



## RECENT ECONOMIC DEVELOPMENTS IN SINGAPORE

8 March 2019

	2018				
	Q1	Q2	Q3	Q4	Full Year
<b>Real Sector</b>					
Real GDP Growth, y-o-y %	4.7	4.2	2.4	1.9	3.2
Real GDP Growth, q-o-q saar %	4.7	0.0	1.4	1.4	-
Index of Industrial Production, y-o-y %	10.1	10.6	3.5	4.7	7.1
Non-oil Domestic Exports, y-o-y %	1.1	9.3	8.0	-1.1	4.2

### The Singapore economy grew at a slower but still firm pace in 2018

Singapore's GDP expanded by 3.2% in 2018, easing from the 3.9% gain in the preceding year. In Q4 2018, the economy expanded by 1.9% y-o-y, down from 2.4% in the previous quarter. Modern services emerged as the main driver of growth, while the contribution of the trade-related cluster eased further on the back of a contraction in IT-related activities. The domestic-oriented sectors remained sluggish, though there was some improvement in the construction and food & beverage segments.

### Global growth will moderate in 2019

Growth in Singapore's major trading partners decelerated in Q4 2018 on the back of a further weakening in global trade flows and a slowdown in China's economy. This fed through into weaker external demand for Asia ex-Japan, while domestic demand was generally resilient in most economies. For 2019, the global economy is projected to expand at a more moderate pace, with the sluggishness in trade volumes set to continue in the next few months.

### Drivers of domestic economic growth to shift in 2019

Against the backdrop of a softer external economic environment, particularly the slowing global tech sector, Singapore's growth drivers will shift from the trade-related to the modern services cluster this year. Meanwhile, an improvement in the construction sector and broadly supportive conditions in the labour market should impart some positive impulse to the domestic-oriented cluster. All in, the Singapore economy should expand at slightly below the mid-point of the 1.5–3.5% forecast range in 2019.

### Core inflation should experience moderate but continuing upward pressure

Overall, external sources of inflation have receded as global oil prices fell sharply in Q4 2018. Nevertheless, supportive domestic labour market conditions should underpin wage growth and continuing price pressures. MAS Core Inflation is expected to average within 1.5–2.5% in 2019.

## A. External Developments

Global GDP Growth					
	2018		2018	Consensus Forecast	
	Q3	Q4		2019	2020
	q-o-q SAAR %		y-o-y %		
<b>G3*</b>	<b>1.0</b>	<b>1.8</b>	<b>2.0</b>	<b>1.7</b>	<b>1.4</b>
US	3.4	2.6	2.9	2.5	1.9
Eurozone	0.6	0.9	1.8	1.3	1.4
Japan	-2.4	1.9	0.8	0.9	0.4
	y-o-y %				
<b>Asia ex-Japan*</b>	<b>4.8</b>	<b>4.7</b>	<b>5.0</b>	<b>4.8</b>	<b>4.7</b>
China	6.5	6.4	6.6	6.2	6.1
India**	7.0	6.6	7.0	7.3	7.4
<b>NEA-3*</b>	<b>2.5</b>	<b>1.9</b>	<b>2.8</b>	<b>2.3</b>	<b>2.2</b>
Hong Kong	2.8	1.3	3.0	2.4	2.3
Korea	2.0	3.1	2.7	2.4	2.4
Taiwan	2.4	1.8	2.6	2.1	2.0
<b>ASEAN-4*</b>	<b>4.6</b>	<b>4.8</b>	<b>4.9</b>	<b>4.7</b>	<b>4.7</b>
Indonesia	5.2	5.2	5.2	5.1	5.1
Malaysia	4.4	4.7	4.7	4.5	4.4
Thailand	3.2	3.7	4.1	3.7	3.6
Philippines	6.0	6.1	6.2	6.2	6.1

Source: CEIC, Haver Analytics, Consensus Economics, February 2019 and EPG, MAS estimates.

\* Weighted by shares in Singapore's NODX.

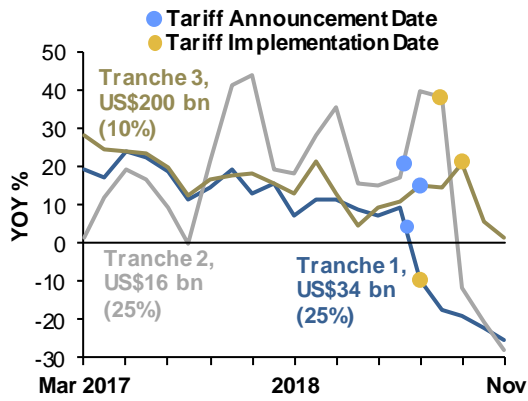
\*\* Figures are reported on a Financial Year basis; FY2018 refers to the period from April 2018 to March 2019.

### Global trade and production weakened at the turn of the year

**Global growth continued to ease in Q4 2018, led by a further weakening in trade flows and Chinese economic activity.** In the US, the pace of growth flagged on softer consumer spending and government expenditure, while weaker trade weighed on the Eurozone and Japanese economies, despite still-firm domestic demand. **In Asia ex-Japan, slowing global trade weighed on growth.** In China, a combination of external headwinds, tighter access to credit, and weakening labour markets dragged economic activity down in Q4 2018. This spilled over to Korea and Taiwan as exports to China, especially of electronics goods, fell sharply. In contrast, the ASEAN-4 remained resilient in Q4 2018 as robust household spending offset weaker export growth.

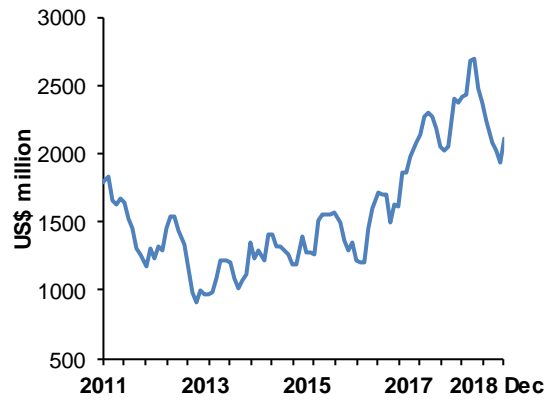
**The US tariffs on China's exports are beginning to have a more discernible negative effect on global trade and production.** Front-loading by US firms provided a temporary boost to trade in H2 2018. However, these effects have begun to unwind as US imports from China fell in the final months of 2018. Concomitantly, China's trade growth also contracted at the turn of the year, with US and Hong Kong bound shipments slowing the most. This indicates that the unwinding of front-loading activities is still ongoing for both tariff-hit and non-tariff-hit goods.

