RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

6 September 2019

	2018			2019	
	Q3	Q4	Full Year	Q1	Q2
Real Sector					
Real GDP Growth, y-o-y %	2.6	1.3	3.1	1.1	0.1
Real GDP Growth, q-o-q saar %	0.8	−0.8	-	3.8	−3.3
Index of Industrial Production, y-o-y %	3.5	4.6	7.0	−0.3	−3.4
Non-oil Domestic Exports, y-o-y %	8.0	−1.1	4.2	−6.4	−14.6

The Singapore economy grew marginally in Q2 2019

Singapore's GDP growth slowed to 0.1% y-o-y in Q2 2019, from 1.1% in the previous quarter. The main drag came from the trade-related cluster, which contracted in tandem with the downswing of the global electronics cycle and softening external demand. The modern services cluster however continued to register firm growth, especially in activities related to digitalisation.

Global growth is expected to ease further amid elevated uncertainties

Economic momentum in Singapore's major trading partners decelerated as a whole in Q2 2019, amid a continuing downturn in global investment and trade flows. Still, growth in the US and Japan came in higher than anticipated in the quarter, partly on account of resilient household spending. In Asia ex-Japan, weak exports weighed on activity. Global growth is expected to come in lower in 2019 as compared to 2018, on account of rising trade tensions, elevated uncertainty and weak business sentiment.

Against a subdued external economic backdrop, Singapore's GDP growth will step down in 2019

The global electronics downswing, alongside slowing global growth, will continue to exert downward pressure on Singapore's trade-related sectors. Some counterbalancing support from the modern services cluster can be expected. At the same time, the domestic-oriented cluster could also gain a mild boost from the construction and essential services sectors. All in, the Singapore economy is projected to expand by 0.0–1.0% in 2019, with the outcome currently expected to be around the mid-point of the range, a significant slowing from the 3.1% recorded last year.

Core inflation should come in within the lower half of the 1–2% range in 2019

External sources of inflation are likely to remain benign for the rest of the year. On the domestic front, labour market conditions have largely held up, and increases in unit labour cost have picked up with the cyclical step-down in productivity growth. However, an acceleration in consumer price inflation is unlikely given slower global and domestic growth.

A. External Developments

Global GDP Growth				
	2019 Q1	2019 Q2	2018	Consensus Forecast 2019
	q-o-q saar %		y-o-y %	
G3*	**2.5**	**1.5**	**2.1**	**1.5**
US	3.1	2.0	2.9	2.3
Eurozone	1.8	0.8	1.9	1.1
Japan	2.8	1.8	0.8	0.9
	y-o-y %			
Asia ex-Japan*	**4.3**	**4.3**	**5.0**	**4.5**
China	6.4	6.2	6.6	6.2
India**	5.8	5.0	6.8	6.8
NEA-3*	**1.2**	**1.4**	**2.8**	**1.6**
Hong Kong	0.6	0.5	3.0	1.3
Korea	1.7	2.0	2.7	2.0
Taiwan	1.8	2.4	2.6	1.9
ASEAN-4*	**4.5**	**4.6**	**4.9**	**4.5**
Indonesia	5.1	5.0	5.2	5.0
Malaysia	4.5	4.9	4.7	4.4
Thailand	2.8	2.3	4.1	3.1
Philippines	5.6	5.5	6.2	5.8

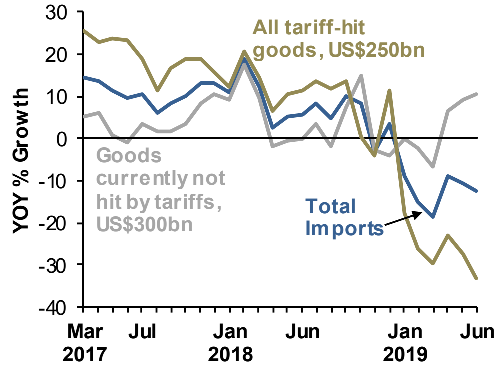
Source: CEIC, Haver Analytics, Consensus Economics, Aug 2019 and EPG, MAS estimates
* Weighted by shares in Singapore's NODX.
** Figures are reported on a Financial Year basis; FY2019 refers to the period from April 2019 to March 2020.

Global growth weakened in the second quarter of 2019

Headline growth in the major economies slowed in Q2 2019, as the drag on exports and investment from heightened trade tensions outweighed relatively resilient consumption. In the US, household spending was underpinned by robust labour market conditions while in Japan, consumers brought forward some purchases in anticipation of the impending tax hike in October. In Asia ex-Japan, growth softened on the back of continued weakness in global trade, although this was offset to some extent by supportive government policies. As a result of cumulative tariff increases, US firms have significantly reduced their purchases of goods from China, which has contributed to a slowdown in the region's trade.

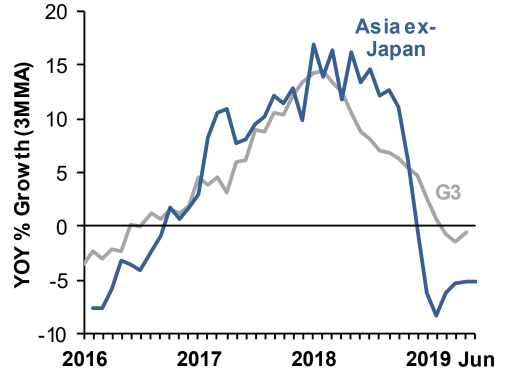
US-China tensions escalated in August, with both sides announcing further tariff measures. **Economic policy uncertainty will remain elevated in view of other pending developments such as Brexit, with negative implications for business confidence and investment.** Manufacturing PMIs around the world are mostly still in contractionary territory, suggesting that near-term global growth prospects remain weak. Capital goods imports have continued to shrink, although the pace of decline appears to have stabilised in recent months.

US imports of tariff-affected goods from China fell further in Q2.



