MINISTRY OF TRADE AND INDUSTRY SINGAPORE

PRESS RELEASE

MTI Upgrades 2021 GDP Growth Forecast to "6.0 to 7.0 Per Cent"

11 August 2021. The Ministry of Trade and Industry (MTI) today upgraded Singapore's GDP growth forecast for 2021 to "6.0 to 7.0 per cent", from "4.0 to 6.0 per cent".

Economic Performance in Second Quarter 2021

The Singapore economy expanded by 14.7 per cent on a year-on-year basis in the second quarter of 2021, faster than the 1.5 per cent growth in the previous quarter. The strong growth was largely due to the low base in the same period last year when GDP fell by 13.3 per cent as a result of the Circuit Breaker (CB) measures implemented from 7 April to 1 June 2020, as well as the sharp fall in external demand amidst the COVID-19 pandemic. In absolute terms, GDP remained 0.6 per cent below its pre-pandemic level in the second quarter of 2019. On a quarter-on-quarter seasonally-adjusted basis, the Singapore economy contracted by 1.8 per cent in the second quarter of 2021, a reversal from the 3.3 per cent expansion in the first quarter.

The manufacturing sector expanded by 17.7 per cent year-on-year, extending the 11.4 per cent growth recorded in the previous quarter. Growth was supported by output expansions across all clusters, with the transport engineering and precision engineering clusters seeing the largest increases in output. On a quarter-on-quarter seasonally-adjusted basis, the sector shrank by 2.5 per cent, a pullback from the 11.5 per cent growth in the preceding quarter.

The construction sector grew by 106.2 per cent year-on-year, a sharp turnaround from the 23.2 per cent contraction in the previous quarter, as both public and private sector construction works expanded. The strong growth was due to low base effects as most domestic construction activities were suspended during the CB last year. In absolute terms, the value-added (VA) of the sector remained 29 per cent below its pre-pandemic level in the second quarter of 2019.[1] On a quarter-on-quarter seasonally-adjusted basis, the sector contracted by 7.6 per cent, reversing the 4.3 per cent growth registered in the first quarter.

The wholesale trade sector expanded by 2.9 per cent year-on-year, easing from the 3.5 per cent growth in the previous quarter. Growth in the sector was led by the machinery, equipment & supplies segment, which grew on the back of the strong wholesale sales of electronic components and telecommunications equipment & computers. On a quarter-on-quarter seasonally-adjusted basis, the sector shrank by 0.7 per cent, a reversal from the 1.2 per cent growth seen in the preceding quarter.

[1] For the rest of the press release, a sector's pre-pandemic (or pre-COVID) VA level refers to its VA in the second quarter of 2019.

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The retail trade sector expanded by 50.7 per cent year-on-year, accelerating from the 1.6 per cent growth in the previous quarter. Growth was supported by higher motor vehicle and non-motor vehicle sales volumes, largely due to the low base a year ago when sales were significantly lower because of the CB measures. In absolute terms, the VA of the sector remained 12 per cent below its pre-pandemic level. On a quarter-on-quarter seasonally-adjusted basis, the sector shrank by 4.4 per cent, a reversal of the 1.1 per cent growth recorded in the first quarter.

The transportation & storage sector grew by 20.9 per cent year-on-year, a turnaround from the 15.8 per cent contraction in the preceding quarter. Within the sector, the air transport and land transport segments expanded strongly from a low base in the second quarter of 2020 when strict travel restrictions and CB measures were in place respectively. At the same time, the water transport segment grew in tandem with an increase in total sea cargo handled and container throughput. As a whole, the sector's VA remained 24 per cent lower than its pre-COVID level. On a quarter-on-quarter seasonally-adjusted basis, the sector contracted by 2.5 per cent, reversing the 6.6 per cent expansion in the previous quarter.

The accommodation sector expanded by 13.2 per cent year-on-year, easing from the 16.3 per cent growth in the preceding quarter. Growth during the quarter was supported by government and domestic tourism demand, even as weak international visitor arrivals due to travel restrictions continued to weigh on the sector. Compared to its pre-pandemic level, the VA of the sector remained 27 per cent lower. On a quarter-on-quarter seasonally-adjusted basis, the sector grew by 2.4 per cent, a reversal from the 13.6 per cent contraction in the first quarter.

The food & beverage services sector grew by 36.7 per cent year-on-year, a turnaround from the 9.2 per cent contraction in the previous quarter. Growth in the sector was supported by an increase in sales volumes at restaurants, cafes, food courts & other eating places and fast food outlets from the low base caused by the CB last year. On the other hand, food caterers continued to be adversely affected by restrictions on large-scale events and gatherings. As a whole, the VA of the food & beverage services sector remained 26 per cent below its pre-COVID level. On a quarter-on-quarter seasonally-adjusted basis, the sector shrank by 8.0 per cent, reversing the 0.2 per cent growth in the preceding quarter.