### US imports from China eased in Q4.



Source: US Census Bureau, The Office of the US Trade Representative and EPG, MAS estimates

### Global Semiconductor Billings remained weak.



Source: Haver Analytics

**Weakness in trade volumes is set to continue in the coming months.** The manufacturing PMIs in Asia's bellwether exporting economies of Korea, Taiwan and Malaysia remained in contractionary territory in February 2019, with particular weakness in the new export orders sub-component. Further, leading indicators of electronics demand such as global billings of semiconductor equipment manufacturers remained soft, signalling that the tech down-cycle has yet to level-off.

### Manufacturing PMIs point to a slowdown in the export-oriented economies

	Mar 18	Apr 18	May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19
Indonesia	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
Malaysia	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker
Philippines	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
Thailand	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker
Hong Kong*	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
Korea	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker	Contracting & Weaker
Taiwan	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
China	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
India	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
Global	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
US	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
Japan	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
Eurozone	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
Germany	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
France	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger
UK	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger	Expanding & Stronger

\*Composite PMI

Source: Haver, CPB Netherlands Bureau for Economic Policy Analysis and EPG, MAS estimates.



The G3 economies, led by the US, are expected to expand by 1.7% this year and 1.4% in 2020.



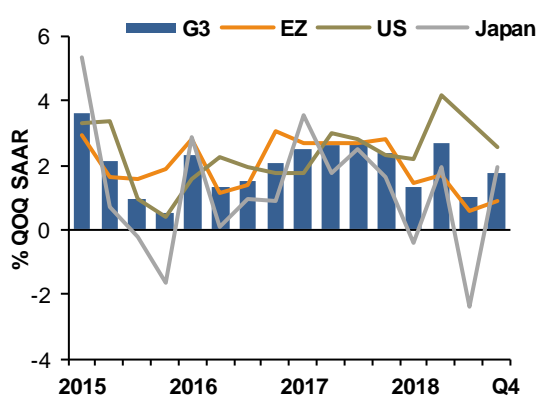
In Asia ex-Japan, growth is projected to come in at 4.8% in 2019, before easing to 4.7% in 2020.

### The US will lead G3 growth

The US economy outperformed expectations in Q4 2018, growing by 2.6% q-o-q saar in Q4 2018 (consensus: 2.2%). Still, consumer spending and government expenditure eased on a sequential basis, in part reflecting the effects of the partial government shutdown that began in December. However, business fixed investment accelerated in Q4, led by higher spending on intellectual property products and equipment. Meanwhile, net exports posed a smaller drag on growth as front-loading of Chinese imports waned, which in turn contributed to a smaller accumulation of inventories. The economy will continue to receive some fiscal support until later in 2019. The robust labour market should sustain household spending, while the easing of financial conditions since the start of the year should provide an additional boost to domestic demand.

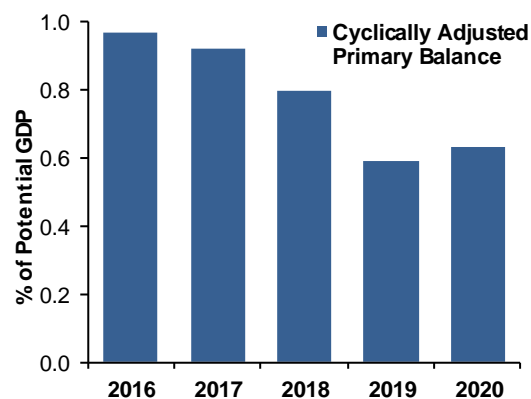
**Economic growth in the Eurozone stayed anaemic at 0.9% q-o-q saar in Q4, amid diverging growth performances.** The German economy stagnated in Q4 2018 as weakening trade outweighed continued strength in domestic demand. Meanwhile, Italy entered into a recession, as the economy contracted for the second consecutive quarter amid renewed concerns over Italian sovereign and bank debt. In contrast, France and Spain saw modest expansions, aided by positive export growth. **GDP growth across the monetary union is expected to slow further to 1.3% in 2019.** Domestic demand will support activity, even as net exports remain weak. Firm labour market conditions will underpin household income growth and consumer confidence, while the fiscal stance is expected to ease further.

Overall G3 growth picked up in Q4.



Source: CEIC, Haver Analytics and EPG, MAS estimates

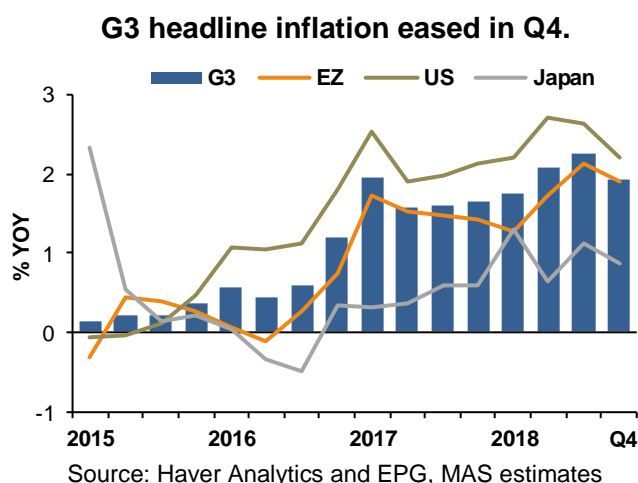
The Eurozone's fiscal stance is set to ease further in 2019.



Source: IMF, Fiscal Monitor, October 2018  
Note: A lower primary surplus is stimulatory

**Japan's GDP growth recovered in Q4 after being buffeted by extreme weather conditions in Q3.** Domestic demand picked up, with private consumption lifted by robust durable goods spending and capex spending growth rising on the back of increased investment in transport and machinery. However, net exports detracted

from growth, and trade figures in January 2019 showed a further 8.8% y-o-y decline in exports. Given the fading of front-loading effects associated with tariff increases, the decline was led by falling shipments of machinery and electronics goods to China. **Looking ahead, GDP growth in Japan is expected to moderate further in 2019 as a whole, in view of weak prospects for exports.** While the increase in the consumption tax in October 2019 will likely lead to some front-loading of expenditure into the earlier part of the year, the aggregate net effect remains uncertain.