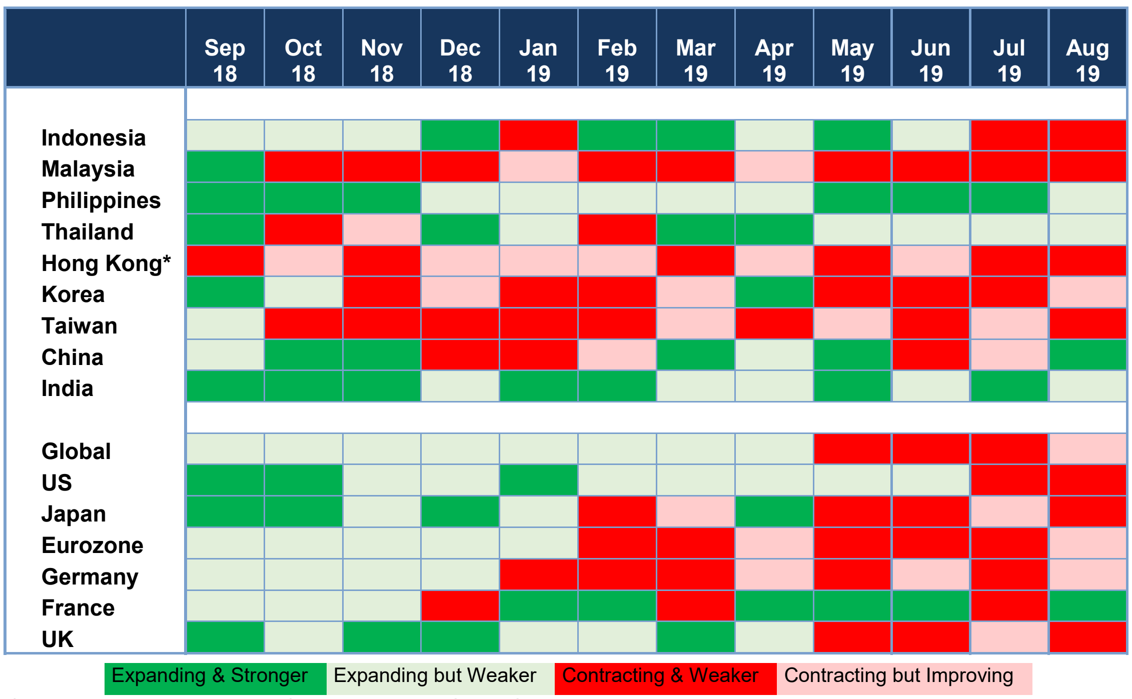
Source: US Census Bureau, The Office of the US Trade Representative and EPG, MAS estimates
Note: Chart is accurate as of 31 July 2019.

Capital goods imports continued to contract.



Source: CEIC, Haver Analytics and EPG, MAS estimates

Manufacturing PMIs point to further downward pressure.



Source: Haver Analytics, IHS Markit and EPG, MAS estimates
* Composite PMI

Financial stability risks remain elevated, amid high EME debt levels and increased uncertainty in the growth outlook

Risks to global financial stability remain elevated amid high debt levels and worsening debt profiles, especially in key Emerging Market Economies (EMEs). Indebtedness of the government and non-financial corporate sectors has continued to increase globally. The composition of this debt could also be turning riskier. In Asia, although the total volume of bond issuance has been relatively stable over the past few quarters between Q4 2018 and Q2 2019, there has been a broad-based increase in the issuance of foreign currency bonds across all sectors, denominated mainly in US dollars. If unhedged, this increases issuers' vulnerability to sharp FX movements.

There are early signs that slowing growth is beginning to place strains on pockets of regional banking systems that are less well capitalised. This could lead to slower expansions in credit in some regions, adding to growth headwinds. However, stresses in interbank funding markets presently seem contained.

Amid increased uncertainties, an abrupt deterioration in investor sentiment accompanied by further portfolio outflows and depreciation pressures on EME currencies could result in a tightening of financial conditions. Geopolitical events could also negatively affect confidence and add to capital outflow pressures. EMEs saw broad-based outflows in May and August following an escalation of US-China trade tensions, which resulted in widening sovereign spreads and downward pressure on key EME currencies. Should further outflows and depreciation pressures materialise, financial stresses on corporates with significant foreign exchange mismatches would be accentuated, resulting in higher refinancing risk.

The G3 economies are expected to expand by 1.5% this year.

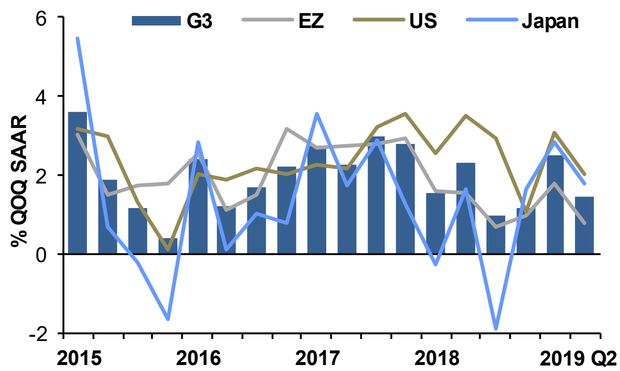
Asia ex-Japan's growth is projected at 4.5% in 2019.

G3 growth slowed on weak external demand, with household spending staying resilient

Economic growth in the US fell to 2.0% q-o-q saar in Q2 2019 from the previous quarter's pace of 3.1%. The expansion was still stronger than expected, due mainly to robust consumption. Both household and government expenditure rebounded in the second quarter, which partially offset the contraction in business fixed investment spending. Reversing their strong contributions to last quarter's activity, inventories and net exports subtracted from overall growth. Steady wage gains and low unemployment should continue to support private consumption, while recently-enacted budget measures will provide some further fiscal support into 2020 even as the boost from earlier tax cuts fade. However, heightened uncertainty over trade is expected to further depress business confidence and investment. **Accordingly, US growth is projected to decelerate to 2.3% in 2019, from 2.9% in 2018.**

The Eurozone's growth eased to 0.8% q-o-q saar in Q2 2019, amid broad-based weakness across the region. Activity slowed in each of the four largest economies of Germany, France, Italy and Spain. Notably, the German economy contracted owing to weak exports, while the rate of expansion in Italy stalled as political uncertainty sapped business and consumer confidence and added a risk premium to Italian borrowing costs. Looking ahead, exports will continue to detract from growth in view of the ongoing downturn in global manufacturing, and external weakness could eventually spill over to the household sector, which has thus far been holding up the expansion. Nevertheless, fiscal and monetary policy are expected to turn more accommodative in 2020. **Overall, Eurozone GDP growth is projected to come in at 1.1% in 2019, down from 1.9% in 2018.**