The information & communications sector expanded by 9.6 per cent year-on-year, a step-up from the 6.8 per cent growth in the previous quarter. Growth was driven by the IT & information services and "others"[2] segments, which were in turn bolstered by robust enterprise and consumer demand for digital solutions & services, and games & software publishing activities respectively. On a quarter-on-

[2] The "others" segment consists of (i) publishing activities (including games and software publishing), (ii) motion picture, video and other programme production, sound recording, and music publishing activities, and (iii) radio and television broadcasting activities.

quarter seasonally-adjusted basis, the sector contracted marginally by 0.1 per cent, moderating from the 0.8 per cent contraction in the first quarter.

Growth in the finance & insurance sector came in at 9.1 per cent year-on-year, higher than the 5.7 per cent in the previous quarter. The robust performance of the sector was supported by the banking segment, which grew due to the continued increase in net fees and commissions and interest income from loans. The insurance segment also expanded strongly, reflecting the sustained demand for life insurance products. On a quarter-on-quarter seasonally-adjusted basis, the sector grew by 1.7 per cent, easing from the 2.3 per cent growth achieved in the preceding quarter.

The real estate sector expanded by 25.8 per cent year-on-year, a turnaround from the 3.1 per cent contraction in the previous quarter. The expansion came on the back of low base effects due to the workplace restrictions imposed during the CB last year. Compared to its pre-pandemic level, the VA of the sector remained 7.4 per cent lower. On a quarter-on-quarter seasonally-adjusted basis, the sector shrank by 3.4 per cent, a pullback from the 6.5 per cent growth in the first quarter.

The professional services sector grew by 9.4 per cent year-on-year, a reversal from the 4.5 per cent contraction in the previous quarter. Growth was supported by the architectural & engineering, technical testing & analysis and other professional, scientific & technical services segments, which in turn expanded on account of low base effects as most domestic construction activities were suspended and workplace restrictions were imposed during the CB last year. On a quarter-on-quarter seasonally-adjusted basis, the sector shrank by 0.5 per cent, extending the 0.8 per cent contraction in the preceding quarter.

The administrative & support services sector contracted by 1.3 per cent year-on-year, moderating from the 15.1 per cent contraction in the previous quarter. Within the sector, the rental & leasing segment shrank as travel restrictions adversely affected the rental & leasing of air transport equipment. This more than offset an expansion in the other administrative & support services segment. On a quarter-on-quarter seasonally-adjusted basis, the sector shrank by 2.9 per cent, extending the 4.2 per cent contraction in the first quarter.

The "other services industries" expanded by 15.8 per cent year-on-year, improving from the 0.5 per cent growth in the first quarter. Growth was primarily supported by the arts, entertainment & recreation and health & social services segments, both of which saw strong expansions on account of low base effects. Nonetheless, the VA of the sector remained 5.0 per cent below its pre-COVID level. On a quarter-on-quarter seasonally-adjusted basis, the "other services industries" contracted by 1.8 per cent, a reversal from the 0.4 per cent growth recorded in the preceding quarter.

Taking into account the GDP performance in the first quarter of 2021, the Singapore economy expanded by 7.7 per cent on a year-on-year basis in the first half of 2021.

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Economic Outlook for 2021

In May, MTI maintained Singapore's GDP growth forecast for 2021 at "4.0 to 6.0 per cent", in view of heightened uncertainties in the external economic environment arising from the COVID-19 pandemic, as well as the domestic health situation.

Since then, COVID-19 cases continue to be on the rise globally due to the spread of the highly transmissible Delta variant. However, vaccination rates have also picked up in key advanced economies such as the US and Eurozone, which have in turn allowed them to press on with their re-opening plans notwithstanding an uptick in cases. By contrast, regional economies which have been slow to vaccinate their populations have had to re-impose restriction measures to curb a resurgence in infections. This has in turn dampened their growth outlook. On balance, the recovery in external demand for Singapore for the rest of the year remains largely on track. Details of the outlook of the key external economies are as follows.

In the US, the pace of economic growth is expected to pick up in the second half of 2021. Continuing improvements in labour market conditions, along with elevated savings due to the disbursement of fiscal stimulus cheques, will bolster personal consumption expenditure, which will in turn support the US' economic recovery. The Eurozone economy is also projected to see a faster pace of recovery in the second half of 2021. The strong pickup in vaccine deployment in recent months has led to a quicker-than-expected resumption in business activity. This has resulted in an improvement in business sentiments and employment expectations, which will support a rebound in domestic demand.