**G3 headline inflation eased in Q4 2018.** In the US, both headline and core PCE inflation hovered around the Fed’s 2% target, as wage growth picked up further on the back of an increasingly tight labour market. However, in the Eurozone, headline inflation fell on lower oil and food prices, while core inflation remained subdued despite a rise in wage growth since early 2016. CPI inflation in Japan also eased in Q4 as the weather-related food price surge in Q3 moderated. Going forward, inflationary pressures in the G3 economies are expected to remain contained, although there is a risk that US inflation could surprise on the upside, given the pace of job generation and the potential for stronger inflationary pressure to emerge in the labour market.



G3 inflation is expected to come in lower at 1.6% in 2019 before picking up to 1.8% in 2020.

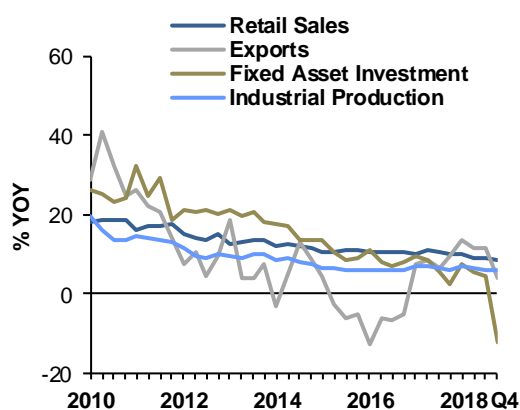
### Asia ex-Japan set for slower growth amid external headwinds

**Economic activity in China eased in Q4 2018, alongside weakening domestic demand and a pullback in trade.** Household consumption growth slipped in the final quarter of the year, as tighter credit conditions facing corporates led to lower hiring and weaker wage growth. On the external front, falling exports were more than counteracted by a sharp decline in imports, resulting in positive net exports. **In the coming quarters, China’s growth is expected to stabilise somewhat as earlier policy easing gains traction.** Beyond monetary easing, recently-announced fiscal measures by the government, which included corporate tax reliefs to support employment and accelerated infrastructure project approvals, will provide important

support to domestic demand. **Meanwhile, Hong Kong's GDP growth also decelerated in Q4 2018, as both exports and domestic demand softened.** Looking ahead, activity is expected to remain subdued amid slowing global demand and tighter domestic monetary conditions.

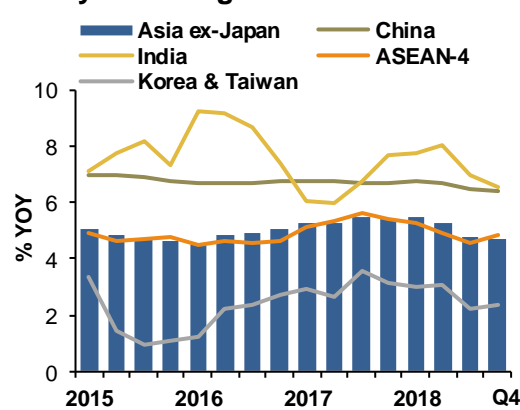
**India's growth hit a five-quarter low in the final quarter of 2018.** The slowdown was mainly due to weaker private and government consumption, reflecting uneven credit growth and fiscal consolidation efforts, respectively. This was offset to some extent by a pickup in investment growth, and a smaller drag from net exports on account of weaker domestic demand. Still, lower oil prices will provide some support to growth in the coming quarters, though this could be offset to some extent by faltering momentum in household spending and private investment on the back of waning sentiment. On balance, India's growth is projected to remain stable in 2019.

**China's economic activity stepped down in Q4.**



Source: CEIC, Haver Analytics and EPG, MAS estimates

**Growth in Asia ex-Japan is constrained by softening external demand.**



Source: CEIC, Haver Analytics and EPG, MAS estimates

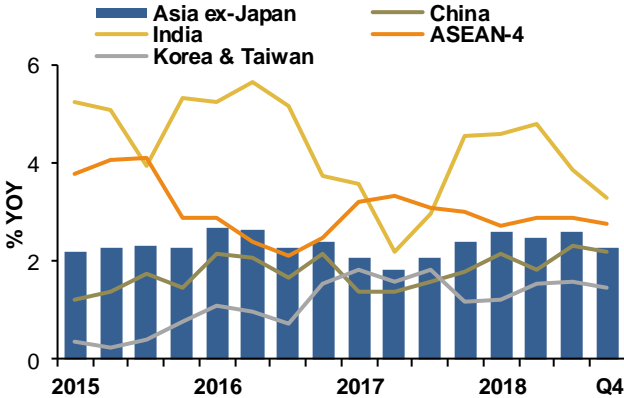
**Korea and Taiwan posted steady economic performances in Q4 2018.** As in many other Asian economies, net exports subtracted from growth, mainly owing to weakness in electronic components. However, gross fixed capital formation and government spending offered some countervailing support in both economies. The rotation in growth drivers is set to continue this year with fiscal support propping up domestic demand, through social transfers and job creation initiatives in Korea and infrastructure spending in Taiwan. **Nonetheless, with leading indicators suggesting that weak export growth is expected to persist in the short term, the growth outlook for Korea and Taiwan in 2019 remains cautious.**

**Economic activity in the ASEAN-4 remained resilient in Q4 2018.** Household spending was the main pillar of domestic demand growth across the region, underpinned by strong labour markets and benign inflation. However, this was partially offset by a slower pace of increase in investment, driven largely by lower capital expenditure on the back of fiscal consolidation efforts in Indonesia and Malaysia, and delayed passage of the government budget in the Philippines. Meanwhile, slower growth in China and the spillover effects of the US tariffs continued to curtail export growth, particularly in electronics. These factors will keep trade

activity muted for the rest of this year, in addition to the mature stage of the global business and tech cycles. Further, public investment growth is likely to continue easing in Indonesia and Malaysia, and weakening sentiment could weigh on private investment across the region. Still, household spending will provide some support, particularly in Thailand, Indonesia and the Philippines where election-related expenditure is expected to ratchet up.

**Average CPI inflation in Asia ex-Japan fell across the board in Q4 2018 on account of lower global energy and food prices.** Consumer price inflation edged down in China, led by a slower rate of increase in non-food prices. Meanwhile, inflation eased in India and the ASEAN-4 on the back of the decline in global oil prices, as well as supply-side measures to control food price increases. Inflationary pressures remained subdued in Korea and Taiwan. However, a steady build-up in demand-pull pressures in some Asian economies implies that headline inflation for the region as a whole is expected to come in slightly higher this year compared to 2018.