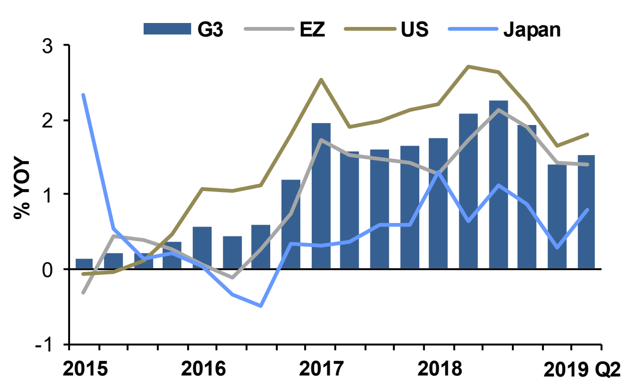
Growth in the G3 economies moderated in Q2.



Source: CEIC, Haver Analytics and EPG, MAS estimates

Japan's growth surprised on the upside in Q2 2019 for the second consecutive quarter, on the back of robust domestic demand. Private consumption surged to 2.5% q-o-q saar from 0.4% in Q1, as households increased their spending on durable goods ahead of October's consumption tax increase. Capex spending also strengthened as businesses continued to invest in labour-saving technologies. Reflecting the knock-on effects of US-China tariffs, exports stagnated alongside falling demand from China. Despite the trade slowdown, the economy has performed better than expected in recent quarters, and the government is likely to proceed with the consumption tax rise in October 2019, accompanied by fiscal measures to cushion the impact on spending. **On balance, Japan's economy is expected to expand by 0.9% in 2019.**

G3 headline inflation rose in Q2.



Source: Haver Analytics and EPG, MAS estimates

G3 headline inflation picked up in Q2 2019. US CPI inflation rose in part due to a rebound in energy prices. However, the rate of headline and core PCE inflation was subdued at 1.4% and 1.5%, respectively, well below the Federal Reserve's 2% target, notwithstanding rising wages and a tight labour market. In the Eurozone, headline CPI inflation was stable in Q2 at 1.4%. While unemployment has continued to decline, the pass-through from wage-cost pressures to inflation has been more restrained than usual. Meanwhile, headline inflation in Japan picked up slightly to 0.8%, on the back of higher food and energy prices. Inflationary pressures in the G3 economies are expected to be contained, though labour market tightness in the US and the Eurozone remains as a source of upside risk. In Japan, the consumption tax hike scheduled to take place in October will boost the headline inflation rate temporarily, but core inflation is expected to remain weak.

G3 inflation is projected to come in lower at 1.5% in 2019.

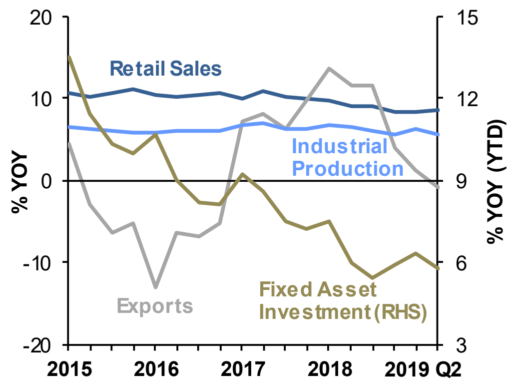
Growth in Asia ex-Japan was partly supported by policy measures

China's GDP growth moderated to 6.2% y-o-y in Q2 2019 from 6.4% in Q1, reflecting the negative impact of persistent trade tensions on exports and fixed investment as well as weakening household consumption. Final consumption contributed 3.8% points to year-to-date growth in Q2, down from 4.2% points in Q1. However, net exports still made a positive contribution to growth in the quarter as a result of a broad-based contraction in imports. **In the second half of the year, the pace of economic activity is forecast to moderate further, with full-year GDP growth projected at 6.2%.** Current and pending tariffs on US-China trade, as well as the uncertainty created by a protracted conflict, will continue to exert downward pressure on aggregate demand in the near term. The policy responses to slower growth have been measured so far, as the authorities remain committed to mitigating financial risks. Credit growth remained broadly stable at 10.9% y-o-y in Q2 as bank loan growth slowed slightly and non-bank financing improved somewhat compared to Q1.

Meanwhile, economic activity in Hong Kong pulled back sharply in Q2, amid retrenchments in trade volumes and rising domestic political ructions. Private consumption moderated in the quarter despite firm labour market conditions, as external trade tensions and the internal political stand-off undermined confidence. The retail sector and tourism spending have been especially impacted, as visitors stayed away. The near-term economic prospects for Hong Kong will hinge on a resolution of the political impasse, though the government has announced a fiscal stimulus package totalling HK$19.1 billion, or about 0.7% of 2018 GDP.

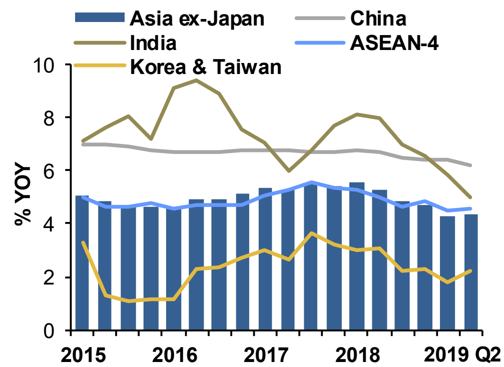
India's growth weakened further in Q2 2019 as domestic demand continued to lose momentum. The non-bank financial sector, which has played a key role in supporting household spending, has suffered a credit crunch, contributing to a sharp pullback in private consumption. Overall investment growth was also sluggish, as firms reined in capex in the face of credit constraints and muted final demand. Export growth also declined alongside tepid global demand, but with imports weaker than exports, net exports still contributed positively to real GDP growth. Monetary policy has become more accommodative, which should support growth in the coming quarters. However, scope for additional government spending is limited by fiscal constraints. Meanwhile, recently-announced reforms to the banking sector and foreign investment rules should impart a boost to the economy in the medium term.

China's economy slowed in Q2 2019.