In Asia, China's growth is expected to ease in the second half of 2021 on the back of a moderation in investment growth amidst weaker base effects and credit conditions. The latest COVID-19 outbreak could also weigh on the recovery of consumption in the near term as restrictions have been imposed to contain the virus. In Japan, the pace of economic recovery is projected to quicken in the second half of 2021. While the re-imposition of a state of emergency in Tokyo and Okinawa to slow the spread of the virus is expected to weigh on domestic consumption in the near term, strong external demand will continue to support growth.

Growth in the key Southeast Asian economies in the second half of 2021 is likely to be slower than earlier projected. In particular, the recovery in domestic demand in countries such as Malaysia, Indonesia and Thailand are expected to be dampened by the tightening of restrictions to contain the surge in COVID-19 infections, although external demand should lend some support to their GDP growth.

At the same time, downside risks in the global economy remain. First, there continues to be uncertainty surrounding the trajectory of the COVID-19 pandemic. The ongoing economic recovery in advanced economies could be derailed if vaccination progress stalls due to vaccine hesitancy or if the efficacy of existing vaccines is weakened as a result of virus mutations or waning antibody levels. Meanwhile, effective containment of the outbreaks in regional economies may be impeded by their slow vaccination rollouts, which could then lead to an even sharper and more protracted period of slowdown in these economies. Second, there are upside risks to inflation, especially if supply-side bottlenecks persist alongside a stronger pickup in final demand. This could result in an earlier or larger increase in interest rates than currently anticipated, thereby triggering a sharp tightening of global financial conditions. The latter could in turn lead to a premature withdrawal of policy support in economies with limited fiscal space and delay their economic recovery. Third, continued geopolitical uncertainty involving the major economies could weigh on trade and the global economic recovery.

Domestically, the performance of the Singapore economy in the first half of 2021 was stronger than expected. The COVID-19 situation has also stabilised, with our vaccination programme continuing to make good progress. Barring a major setback in the global economy, the Singapore economy is expected to continue to see a gradual recovery in the second half of the year, supported in large part by outward-oriented sectors. The progressive easing of domestic and border restrictions as our vaccination rates continue to rise will also help to support the recovery of our consumer-facing sectors and alleviate labour shortages in sectors that are reliant on migrant workers.

Against this backdrop, the recovery of the various sectors of the economy over the course of the year is expected to remain uneven. First, the growth prospects for outward-oriented sectors (e.g., manufacturing and wholesale trade) remain strong given the rebound in global demand. In particular, the manufacturing sector is projected to see robust growth, driven largely by the electronics and precision engineering clusters on the back of strong semiconductor and semiconductor equipment demand. At the same time, the growth outlook for the finance & insurance and information & communications sectors remains positive. The former will be supported in part by an expected increase in domestic and foreign credit demand alongside the broader economic recovery in Singapore and the region. Meanwhile, the latter will be bolstered by healthy enterprise and consumer demand for digital solutions & services, as well as games & software publishing activities.

Second, the aviation- and tourism-related sectors (e.g., air transport and arts, entertainment & recreation) are projected to recover more slowly than previously expected. Even though domestic border restrictions may be eased towards the later part of the year, especially for travellers from countries that have managed to control the pandemic and vaccinate a large part of their populations, demand is not expected to return quickly as travel restrictions globally are likely to be lifted cautiously and global travel demand may also remain sluggish amidst the spread of more contagious strains of the virus. As such, activity in these sectors is expected to remain significantly below pre-COVID levels even by the end of the year.

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Third, while consumer-facing sectors (e.g., retail trade and food & beverage services) have been adversely affected by ongoing domestic restrictions (e.g., dining-in limits), they should start to recover as the restrictions are eased over the course of the year and consumer sentiments improve in tandem with better labour market conditions. Nonetheless, these sectors are not expected to return to pre-COVID levels by year-end, in part due to the subdued tourism outlook.

Fourth, the construction and marine & offshore engineering sectors are projected to see some recovery from the low base last year. However, labour shortages arising from prevailing border restrictions on the entry of migrant workers, especially from South Asia, are likely to continue to weigh on the recovery of activities at worksites and shipyards. While border restrictions may be eased towards the later part of the year, thus alleviating labour shortages, the output of these sectors is expected to remain substantially below pre-COVID levels even at the end of the year.

Taking into account the better-than-expected performance of the Singapore economy in the first half of the year, as well as the latest external and domestic economic developments, **MTI has upgraded the GDP growth forecast for 2021 to "6.0 to 7.0 per cent", from "4.0 to 6.0 per cent"**.