**Headline inflation in Asia ex-Japan fell in Q4.**



Source: Haver Analytics and EPG, MAS estimates



Headline inflation in Asia ex-Japan is projected to be 2.7% in 2019, compared to 2.5% in 2018.

## B. Domestic Developments

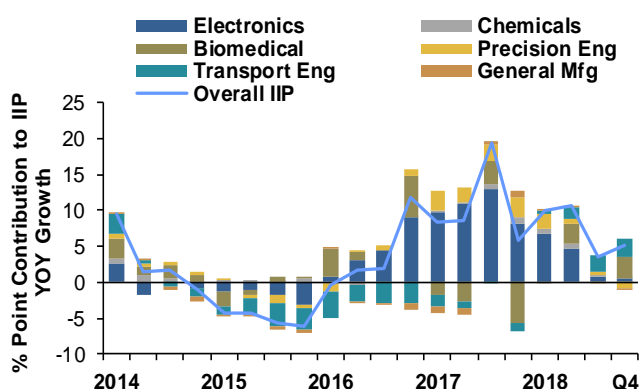
### Growth of the Singapore economy eased in 2018, weighed down by the trade-related cluster

For 2018 as a whole, growth in the Singapore economy moderated to a still firm 3.2% from 3.9% in the previous year. The trade-related cluster continued to expand at a relatively rapid clip in H1 2018, before the slowdown in the global tech sector exerted downward pressure on electronics manufacturing towards the end of the year. While the modern services cluster grew at a slightly quicker pace, supported by the sustained strong performances of the financial and business services sectors, it was insufficient to fully offset the drag posed by the trade-related sectors.

In Q4 2018, the domestic economy expanded by 1.9% y-o-y, easing from the 2.4% gain in the preceding quarter. Modern services emerged as the main driver of growth in the last quarter of the year, supported by still-robust demand for insurance services, and the ongoing digitisation drive across both the public and private sectors. In comparison, the trade-related cluster posed a drag on growth, largely due to IT-related activities which contracted. Meanwhile, the domestic-oriented cluster remained sluggish, though there were some improvements in the construction and food & beverage (F&B) industries.

The manufacturing sector expanded by a creditable 5.1% y-o-y in Q4 2018, a slight pickup from the 3.5% increase in Q3. Marine and offshore engineering was the main source of support, while the traditionally volatile pharmaceuticals segment provided an additional boost. In contrast, the slowing of the global tech sector weighed on the IT-related sectors. Electronics manufacturing contracted further, by 0.8%, while the precision engineering sector also shrank for the first time in 11 quarters, by 4.5%.

Industrial output picked up slightly in Q4 2018.



Trade-related services saw a sluggish performance during the quarter. Foreign wholesale trade fell for the second consecutive quarter by 2.0% y-o-y, in tandem with the maturing of the global economic cycle and the retrenchment in IT trade. The weakness was broad-based across most product categories, including both electronics and non-electronics. Meanwhile, sea cargo handled at Singapore's ports recorded a mild decline of 0.3%, weighed down by the further decrease in oil cargo



volumes. Likewise, air cargo handled shrank for the first time in about three years, by 1.0%.

**The expansion in modern services continued in Q4**, with the finance & insurance sector growing by 4.1% y-o-y, after the 3.9% recorded in the previous quarter. Growth was resilient in insurance services, and further boosted by the ongoing adoption of digital payments technology in the domestic economy. However, this was partially offset by weakness in financial intermediation and fund management activities, amid still-elevated global economic uncertainty and financial market volatility, which dampened business confidence. Specifically, ACU non-bank loan growth slowed to 5.0% in Q4, compared to an average of 14.9% in the previous three quarters, on weakening loan demand from East Asia and the Americas. Softer investor sentiment also weighed on fund management, as seen by the 13.7% decline in the *MSCI World Index* over Q4 2018, with the *Eurekahedge Hedge Fund Index* also posting a 4.4% loss over the same period. Meanwhile, growth in the information & communications sector stayed firm, on the back of healthy demand by companies for IT solutions, while telecommunication players benefited from an expanding fibre customer base. Elsewhere, the business services sector continued to be anchored by stable demand for professional services.

**The previously buoyant tourism-related industries showed signs of cooling.** Growth in tourist arrivals moderated to 2.5% y-o-y in Q4 2018, from 7.1% in Q3, due to a decline in Chinese visitors and lower tourist growth from ASEAN and Europe. Accordingly, hotel occupancy rates fell from an average of 90% in Q3 2018 to 84% in Q4.

**Some improvement was seen in selected segments of the domestic-oriented cluster, although overall it remained lacklustre.** Retail sales volumes declined by 2.2% y-o-y in Q4, a further deterioration from the 0.9% decline in Q3, weighed down by both motor vehicle (-11.1%) and non-motor vehicle sales (-0.4%). For the latter, both discretionary and non-discretionary spending registered contractions during the quarter. The F&B services segment grew by 1.6% in Q4 2018, the third consecutive quarter of increase, with gains seen across all segments. Meanwhile, the construction sector contracted by 1.0% in Q4, a more gradual pace of decline compared to the -2.3% recorded in Q3. Construction output (nominal certified payments) increased by 0.8% in Q4, the first expansion after nine consecutive quarters of contraction, largely supported by the private industrial construction segment.

## External headwinds will weigh on Singapore's growth this year



Domestic GDP should expand at a slower pace of 1.5–3.5% in 2019.

**Following two years of above potential growth, the Singapore economy is expected to grow at a slower pace this year, or slightly below the mid-point of the 1.5–3.5% forecast range.** While the trade-related cluster is expected to face stronger headwinds owing to the coincident slowing of the global tech sector and business cycle, the modern services cluster should continue to lend support to economic activity and become the key driver of growth over 2019.

**Both the manufacturing sector and trade-related services are expected to register slower growth in the coming quarters.** Global demand for both semiconductors and upstream semiconductor equipment is likely to soften further, which would negatively impact domestic IT-related manufacturing activity. The less sanguine external outlook would also affect trade-related services, with the wholesale trade and transportation & storage sectors projected to register modest growth.