Source: CEIC, Haver Analytics and EPG, MAS estimates

Weakening external demand continued to buffet growth in Asia ex-Japan.



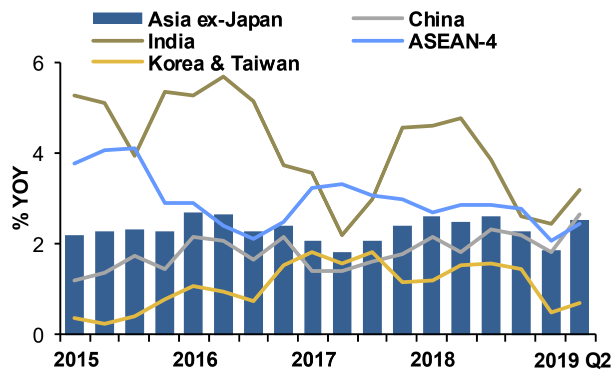
Source: CEIC, Haver Analytics and EPG, MAS estimates

Growth in Korea and Taiwan picked up in Q2 2019 from the previous quarter, mainly on the back of policy stimulus. In Korea, the rebound was led by strong public spending as the Moon administration persevered with a job creation and public investment drive. In comparison, gross fixed capital formation was the main driver in Taiwan, reflecting in part the government's incentives to bring production back on-shore from mainland China. Public spending will continue to support growth in both economies, mainly through social transfers and employment initiatives in Korea and infrastructure spending in Taiwan. However, these fiscal injections are expected to be offset by weak export growth, particularly of electronics components. Korea's semiconductor trade will also be disrupted by the ongoing dispute with Japan, which has imposed export controls on key materials. **On balance, GDP growth is expected to come in at 1.9% in Taiwan and 2.0% in Korea this year.**

The ASEAN-4 economies grew by 4.6% y-o-y on average in Q2 2019, slightly faster than in the previous quarter. Growth was mainly underpinned by resilient private consumption, while government measures to aid lower-income households imparted a further boost. Meanwhile, investment growth was subdued as elevated global trade uncertainty hit business confidence. The manufacturing downturn continued to cause a contraction in ASEAN's overall exports in Q2, although import compression mitigated the net drag from trade. Monetary policy has become more accommodative, as evidenced by across-the-board reductions in policy rates since Q1 2019. Fiscal policy has also turned more supportive, as Indonesia and the Philippines accelerated public investment in infrastructure projects, while Thailand has unveiled a substantial stimulus package amounting to nearly 2% of GDP. Malaysia has also revived a few mega-projects such as the East Coast Rail Link and Bandar Malaysia. **All in, GDP growth in the ASEAN-4 is expected to come in at 4.5% in 2019.**

Average CPI inflation in Asia ex-Japan rose in Q2 2019 mainly on account of higher food and fuel prices. In China, supply shortfalls caused by unfavourable weather conditions and the swine flu outbreak have resulted in food price inflation. However, core inflation has remained contained, reflecting the weakness in domestic demand. Similarly, in India and the ASEAN-4, inflation has stayed benign despite higher food prices and generally weaker currencies. All in, inflation in Asia ex-Japan is expected to remain broadly stable in 2019.

Headline inflation in Asia ex-Japan picked up in Q2 2019.



Source: Haver Analytics and EPG, MAS estimates

Headline inflation in Asia ex-Japan is projected to be 2.4% in 2019.

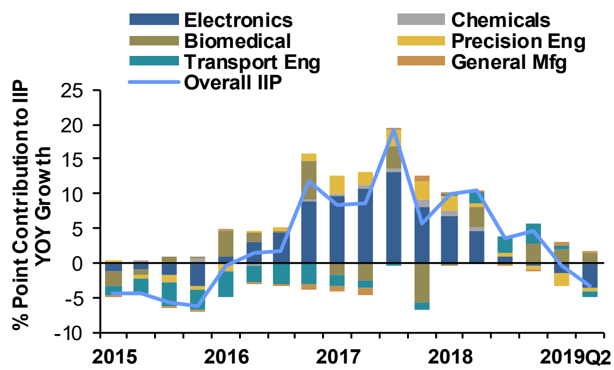
B. Domestic Developments

The Singapore economy moderated further in Q2 2019

Domestic economic growth slowed significantly to 0.1% y-o-y in Q2 2019, from 1.1% in Q1. Notably, the trade-related cluster was weighed down by weakening external demand and the downswing of the global electronics cycle. Modern services remained the main support to the economy, amid still robust growth in the digitalisation-related activities. Elsewhere, the domestic-oriented cluster remained sluggish, although construction and essential services were bright spots.

The performance of the manufacturing sector deteriorated further in Q2, contracting by 3.4% y-o-y, from −0.3% in the preceding quarter. The steeper decline was attributed largely to the electronics cluster, which shrank by 9.2%, as the global electronics cycle downswing and slowdown in the external economy became more entrenched. The non-electronics-related clusters were also affected by the global downturn, with output in the chemicals and transport engineering clusters seeing some pullback. There were, however, some pockets of support such as in the biomedical cluster which expanded by 7.5%.

Industrial output declined further in Q2 2019.



The modern services cluster contributed positively to growth in Q2, particularly the ICT and finance & insurance sectors. The ICT sector expanded by a creditable 4.1% y-o-y, with firm outturns in IT & information services providing a buffer against the trend decline in telecommunications and the “others” segment, which comprises mostly of print media outlets. In contrast, the business services sector grew by only 0.5% y-o-y, softening from 1.7% in Q1. The real estate segment weighed on the sector, contracting further as buying sentiments remained cautious and transaction volumes subdued. Meanwhile, the rental & leasing segment contracted further, pulling back sharply from the segment’s robust growth in 2018.

The finance & insurance sector grew by 5.2% y-o-y in Q2, improving from 3.2% in the preceding quarter. Payment-processing services continued to post strong growth. At the same time, sentiment-sensitive segments including foreign exchange trading and security dealing activity showed signs of improved market risk appetite following the Federal Reserve’s move to lower the target range for the federal funds rate by 25 basis points in July. However, the performance of insurance services waned across all insurance types in Q2, alongside an uptick in claims paid.

