0 | 3.1 |
| | Annualised Quarter-on-Quarter Growth % (SA) | | | | | |
| Total | 0.8 | -0.4 | 12.3 | 2.0 | -2.1 | 2.2 |
| Goods Producing Industries | 3.4 | -6.6 | 29.3 | 2.8 | -2.7 | 2.9 |
| Manufacturing | 3.6 | -5.0 | 39.8 | 3.6 | 0.3 | 2.9 |
| Construction | 3.1 | -12.6 | 0.8 | 0.2 | -15.0 | 4.9 |
| Services Producing Industries | -0.7 | 1.1 | 8.4 | 1.0 | -3.0 | 3.3 |
| Wholesale & Retail Trade | 0.8 | 1.7 | 2.2 | 0.6 | -3.7 | 6.2 |
| Transportation & Storage | 5.3 | -0.6 | 12.4 | 2.3 | 1.0 | 1.5 |
| Accommodation & Food Services | -0.2 | 5.2 | -7.2 | 1.7 | -4.3 | -1.8 |
| Information & Communications | 5.0 | -3.6 | 0.9 | 2.3 | 7.0 | 2.2 |
| Finance & Insurance | -8.1 | 0.7 | 36.5 | 0.7 | -18.7 | 3.9 |
| Business Services | -3.5 | -1.0 | 0.3 | -0.9 | 8.0 | 0.5 |
| Other Services Industries | 3.9 | 5.7 | 1.3 | 3.1 | 1.2 | 3.9 |

OTHER ECONOMIC INDICATORS

| | 2Q16 | 3Q16 | 4Q16 | 2016 | 1Q17 | 2Q17 |
|--|-------|-------|------|-------|------|------|
| Retail Sales Index* (yoy, %) | 1.9 | 1.0 | 0.5 | 1.5 | 1.2 | 2.0 |
| Value Added Per Actual Hour Worked^ (yoy, %) | - | - | - | 1.4 | - | - |
| Value Added Per Worker^ (yoy, %) | 0.6 | 0.2 | 2.4 | 1.0 | 2.4 | 3.2 |
| Unemployment Rate, SA (%) | 2.1 | 2.1 | 2.2 | 2.1 | 2.2 | 2.2 |
| Changes in Employment ('000) | 4.2 | -2.7 | 2.3 | 16.8 | -6.8 | -7.8 |
| Overall Unit Labour Cost (yoy, %) | 3.1 | 3.1 | 0.7 | 2.4 | -0.1 | -0.1 |
| Unit Business Cost of Manufacturing (yoy, %) | -6.3 | -8.3 | -9.8 | -8.5 | 2.5 | 1.9 |
| Consumer Price Index (yoy, %) | -0.9 | -0.4 | 0.0 | -0.5 | 0.6 | 0.8 |
| Fixed Asset Investments (\$ bil) | 2.8 | 1.8 | 1.7 | 9.4 | 1.6 | 4.0 |
| Total Merchandise Trade (yoy, %) | -6.0 | -6.6 | 4.0 | -4.9 | 16.4 | 9.5 |
| Merchandise Exports | -4.8 | -4.5 | 2.1 | -5.1 | 17.1 | 8.3 |
| Domestic Exports | -5.0 | -8.0 | 7.6 | -5.8 | 29.3 | 9.4 |
| Oil | -18.0 | -13.7 | 20.2 | -12.6 | 72.0 | 26.9 |
| Non-Oil | 1.2 | -5.4 | 2.7 | -2.8 | 15.3 | 2.7 |
| Re-exports | -4.6 | -1.0 | -2.4 | -4.4 | 6.7 | 7.1 |
| Merchandise Imports | -7.4 | -9.1 | 6.1 | -4.7 | 15.7 | 11.0 |
| Total Services Trade (yoy, %) | 1.4 | 0.4 | 3.4 | 1.2 | 4.1 | 4.9 |
| Exports of Services | 2.0 | 0.6 | 3.1 | 1.2 | 3.9 | 4.9 |
| Imports of Services | 0.9 | 0.2 | 3.7 | 1.2 | 4.3 | 4.9 |

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