**Meanwhile, digitalisation-related activities accruing to IT & information and some financial services segments will continue to provide the fillip to the modern services cluster.** Demand for IT solutions should stay robust on the back of the range of digitisation initiatives across the Singapore economy. In contrast, increasing competition, technological disruption and changing preferences in media consumption will persist as structural headwinds to the telecommunications, media and publishing segments, respectively. Within the financial services sector, ongoing capacity expansions in the insurance segment and rising adoption of digital payments technology are expected to underpin growth. However, heightened uncertainty is expected to weigh on sentiment-driven activities such as fund management and foreign exchange trading, with tightening global liquidity also expected to pose a drag on financial intermediation activities.

**On the domestic front, the construction sector is likely to witness a turnaround after three years of contraction, alongside a pickup in contracts awarded since H2 2017.** Ongoing public infrastructure projects such as the North-South Corridor, Woodlands Health Campus and the upgrading of the Singapore General Hospital, as well as the redevelopment of en-bloc sites for private residential projects, should boost outturns. Notwithstanding the more cautious consumer sentiment, domestic-facing industries such as F&B and retail services are expected to benefit from firm labour market conditions and efforts to lift productivity in these industries.

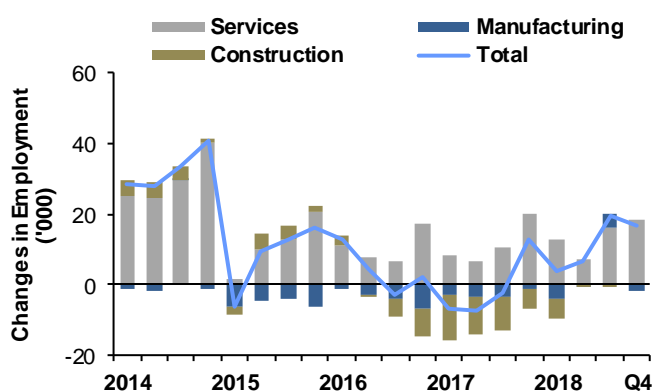
## C. Labour Market and Consumer Prices

	2018				
	Q1	Q2	Q3	Q4	Full Year
<b>Labour Market and Prices</b>					
Unemployment Rate, sa, %	2.0	2.0	2.1	2.2	2.1
Wage Growth, y-o-y %	4.0	3.6	3.5	2.8	3.5
CPI-All Items Inflation, y-o-y %	0.2	0.3	0.7	0.5	0.4
MAS Core Inflation, y-o-y %	1.5	1.5	1.9	1.8	1.7

### The labour market improved in 2018

**Preliminary estimates showed that overall employment grew by 16,900 in Q4 2018**, slightly lower than the previous quarter, but higher than the same period a year ago. Manufacturing employment reverted to its trend decline after expanding in Q3, while employment in construction was largely unchanged amid weakness in public sector building activities. In comparison, services employment expanded by 18,700, more than the previous quarter, on the back of increased hiring for year-end festivities. For the whole of 2018, total employment rose by 46,300 (or 39,300 excluding foreign domestic workers), delivering its strongest performance since 2014. This was entirely driven by the services sector, as the manufacturing and construction industries recorded sustained headcount contractions for the fourth and third consecutive years, respectively. The employment gains in 2018 accrued mainly to locals (28,400), especially in the community, social & personal (CSP), transportation & storage and modern services sectors.

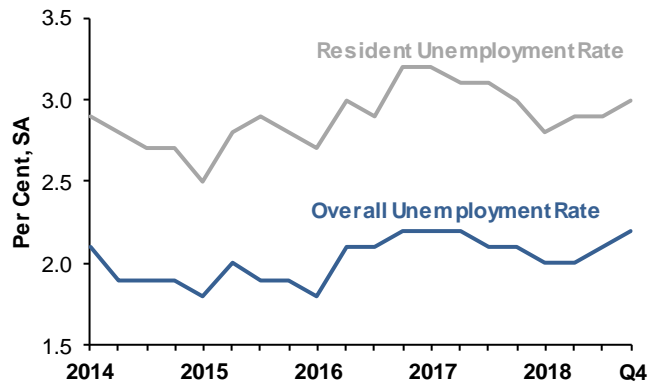
**Overall employment growth remained firm in Q4 2018.**



**The seasonally-adjusted overall and resident unemployment rates edged up by 0.1% point each in Q4 2018, to 2.2% and 3.0% respectively.** An estimated 69,800 residents were unemployed in December 2018, higher than the 66,000 in September. Nevertheless, the annual average overall and resident unemployment rates were lower in 2018 (2.1% and 2.9% respectively) than a year ago (2.2% and 3.1%). Overall retrenchments in the last quarter of 2018 were broadly similar to the third quarter at around 2,800, as the fall in manufacturing retrenchments was offset by a comparable

rise in services, while the figure for construction was unchanged. For the year as a whole, the number of layoffs continued to decline, to almost half of that in 2016.

**Unemployment rates edged up in Q4 2018 but had on average moderated from 2017.**



**Resident wages rose by 2.8% on a y-o-y basis in Q4 2018, bringing full-year wage growth to 3.5%, up from 3.1% in 2017.** In the last quarter of 2018, salary gains were generally stronger in real estate, ICT, as well as manufacturing and wholesale trade, but relatively weaker in construction and CSP services.

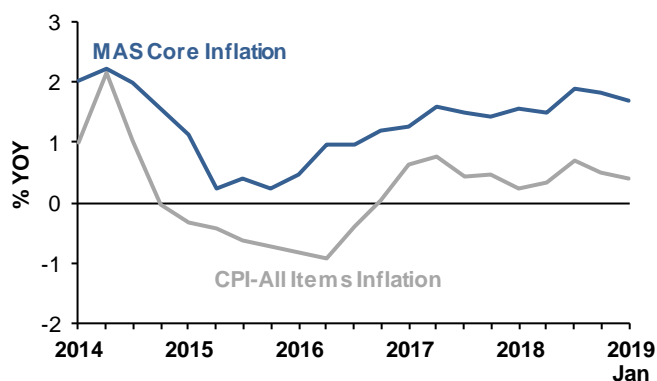
**Labour market conditions should remain broadly supportive of wage growth in 2019.** Nevertheless, employment creation could moderate from last year, amid some pullback in economic growth. Labour demand is likely to be uneven, with continued growth in modern services but relatively cautious hiring in domestic-oriented services. Wage growth should hold steady this year as labour demand and supply increases are projected to be roughly balanced.