The slowdown in financial intermediation, in part due to a cooling Chinese economy, found some relief on the back of improved ACU non-bank loan growth to East Asia in Q2. Non-bank loan growth to residents also edged higher. In addition, DBU value-added growth was also supported by modest improvements to net interest margins earned, alongside rising net fees and commissions received. Credit quality has not been impacted by the economic downturn thus far, with the non-performing loan ratio at 1.8% in Q2, a slight improvement from the previous quarter.

Tourism-related industries remained soft. Total visitor arrivals grew by 1.7% y-o-y in Q2, an improvement from the 1.0% seen in Q1, but well below the growth rate of 6.2% in 2018. While visitor arrivals from China, Japan and United States recorded stronger growth in Q2, visitor arrivals from ASEAN continued to decline. Revenue per available room also slipped in Q2 compared to a year ago, due to lower average room rates and occupancies in upscale hotels.

The domestic-oriented cluster saw incremental gains, led by the construction sector. The construction sector expanded by 2.9% in Q2, supported by public sector projects. Nominal certified progress payments (a proxy for construction output) rose by 4.3%, with the public portion growing 12.9% due to higher volumes of public civil engineering and industrial works. In contrast, private payments fell by 3.7%, on declining private industrial and commercial building activities.

Meanwhile, **consumer-facing services remained sluggish.** Overall retail sales volume fell by 4.6% in Q2 2019, weighed down largely by motor vehicle sales, which contracted by 16.6% on lower Certificate of Entitlement quotas. Non-motor vehicle retail sales volume also declined by 1.8%, as sales of discretionary items such as furniture & household equipment and computers & telecommunications equipment fell. Elsewhere, in food & beverage services, spending expanded at a faster clip, picking up by 1.7% in Q2 compared with 0.4% in Q1. In particular, spending at fast food restaurants rose by 9.0% in June, attributable to the opening of new outlets by major fast food chains.

Muted outlook for the Singapore economy

Domestic economic growth is forecast to come in at around the mid-point of the 0.0–1.0% forecast range for 2019.

Downside risks to growth have increased and the near-term outlook for the Singapore economy has deteriorated. With lacklustre growth in H1 2019 and a subdued outlook for the rest of the year, the forecast range for GDP growth in 2019 was lowered from 1.5–2.5%, to 0.0–1.0%, with the outcome currently expected to be around the mid-point of the range.

The second half of 2019 is expected to be challenging for the trade-related sectors as external headwinds are unlikely to abate anytime soon. Mounting and prolonged economic uncertainty would undermine confidence, resulting in the further curtailment of global demand and trade. Without a decisive resolution of global trade frictions, including US-China tensions and Japan-South Korea disputes, the functioning of electronics supply chains in the region could also be disrupted, amplifying the downswing in the global electronics cycle.

Modern services are expected to remain the main contributor to growth in 2019, although pockets of weakness in the cluster's external-facing segments will linger for the rest of the year. The performance of the ICT sector, which is typically anchored by the IT and information services segment, is expected to stay firm, given the ongoing digital transformation efforts nationwide. Conversely, growth in the business services sector should ease further on muted foreign demand due to the sector's strong linkages with the trade-related cluster, such as through the rental and leasing segment.

Within the financial & insurance sector, the payment-processing players should continue to post strong growth, reflecting healthy underlying fundamentals, including strong electronic transactions and e-commerce growth. However, the outlook for the insurance and financial intermediation segments is less sanguine. Demand for general and life insurance will ease in tandem with the slowdown in domestic and regional economic growth. Fund management and foreign exchange trading have been supported by the accommodative policies of global central banks, but prospects remain vulnerable to swings in sentiment.

The domestic-oriented cluster will be held up by the recovery of the construction sector and steady growth in essential services. Construction activity is expected to see steady gains over the rest of 2019, based on the recovery in contracts awarded since H2 2017. Public sector industrial projects, including the Punggol Digital District, PUB's Tuas Water Reclamation Plant for the Deep Tunnel Sewerage System Phase 2, as well as civil engineering projects, such as the North South Corridor, should boost outturns. Private sector construction is also expected to pick up, spurred by the redevelopment of en-bloc residential sites and industrial building activities. At the same time, growth in essential services such as education, health & social services should remain resilient.

Nevertheless, the more cautious consumer sentiments could crimp retail sales, limiting upsides of the domestic-facing sectors. Based on Department of Statistics' Q3 2019 *Business Expectations* survey, a net weighted balance of 7% of firms in the retail sector expect the business outlook in H2 2019 to deteriorate compared to the previous six months.

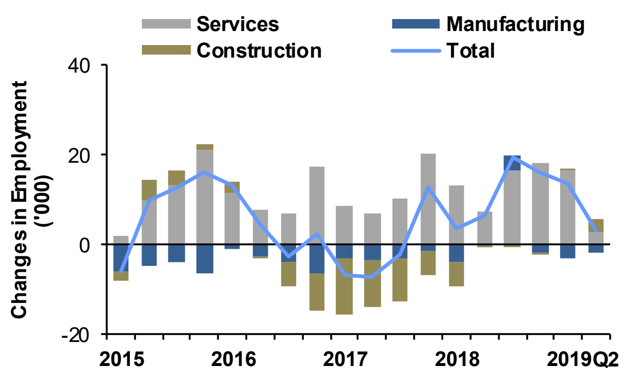
C. Labour Market and Consumer Prices

	2018			2019	
	Q3	Q4	Full Year	Q1	Q2
Labour Market and Prices					
Unemployment Rate, sa, %	2.1	2.2	2.1	2.2	2.2
Wage Growth, y-o-y %	3.5	2.8	3.5	3.4	2.1
CPI-All Items Inflation, y-o-y %	0.7	0.5	0.4	0.5	0.7
MAS Core Inflation, y-o-y %	1.9	1.8	1.7	1.6	1.3

Overall employment growth moderated in Q2 2019

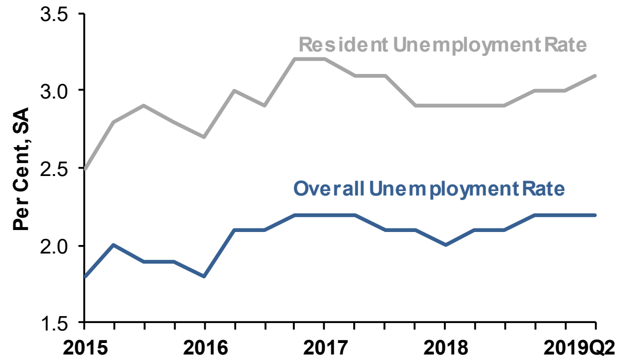
Preliminary estimates showed that overall employment grew by 3,300 in Q2 2019, a significant slowdown from 13,400 in Q1. Manufacturing headcount declined for the third consecutive quarter alongside the contraction in industrial production. Meanwhile, construction employment growth accelerated to 2,800 from a modest 100 in the preceding quarter, due to an expansion in public sector construction activity. In comparison, the 2,700 increase in services employment was a substantial reduction from 16,400 in Q1 and the lowest Q2 figure recorded since 2003. Positive employment growth in industries such as ICT, financial, professional and community, social & personal services was partly offset by a decline in headcount in the retail trade sector.