MINISTRY OF TRADE AND INDUSTRY
11 August 2021

ANNEX

SECTORAL GROWTH RATES

	2Q20	3Q20	4Q20	2020	1Q21	2Q21
	Year-on-Year % Change					
Total	-13.3	-5.8	-2.4	-5.4	1.5	14.7
Goods Producing Industries	-10.0	1.1	3.9	0.3	6.0	21.9
Manufacturing	-0.4	11.0	10.3	7.3	11.4	17.7
Construction	-65.6	-52.5	-27.4	-35.9	-23.2	106.2
Services Producing Industries	-12.7	-8.3	-4.7	-6.9	-0.3	10.3
Wholesale Trade	-3.0	-5.0	1.8	-2.4	3.5	2.9
Retail Trade	-41.3	-8.6	-4.7	-16.0	1.6	50.7
Transportation & Storage	-37.5	-29.0	-27.4	-25.4	-15.8	20.9
Accommodation	-35.5	-20.5	-19.7	-28.7	16.3	13.2
Food & Beverage Services	-45.9	-24.1	-19.0	-25.1	-9.2	36.7
Information & Communications	-0.8	1.4	2.6	2.1	6.8	9.6
Finance & Insurance	3.1	4.2	4.9	5.0	5.7	9.1
Real Estate	-26.4	-17.7	-10.8	-14.2	-3.1	25.8
Professional Services	-16.8	-10.7	-7.5	-9.7	-4.5	9.4
Administrative & Support Services	-20.7	-19.4	-14.9	-15.1	-15.1	-1.3
Other Services Industries	-18.0	-8.7	-5.7	-8.9	0.5	15.8
	Quarter-on-Quarter Growth % (SA)					
Total	-13.1	9.0	3.8	-5.4	3.3	-1.8
Goods Producing Industries	-15.4	11.9	1.8	0.3	10.0	-2.8
Manufacturing	-7.6	9.7	-1.4	7.3	11.5	-2.5
Construction	-65.6	37.5	55.6	-35.9	4.3	-7.6
Services Producing Industries	-10.4	5.5	4.1	-6.9	1.2	-0.8
Wholesale Trade	-0.2	-2.7	5.2	-2.4	1.2	-0.7
Retail Trade	-35.5	54.9	0.8	-16.0	1.1	-4.4
Transportation & Storage	-32.0	12.4	3.4	-25.4	6.6	-2.5
Accommodation	5.3	25.2	2.3	-28.7	-13.6	2.4
Food & Beverage Services	-38.9	38.9	6.7	-25.1	0.2	-8.0
Information & Communications	-2.8	6.4	4.2	2.1	-0.8	-0.1
Finance & Insurance	-1.4	0.9	3.8	5.0	2.3	1.7
Real Estate	-25.7	12.3	8.8	-14.2	6.5	-3.4
Professional Services	-13.1	7.5	3.1	-9.7	-0.8	-0.5
Administrative & Support Services	-16.4	1.9	4.4	-15.1	-4.2	-2.9
Other Services Industries	-14.8	12.5	4.5	-8.9	0.4	-1.8

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OTHER ECONOMIC INDICATORS

	2Q20	3Q20	4Q20	2020	1Q21	2Q21
Retail Sales Index* (yoy, %)	-40.6	-8.7	-4.5	-15.8	1.0	50.7
Value Added Per Worker^ (yoy, %)	-11.9	-2.5	2.4	-3.4	6.1	16.7
Value Added Per Actual Hour Worked^ (yoy, %)	2.4	2.2	3.8	1.3	7.3	1.7
Unemployment Rate, SA (%)	2.8	3.5	3.3	3.0	2.9	2.7
Changes in Employment ('000)	-113.5	-34.4	-7.8	-181.0	14.0	-19.3
Overall Unit Labour Cost (yoy, %)	-18.0	-10.2	-10.7	-9.1	-6.8	18.2
Unit Business Cost of Manufacturing (yoy, %)	-16.2	-17.1	-16.7	-14.4	-10.8	-2.6
Consumer Price Index (yoy, %)	-0.7	-0.3	-0.1	-0.2	0.8	2.3
Fixed Asset Investments ($ bil)	1.9	2.1	3.0	17.2	2.8	3.6
Total Merchandise Trade (yoy, %)	-13.9	-4.8	-5.1	-5.2	4.9	27.3
Merchandise Exports	-11.4	-2.2	-2.9	-3.2	6.9	26.1
Domestic Exports	-16.2	-5.1	-10.3	-6.8	-0.2	25.8
Oil	-53.3	-29.1	-30.6	-28.1	-19.3	85.6
Non-Oil	5.8	6.5	-0.5	4.3	9.7	10.1
Re-exports	-6.9	0.3	3.4	0.1	13.6	26.4
Merchandise Imports	-16.6	-7.6	-7.6	-7.4	2.7	28.6
Total Services Trade (yoy, %)	-21.4	-16.3	-16.3	-14.3	-9.8	9.3
Exports of Services	-19.1	-14.1	-13.8	-12.7	-7.4	10.3
Imports of Services	-23.7	-18.7	-18.9	-16.1	-12.3	8.2

* In Chained Volume Terms.

^ Based on GDP at market prices in chained (2015) dollars.

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