**Domestic inflation edged down in Q4 2018 and into early 2019, but remained higher than in H1 last year**

**After rising to 1.9% y-o-y in Q3 2018, from 1.5% in the first half of 2018, MAS Core Inflation edged down to 1.8% in Q4.** The moderation in Q4 mainly reflected lower food and retail inflation, which outweighed the larger increase in the cost of electricity & gas.<sup>1</sup> **Similarly, CPI-All Items inflation eased to 0.5% y-o-y in Q4, after increasing to 0.7% in the previous quarter from 0.3% in H1 2018.** The fall in headline inflation was mainly driven by a steeper decline in the cost of private road transport. Both core and headline inflation subsequently dipped further to 1.7% and 0.4% in January 2019, respectively, as lower inflation for energy-related CPI components more than offset higher services inflation.

<sup>1</sup> Electricity & gas includes electricity, liquefied petroleum gas (LPG) and gas (for domestic use).

**Headline and core inflation have moderated in recent months.**



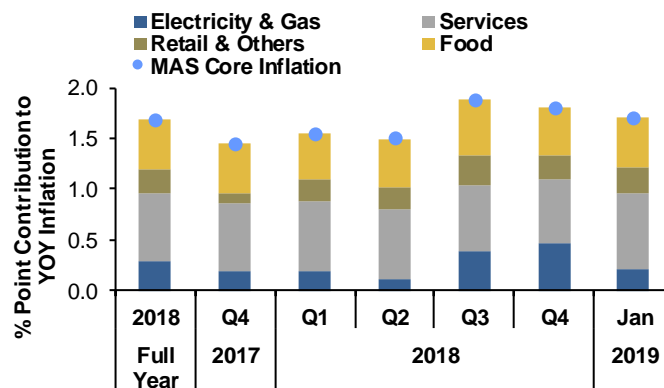
**The cost of electricity & gas rose by 15.5% y-o-y in Q4, slightly higher than the 12.9% increase in the preceding quarter.** Elevated global oil prices in Q3 continued to feed into electricity and gas tariffs with a lag,<sup>2</sup> even as the phased nationwide launch of the Open Electricity Market (OEM) from November had the effect of lowering electricity prices. Reflecting both the OEM impact as well as the fall in global oil prices in Q4, electricity & gas prices subsequently rose at a more modest pace of 6.5% in January 2019.

**Meanwhile, inflation across the other expenditure categories of the core CPI basket generally moderated in Q4 2018.** Food inflation fell, reflecting a smaller rise in the prices of non-cooked food items and prepared meals, and stayed unchanged at 1.4% in January. At the same time, inflation for retail and other goods, such as clothing & footwear items as well as medical products, appliances & equipment, was also lower. Services inflation came in at 1.4% y-o-y in Q4, the same rate as in Q3, as the steeper decline in telecommunication services fees was offset by a larger increase in education services fees. Services inflation subsequently picked up to 1.7% in January, largely on account of higher public transport fares<sup>3</sup>, which more than offset the smaller rise in holiday expenses.

<sup>2</sup> The fuel cost component of the electricity tariff for each quarter is calculated based on average fuel oil and dated Brent oil prices in the first two-and-a-half month period of the preceding quarter.

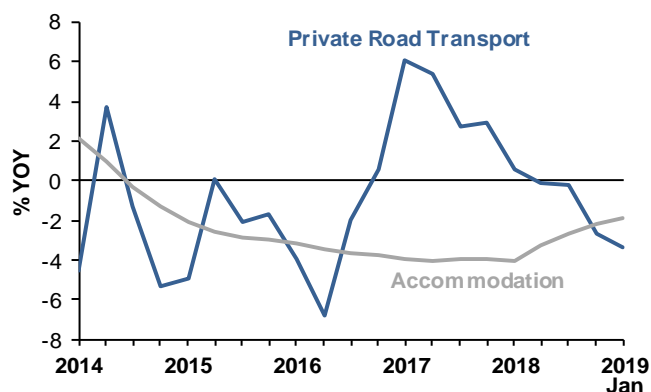
<sup>3</sup> Public transport fares were raised by 4.3% on 29 December 2018.

**The pickup in electricity & gas costs in Q4 was more than offset by lower inflation across the other major components of the core CPI .**



**Private road transport costs fell more steeply in the second half of 2018, while the decline in accommodation costs slowed.** Accommodation costs fell by 2.2% y-o-y in Q4 2018, and a smaller 1.9% in January as housing rentals declined at a more gradual pace. In comparison, private road transport costs fell by 2.6% y-o-y in Q4 2018, steeper than the 0.2% drop in Q3, as car prices declined in tandem with Certificate of Entitlement (COE) premiums and the rise in petrol prices slowed. While the drop in car prices subsequently eased alongside a recovery in COE premiums, this was insufficient to offset a fall in petrol prices, causing private road transport costs to decline by a larger 3.4% in January.

**Inflation for the non-core components of the CPI has continued to diverge.**



### **Modest and continuing upward pressure on core inflation**

External sources of inflation have receded as global oil prices fell sharply in Q4 2018, mainly on oversupply concerns. As a result, global oil prices are expected to be lower this year compared to 2018. On the domestic front, supportive labour market conditions should underpin wage growth and continuing price pressures. However, the extent of overall price increases will be capped by greater market competition in several consumer segments, such as telecommunications, electricity and retail. In 2019, MAS Core Inflation and CPI-All Items inflation are projected to be in the ranges of 1.5–2.5% and 0.5–1.5%, respectively.

## D. Fiscal Policy

### FY2019 Budget strengthened Singapore's medium-term economic prospects in an inclusive and prudent manner

In FY2018, the overall Budget balance recorded a surplus of \$2.1 billion (0.4% of GDP), an upward revision compared with the projected deficit of \$0.6 billion. This stronger outturn was due to lower-than-budgeted development spending largely reflecting the suspension of the Kuala Lumpur–Singapore High Speed Rail, as well as higher operating revenue collections. The upward revision to operating revenue was primarily due to higher collections from Statutory Boards' contributions, Corporate Income Tax and Stamp Duty, which were only partially offset by lower revenues from Vehicle Quota Premiums.