Overall employment growth decelerated in Q2 2019.



The seasonally adjusted overall unemployment rate held steady at 2.2% in June 2019. However, the resident unemployment rate edged up by 0.1% point to 3.1%. An estimated 72,400 residents were unemployed in June, higher than the 69,700 in March 2019. The rise in resident unemployment was unlikely to be caused by layoffs, as the number of retrenchments in Q2 (2,300) was lower than the preceding quarter (3,230) and a year ago (3,030). Instead, employers were possibly exercising greater caution in hiring.

The overall unemployment rate held steady in Q2 while the resident unemployment rate edged up.



Softening labour market conditions should dampen wage growth in 2019. Resident wages[1] rose by 2.1% y-o-y in Q2 2019, down from 3.4% in the preceding quarter, reflecting a general slowing in wage increases across the services industries. For the rest of the year, hiring in manufacturing and wholesale trade would continue to be impacted by external headwinds. Meanwhile, labour conditions in the modern services cluster including ICT and financial services are projected to stay healthy, and hiring expectations[2] also remain positive in domestic-oriented services sectors, including accommodation, food & beverage services, real estate, and recreation, community & personal services. Overall, the cautious rate of hiring is expected to continue amid an uncertain business environment, resulting in some moderation in wage growth in 2019 as compared to 2018.

Inflation stepped down in July 2019

MAS Core Inflation and CPI-All Items inflation diverged in Q2 2019. Core inflation moderated to 1.3% y-o-y in Q2, from 1.6% in the previous quarter, largely due to a decline in electricity & gas costs[3] and a smaller increase in the prices of retail & other goods[4], which outweighed higher services inflation. Despite lower core inflation, headline inflation picked up, to 0.7% y-o-y in Q2, compared to 0.5% in Q1, reflecting a rise in private road transport costs and a smaller decline in the cost of accommodation.

Both measures of inflation subsequently eased in July 2019, with core and headline inflation falling to 0.8% y-o-y and 0.4% respectively. The decline was attributable to lower inflation for services and retail & other goods, as well as a larger

[1] Based on average monthly earnings data.

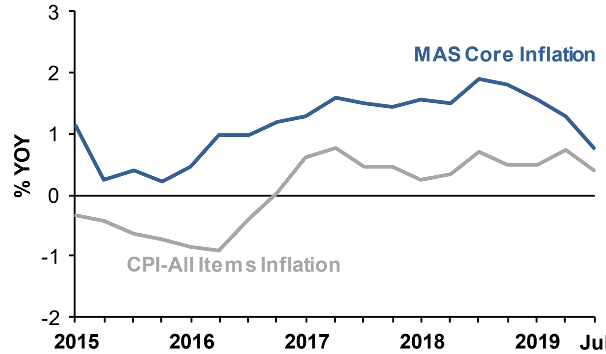
[2] Based on the employment forecast for Q3 2019 in the *Business Expectations (Services Sector)* Third Quarter 2019 by the Department of Statistics.

[3] Electricity & gas includes electricity, liquefied petroleum gas (LPG) and gas (for domestic use).

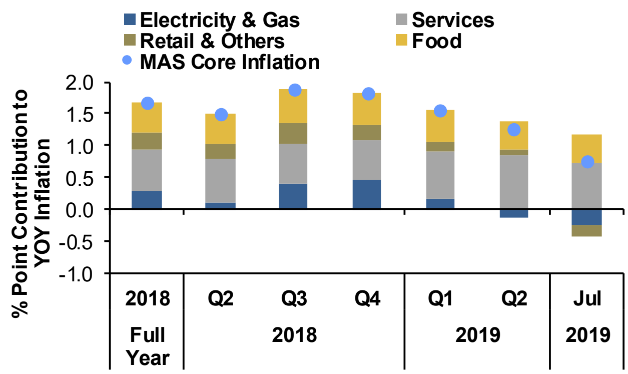
[4] Retail items include items such as clothing, footwear and household durables. Water supply is classified under the "other goods" category.

fall in electricity & gas costs. Meanwhile, food inflation was relatively stable, averaging 1.4% over the period Apr–Jul 2019.

Inflation stepped down in July 2019.



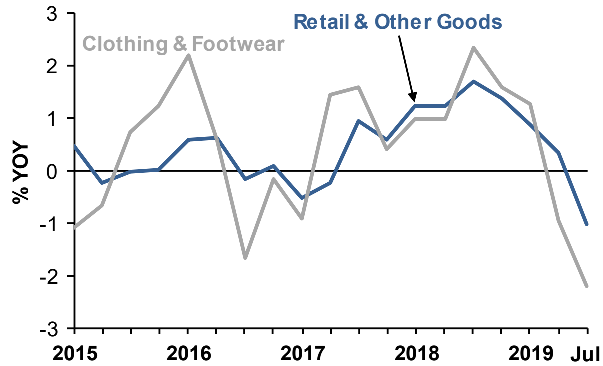
Price increases generally eased across components in the core CPI basket.



Inflation of retail & other goods slowed from 0.9% y-o-y in Q1 to 0.3% in Q2, before slipping further to −1.0% in July. This downward trend has mainly reflected lower clothing & footwear prices since April, as well as the dissipation of the impact of previous administrative price increases. Notably, the hike in tobacco excise duty in February 2018 ceased to add to y-o-y inflation from March this year, while the contribution of water price increases over the past two years dropped out of the annual comparison in July 2019.[5]

[5] The two rounds of water price increases in July 2017 and July 2018 contributed to higher y-o-y inflation for water supply between July 2017 and June 2019, but no longer had an effect on the y-o-y comparison of the prices of water supply in July 2019.

Excluding administrative price changes, falling retail & other goods inflation was mostly driven by lower clothing & footwear prices.



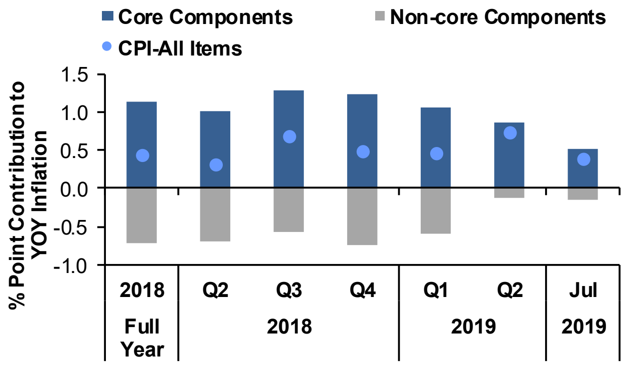
Source: EPG, MAS estimates

After rising to 1.9% y-o-y in Q2, services inflation dropped to 1.6% in July, a similar outturn to Q1. The fluctuation was largely driven by volatile holiday expenses and telecommunication services fees. The rate of increase in holiday expenses picked up in Q2, before slowing in July, while the decline in telecommunication services steepened in July after moderating in Q2.

The cost of electricity & gas declined by 3.9% y-o-y in Q2 and a further 7.0% in July, reversing the 5.3% rise in Q1. The fall in electricity & gas prices reflected the decline in global oil prices since Q1 this year compared to a year ago, while the continued adoption of cheaper electricity plans by consumers under the Open Electricity Market also dampened electricity prices.

The non-core components as a whole contributed to a rise in headline inflation in Q2 but had a negligible impact on the change in headline inflation in July. Reflecting developments in housing rentals, the fall in accommodation costs eased to 0.9% y-o-y in July, compared to 1.2% in Q2 and 1.7% in Q1. Meanwhile, private road transport costs rose by 0.9% y-o-y in Q2, from a decline in Q1, on the back of higher Certificate of Entitlement premiums and car prices. The increase in private road transport costs moderated in July, largely offsetting the impact from accommodation costs on headline inflation.

Non-core components had a negligible impact on the change in headline inflation in July.



Underlying inflationary pressures remain in check

For the rest of 2019, external sources of inflation are likely to be benign. Global oil prices are currently not expected to exceed last year's outturn. On the domestic front, labour market conditions have largely held up, and unit labour cost growth has picked up with the cyclical step-down in productivity growth. However, an acceleration in consumer price inflationary pressures is unlikely against the backdrop of slower GDP growth and uncertainties in the global economy. MAS Core Inflation is expected to come in within the lower half of the 1–2% forecast range in 2019, while CPI-All Items inflation is expected to average 0.5–1.5%.

Selected Indicators

GENERAL INDICATORS, 2018			
Land Area (Sq km), 2019	725.1	Literacy Rate* (%)	97.3
Total Population ('000)	5,638.7	Real Per Capita GDP (US$)	58,280
Labour Force ('000)	3,675.6	Gross National Savings (% of GNI)	47.7
Resident Labour Force Participation Rate (%)	67.7		

* Refers to resident population aged 15 years and over.

COMPONENTS OF NOMINAL GDP SECTORAL (% of GDP), 2018		COMPONENTS OF NOMINAL GDP EXPENDITURE (% of GDP), 2018	
Manufacturing	22.0	Private Consumption	35.4
Wholesale & Retail Trade	17.6	Private Gross Fixed Capital Formation	20.1
Business Services	14.9	Public Consumption	10.7
Finance & Insurance	13.0	Public Gross Fixed Capital Formation	4.3
Transportation & Storage	6.7	Increase in Stocks	2.5
Construction	3.4	Net Exports of Goods & Services	26.9
Information & Communications	4.1		
Accommodation & Food Services	2.1		

MAJOR EXPORT DESTINATIONS (% SHARE), 2018		MAJOR ORIGINS OF IMPORTS (% SHARE), 2018	
Total Exports (S$ Billion)	555.7	Total Imports (S$ Billion)	500.2
China	12.2	China	13.4
Hong Kong	11.8	Malaysia	11.5
Malaysia	10.9	US	11.3
Indonesia	8.0	Taiwan	8.5
US	7.4	Japan	6.0
ASEAN	29.6	ASEAN	21.2
NEA-3	19.7	NEA-3	13.3
EU	8.9	EU	13.0

Source: Enterprise Singapore

MAJOR DOMESTIC EXPORTS BY COMMODITY (% SHARE), 2018		MAJOR IMPORTS BY COMMODITY (% SHARE), 2018	
Domestic Exports (S$ Billion)	281.1	Total Imports (S$ Billion)	500.2
Mineral Fuels	35.2	Electronics	27.4
Chemicals	19.4	Mineral Fuels	23.8
Electronics	16.9	Machinery & Transport Equipment (ex. Electronics)	18.8
Machinery & Transport Equipment (ex. Electronics)	10.1	Chemicals	8.1
Manufactured Articles	8.4	Manufactured Articles	7.9
Food and Live Animals	3.7	Manufactured Goods	5.1

Source: Enterprise Singapore

Note: Labour market statistics were obtained from the Ministry of Manpower, while trade and index of industrial production (IIP) data were provided by Enterprise Singapore and EDB respectively. All other data in this document were obtained from the Department of Statistics, or Ministry of Trade and Industry, unless otherwise stated.