The main thrust of Budget 2019 was to enhance Singapore's longer-term growth prospects while adhering to a sustainable budget position. **First**, the Budget aimed to strengthen the competitiveness of firms through facilitating their efforts in raising productivity and scaling up operations especially among the small and medium enterprises (SMEs). Recognising the need to deepen capabilities of firms, Budget 2019 extended and expanded on several past measures that aim to incentivise capital deepening and the adoption of new technology solutions. Some examples include expanding the scope of the Productivity Solutions Grant and the launch of a Digital Services Lab. Meanwhile, to build on previous budgets' success in fostering a start-up ecosystem, Budget 2019 provided targeted assistance to support local SMEs in expanding to new markets abroad. It established the SME Co-Investment Fund III to catalyse private sector funding in local SMEs that are ready to scale up, and launched the Scale-up SG Programme to help high-growth firms to innovate, grow and internationalise. Alongside these efforts, the Budget broadened the scope of Professional Conversion Programmes to ensure that mid-career professionals could develop relevant skillsets in new growth areas such as blockchain, embedded software development, and prefabrication. In order to encourage firms to redesign jobs and reskill Singaporean workers in the services sector, Budget 2019 also reduced the Dependency Ratio Ceiling—which sets out the maximum ratio of foreign workers to the total workforce that a company is allowed to hire—for the sector from 40% to 38% in 2020, and further to 35% in 2021.

**Second**, Budget 2019 made further strides in strengthening social safety nets and building more inclusive outcomes in society. Through the Merdeka Generation Package and the extension of the Community Health Access Scheme to all Singaporeans with chronic illnesses, the Budget sought to provide greater assurance to Singaporeans on healthcare. The Budget also established the Long-Term Care Support Fund to help vulnerable Singaporeans meet long-term healthcare needs. To promote inclusiveness, the Budget enhanced the Workfare Income Supplement scheme through an increase in the effective wages of a broader segment of the lower-income workforce. In addition, the Bicentennial Bonus package—which is aimed at sharing part of the country's surpluses with Singaporeans—was

formulated so that lower- and middle-income households receive proportionately more assistance. For example, the personal income tax rebate for YA2019 was capped at \$200, while the Workfare Income Supplement scheme would pay out a Workfare Bicentennial Bonus. At the same time, the package also provided for tiered payments of up to \$300 in GST Voucher – Cash, with lower-income households receiving more. The Budget provided further support to community assistance efforts to build a more cohesive and equitable society. For example, the Bicentennial Community Fund was created to provide dollar-for-dollar matching for donations made to Institutions of a Public Character in FY2019, while the Public Service Cares initiative was launched to encourage Public Service officers to “give back” to society through volunteering.

**Third, the Budget elaborated on the Government’s strategies to strengthen the resilience of the fiscal system.** In Budget 2018, it was highlighted that government borrowing is a more equitable means of financing long-term infrastructure investments, such that both the benefits and the costs of such projects would accrue across generations. The Government’s backing should also help reduce borrowing costs for these investments. Budget 2019 implemented this approach by specifying that the Government would guarantee the loans taken out by the Changi Airport Group for the development of Changi East. In contrast, recurrent spending should be met by recurrent revenues. To ensure the resilience of Singapore’s tax system in meeting recurrent spending, the Government announced that it would tighten the GST import relief for travellers and reduce the alcohol duty-free allowance, even as it reiterated that the GST rate would be raised by 2% points at some point between 2021 and 2025.



For FY2019, the government has projected an overall budget deficit<sup>4</sup> of \$3.5 billion (0.7% of GDP).

The basic balance, which includes special transfers only (excluding top-ups to endowment and trust funds), is projected to record a larger deficit of \$7.1 billion (1.4% of GDP).

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<sup>4</sup> This takes into account special transfers, including top-ups to trust and endowment funds, and net investment returns contribution.



## Summary of Fiscal Position

	FY2017		FY2018 Revised		FY2019 Budgeted	
	\$billion	% of GDP	\$billion	% of GDP	\$billion	% of GDP
<b>Operating Revenue</b>	75.8	16.2	73.7	15.0	74.9	14.8
<b>Total Expenditure</b>	73.6	15.7	79.0	16.1	80.3	15.8
<b>Operating Expenditure</b>	55.6	11.8	58.6	12.0	60.8	12.0
<b>Development Expenditure</b>	18.0	3.8	20.4	4.2	19.5	3.8
<b>Primary Surplus/Deficit (-)</b>	<b>2.3</b>	<b>0.5</b>	<b>(5.3)</b>	<b>(1.1)</b>	<b>(5.4)</b>	<b>(1.1)</b>
<b>Less: Special Transfers Excluding Top-ups to Endowment and Trust Funds</b>	2.1	0.4	1.7	0.3	1.7	0.3
<b>Basic Surplus/Deficit (-)</b>	<b>0.1</b>	<b>0.0</b>	<b>(7.0)</b>	<b>(1.4)</b>	<b>(7.1)</b>	<b>(1.4)</b>
<b>Less: Top-ups to Endowment and Trust Funds</b>	4.0	0.9	7.3	1.5	13.6	2.7
<b>Add: NIR Contribution</b>	14.7	3.1	16.4	3.4	17.2	3.4
<b>Budget Surplus/Deficit (-)</b>	<b>10.9</b>	<b>2.3</b>	<b>2.1</b>	<b>0.4</b>	<b>(3.5)</b>	<b>(0.7)</b>

Note: Figures may not tally due to rounding.  
Source: Ministry of Finance

## Selected Indicators

GENERAL INDICATORS, 2018			
Land Area (Sq km)	722.5	Literacy Rate* (%)	97.3
Total Population ('000)	5,638.7	Real Per Capita GDP (US\$)	57,585
Labour Force ('000)	3,676.0	Gross National Savings (% of GNI)	48.0
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	21.4	Private Consumption	34.8
Wholesale & Retail Trade	18.0	Private Gross Fixed Capital Formation	20.8
Business Services	14.9	Public Consumption	10.9
Finance & Insurance	12.9	Public Gross Fixed Capital Formation	4.1
Transportation & Storage	6.9	Increase in Stocks	2.6
Construction	3.5	Net Exports of Goods & Services	26.7
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 Q1	2018 Q2	2018 Q3	2018 Q4	Dec-18	Jan-19
GDP at current prices (S\$ bil)	464.9	487.1	119.5	120.3	121.4	125.8	na	na
GDP (US\$ bil)	337.0	361.1	90.6	90.2	88.8	91.5	na	na
Real GDP Growth (YOY % change)	3.9	3.2	4.7	4.2	2.4	1.9	na	na
Real GDP Growth (QOQ SAAR % change)	na	na	4.7	0.0	1.4	1.4	na	na
<b>By Sector (YOY % change):</b>								
Manufacturing <sup>1/</sup>	10.4	7.1	10.1	10.6	3.5	4.7	1.7	-3.1
Electronics <sup>1/</sup>	33.8	7.7	18.8	12.6	2.2	-0.8	-11.5	-13.7
Non-electronics <sup>1/</sup>	0.1	6.7	5.3	9.5	4.3	8.0	9.6	3.6
Finance & Insurance	5.6	5.9	9.5	6.4	3.9	4.1	na	na
Business Services	1.8	3.0	3.4	2.6	3.3	2.8	na	na
Construction	-10.2	-3.4	-6.0	-4.2	-2.3	-1.0	na	na
Transportation & Storage	5.2	1.5	2.6	1.1	1.9	0.5	na	na
Information & Communications	4.5	6.0	6.1	6.4	5.4	6.1	na	na
Wholesale & Retail Trade	1.9	1.5	2.8	2.4	1.8	-0.6	na	na
Accommodation & Food Services	3.0	2.7	0.9	3.1	4.0	2.9	na	na
<b>By Expenditure Component (YOY % change):</b>								
Consumption	3.4	2.7	4.7	2.6	2.6	1.0	na	na
Private	3.2	2.4	3.4	2.7	2.7	1.1	na	na
Public	4.2	3.6	8.4	1.9	2.3	0.7	na	na
Gross Fixed Capital Formation	5.3	-3.4	-1.8	-2.0	-7.0	-3.1	na	na
Private	8.0	-3.3	-2.0	-1.1	-8.9	-1.6	na	na
Public	-5.1	-3.8	-1.0	-6.5	2.0	-9.8	na	na
External Demand	5.4	5.2	5.2	7.0	5.6	3.0	na	na
<b>TRADE</b>								
Total Exports, fob (YOY % change)	10.3	7.9	2.3	9.3	12.7	7.2	-2.5	1.0
Non-Oil Domestic Exports	8.8	4.2	1.1	9.3	8.0	-1.1	-8.5	-10.1
Re-Exports	5.2	7.4	0.9	5.7	11.1	11.2	5.1	10.7
Total Imports, cif (YOY % change)	12.1	10.6	2.8	11.1	17.0	11.5	6.1	8.0
<b>WAGE-PRICE INDICATORS</b>								
Unemployment Rate (SA,%)	2.2	2.1	2.0	2.0	2.1	2.2	na	na
Average Nominal Wages (S\$ per month)	5,229	5,410	5,808	5,119	4,962	5,752	na	na
Consumer Price Index Inflation (YOY % change)	0.6	0.4	0.2	0.3	0.7	0.5	0.5	0.4
MAS Core Inflation (YOY % change)	1.5	1.7	1.5	1.5	1.9	1.8	1.9	1.7
<b>FINANCIAL INDICATORS</b>								
<b>S\$ Exchange Rate Against: (end-period)</b>								
US Dollar	1.3366	1.3648	1.3117	1.3650	1.3671	1.3648	1.3648	1.3465
100 Japanese Yen	1.1851	1.2359	1.2308	1.2332	1.2044	1.2359	1.2359	1.2366
Euro	1.5962	1.5618	1.6169	1.5885	1.5923	1.5618	1.5618	1.5486
<b>Interest Rates (end-period, % p.a.)</b>								
3-month Fixed Deposit Rate	0.14	0.17	0.15	0.15	0.16	0.17	0.17	0.18
3-month S\$ SIBOR <sup>2/</sup>	1.50	1.89	1.45	1.52	1.64	1.89	1.89	1.89
Prime Lending Rate	5.28	5.33	5.33	5.33	5.33	5.33	5.33	5.33
<b>Money Supply (end-period)</b>								
Broad Money, M2 (YOY % change)	3.2	3.9	2.7	2.6	3.4	3.9	3.9	4.0
<b>Straits Times Index (end-period) <sup>3/</sup></b>								
YOY % change	18.1	-9.8	8.0	1.3	1.2	-9.8	-9.8	-9.7
<b>GOVERNMENT BUDGET <sup>4/</sup></b>								
Operating Revenue (S\$ mil)	70,225	77,117	22,187	20,098	19,544	15,288	na	na
Total Expenditure (S\$ mil)	71,634	75,240	24,907	13,897	17,646	18,790	na	na
Operating Expenditure	54,884	56,246	18,437	10,315	12,977	14,518	na	na
Development Expenditure	16,751	18,993	6,470	3,581	4,670	4,272	na	na
Primary Surplus/Deficit (S\$ mil)	-1,409	1,877	-2,720	6,202	1,897	-3,502	na	na
% of GDP	-0.3	0.4	-2.3	5.2	1.6	-2.8	na	na
<b>BALANCE OF PAYMENTS</b>								
<b>Current Account Balance (% of GDP)</b>								
Goods Balance	27.1	27.0	25.5	28.7	28.2	25.7	na	na
Services Balance	-2.6	-0.8	-0.4	-0.8	-0.3	-1.7	na	na
Primary Income Balance	-6.8	-6.8	-6.8	-6.3	-5.8	-8.2	na	na
Secondary Income Balance	-1.6	-1.7	-1.6	-1.8	-1.7	-1.7	na	na
<b>Capital &amp; Fin Account Balance (% of GDP)</b>								
Direct Investment	-15.2	-12.4	-9.9	-12.2	-20.4	-7.4	na	na
Portfolio Investment	10.0	6.6	4.9	6.2	-5.1	20.0	na	na
Financial Derivatives	2.4	4.6	7.6	6.0	1.4	3.5	na	na
Other Investment	10.7	15.1	7.9	13.0	39.2	0.8	na	na
Overall Balance (% of GDP)	8.1	3.5	5.7	6.5	5.1	-3.1	na	na
<b>Official Foreign Reserves (US\$ mil) <sup>5/</sup></b>								
Months of Imports	10.3	9.3	10.3	9.9	9.7	9.3	9.3	9.5

Source:

- <sup>1/</sup> Index of Industrial Production from EDB.  
<sup>2/</sup> ABS Benchmarks Administration Co Pte Ltd  
<sup>3/</sup> Straits Times Index from SGX.  
<sup>4/</sup> Ministry of Finance  
<sup>5/</sup> MAS

na: Not available