OVERALL ECONOMY	2017	2018	2018 Q3	2018 Q4	2019 Q1	2019 Q2	Jun-19	Jul-19
GDP at current prices (S$ bil)	467.3	491.2	122.9	126.8	123.0	122.6	na	na
GDP (US$ bil)	338.8	364.1	89.9	92.2	90.8	89.9	na	na
Real GDP Growth (YOY % change)	3.7	3.1	2.6	1.3	1.1	0.1	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	0.8	-0.8	3.8	-3.3	na	na
By Sector (YOY % change):								
Manufacturing [1/]	10.4	7.0	3.5	4.6	-0.3	-3.4	-8.1	-0.4
Electronics [1/]	33.8	7.6	2.2	-1.0	-3.6	-9.2	-18.2	-0.9
Non-electronics [1/]	0.1	6.7	4.3	8.0	1.7	0.1	-2.6	-0.1
Finance & Insurance	6.5	5.8	3.9	3.7	3.2	5.2	na	na
Business Services	0.8	2.8	3.0	2.6	1.7	0.5	na	na
Construction	-11.5	-3.7	-2.6	-1.2	2.8	2.9	na	na
Transportation & Storage	4.4	1.3	1.6	0.5	0.7	2.2	na	na
Information & Communications	5.2	5.4	5.1	5.0	5.2	4.1	na	na
Wholesale & Retail Trade	1.0	1.7	2.4	-0.8	-2.5	-3.2	na	na
Accommodation & Food Services	1.9	2.8	3.4	3.5	2.0	0.9	na	na
By Expenditure Component (YOY % change):								
Consumption	3.7	3.2	2.5	2.7	4.9	3.5	na	na
Private	3.4	2.7	2.6	2.2	5.4	3.4	na	na
Public	4.5	4.1	1.5	3.8	3.0	3.1	na	na
Gross Fixed Capital Formation	6.4	-4.0	-7.5	-4.4	-0.2	-0.3	na	na
Private	8.3	-3.4	-9.4	-3.5	0.0	-1.9	na	na
Public	-1.1	-6.6	1.6	-8.9	-0.7	8.1	na	na
External Demand	5.7	5.1	4.2	1.4	-2.2	-1.4	na	na
TRADE								
Total Exports, fob (YOY % change)	10.3	7.9	12.7	7.2	0.0	-4.5	-9.3	-5.8
Non-Oil Domestic Exports	8.8	4.2	8.0	-1.1	-6.4	-14.6	-17.4	-11.2
Re-Exports	5.2	7.4	11.1	11.2	6.8	2.2	-3.7	-1.7
Total Imports, cif (YOY % change)	12.1	10.6	17.0	11.5	4.5	0.5	-5.1	-6.3
WAGE-PRICE INDICATORS								
Unemployment Rate (SA,%)	2.2	2.1	2.1	2.2	2.2	2.2	na	na
Average Nominal Wages (S$ per month)	5,229	5,410	4,962	5,752	6,005	5,225	na	na
Consumer Price Index Inflation (YOY % change)	0.6	0.4	0.7	0.5	0.5	0.7	0.6	0.4
MAS Core Inflation (YOY % change)	1.5	1.7	1.9	1.8	1.6	1.3	1.2	0.8
FINANCIAL INDICATORS								
S$ Exchange Rate Against: (end-period)								
US Dollar	1.3366	1.3648	1.3671	1.3648	1.3559	1.3535	1.3535	1.3694
100 Japanese Yen	1.1851	1.2359	1.2044	1.2359	1.2245	1.2576	1.2576	1.2612
Euro	1.5962	1.5618	1.5923	1.5618	1.5223	1.5383	1.5383	1.5275
Interest Rates (end-period, % p.a.)								
3-month Fixed Deposit Rate	0.14	0.17	0.16	0.17	0.20	0.20	0.20	0.20
3-month S$ SIBOR [2/]	1.50	1.89	1.64	1.89	1.94	2.00	2.00	2.00
Prime Lending Rate	5.28	5.33	5.33	5.33	5.25	5.25	5.25	5.25
Money Supply (end-period)								
Broad Money, M2 (YOY % change)	3.2	3.9	3.4	3.9	4.8	5.4	5.4	4.9
Straits Times Index (end-period) [3/]	3,402.9	3,068.8	3,257.1	3,068.8	3,212.9	3,321.6	3,321.6	3,300.8
YOY % change	18.1	-9.8	1.2	-9.8	-6.3	1.6	1.6	-0.6
GOVERNMENT BUDGET [4/]								
Operating Revenue (S$ mil)	70,225	77,117	19,544	15,288	18,808	20,145	na	na
Total Expenditure (S$ mil)	71,634	75,240	17,646	18,790	27,491	12,865	na	na
Operating Expenditure	54,884	56,246	12,977	14,518	19,751	9,882	na	na
Development Expenditure	16,751	18,993	4,670	4,272	7,740	2,982	na	na
Primary Surplus/Deficit (S$ mil)	-1,409	1,877	1,897	-3,502	-8,683	7,280	na	na
% of GDP	-0.3	0.4	1.5	-2.8	-7.1	5.9	na	na
BALANCE OF PAYMENTS								
Current Account Balance (% of GDP)	16.4	17.9	20.2	14.2	17.6	17.5	na	na
Goods Balance	27.3	27.0	28.0	25.3	25.4	27.0	na	na
Services Balance	-2.3	-0.5	0.3	-1.4	-0.7	-0.9	na	na
Primary Income Balance	-7.0	-6.8	-6.2	-7.8	-5.5	-6.6	na	na
Secondary Income Balance	-1.7	-1.9	-2.0	-1.9	-1.6	-1.9	na	na
Capital & Fin Account Balance (% of GDP)	7.7	13.6	15.1	15.8	7.6	43.7	na	na
Direct Investment	-15.1	-12.6	-20.1	-8.2	-18.1	-23.2	na	na
Portfolio Investment	9.9	6.6	-5.1	19.8	5.4	66.9	na	na
Financial Derivatives	2.4	4.6	1.4	3.5	2.3	2.2	na	na
Other Investment	10.5	15.0	38.9	0.7	18.1	-2.3	na	na
Overall Balance (% of GDP)	8.1	3.4	5.1	-3.1	10.5	-26.1	na	na
Official Foreign Reserves (US$ mil) [5/]	279,900	287,673	291,326	287,673	295,830	273,943	273,943	272,673
Months of Imports	10.3	9.3	9.7	9.3	9.5	8.9	8.9	8.9

Source:

[1/] Index of Industrial Production from EDB.

[2/] ABS Benchmarks Administration Co Pte Ltd

[3/] Straits Times Index from SGX.

[4/] Ministry of Finance

[5/] MAS

na: Not available