

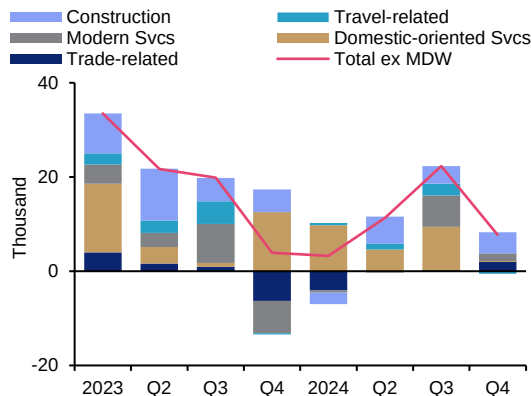
4 Labour Market and Inflation

4.1 Labour Market¹

Employment growth slowed amid weaker hiring in the services sectors, while labour cost increases remained below their recent peaks

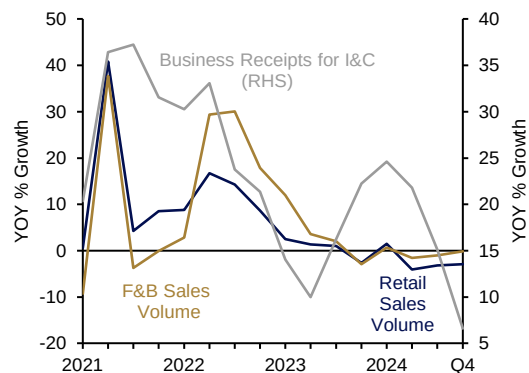
In Q4 2024, total employment growth excluding migrant domestic workers (MDWs) stepped down from the previous quarter. While employment growth in the trade-related sector picked up alongside the manufacturing upturn in H2 last year, hiring in both the domestic-oriented and outward-facing modern services clusters eased (**Chart 4.1**). In particular, employment growth in the domestic-oriented services sector slowed to its weakest pace since Q1 2022, despite the year-end festivities.

Chart 4.1: Q-O-Q Change in Total Employment by Broad Sector



Source: MOM and EPG, MAS estimates

Chart 4.2: Sectoral Demand Indicators



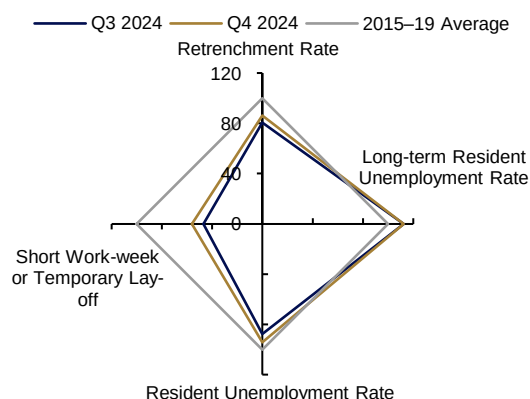
Source: DOS

Note: The I&C business receipts index measures short-term change in operating revenue.

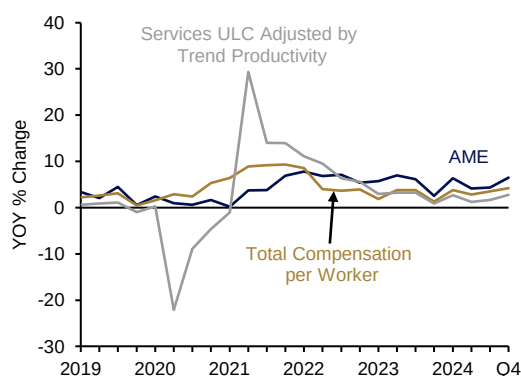
Labour demand in the services industries was likely weighed down by greater uncertainties in external growth prospects and subdued consumer spending locally. Persistent softness in domestic retail and F&B sales led to tepid hiring in these sectors. In addition, headcount in the Information & Communications (I&C) sector contracted in Q4 on the back of weaker operating revenue growth, likely as firms in the wider economy saw some consolidation in technology investments following robust growth earlier in the year (**Chart 4.2**).

Early signs of softening in the labour market emerged in the last quarter of 2024, after several years of tightness. The resident unemployment rate, retrenchment rate as well as the number of workers placed on short work-week or temporary layoff all ticked up slightly in Q4 2024 from the previous quarter, while the long-term unemployment rate stayed above its historical average. Nevertheless, most indicators remained close to or below their pre-COVID norms, indicating that as of Q4 2024, the labour market remained in a state of broad demand-supply balance (**Chart 4.3**).

¹ The commentary in this section is based on labour market data that is available up to Q4 2024, unless otherwise stated.

Chart 4.3: Labour Market Spare Capacity Indicators

Source: MOM and EPG, MAS estimates

Chart 4.4: Labour Cost Indicators

Source: CPF, DOS, MOM and EPG, MAS estimates

Note: Total compensation per worker refers to compensation of employees normalised by total employment. Services unit labour cost (ULC) adjusted by trend productivity refers to average labour cost in the services sector adjusted by trend services labour productivity² (i.e., VA/employment).

Amid weakening labour demand, labour cost increases remain below their post-COVID peaks (Chart 4.4), even as wages of resident workers were supported. Nominal growth in average monthly earnings (AME) for resident workers firmed in Q4 last year, partly as the Progressive Wage Model (PWM) and hikes to Local Qualifying Salary (LQS) boosted earnings of lower-wage resident workers. Nevertheless, total compensation per worker, which takes into account both resident and non-resident labour costs, grew by less than resident wages last year, suggesting that non-resident workers saw more modest labour cost increases.

Unit labour cost increases in the services sector (adjusted by trend labour productivity) remained lower than in previous years, on the back of strengthening productivity growth. Labour productivity in the services sectors appears to be on an increasing trend as firms have possibly been consolidating or economising on their labour inputs. At the same time, transitional wage support provided to employers under the Progressive Wage Credit Scheme also helped to attenuate unit labour cost pressures.

Labour demand could soften further this year, accompanied by slower wage growth

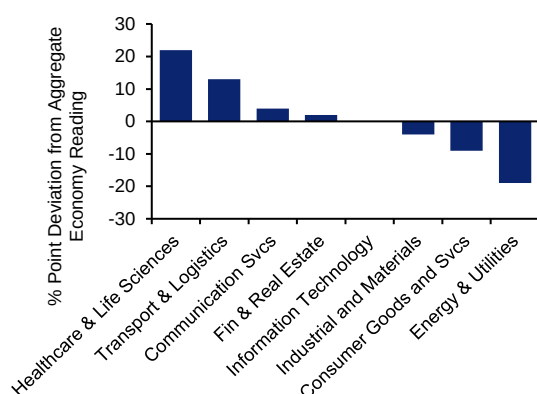
Aggregate demand for workers is likely to moderate this year in tandem with the cyclical weakening in the economy. As firms pull back on their hiring and expansion plans amid economic uncertainty, employment growth for most sectors should step down from last year. In particular, the trade-related sectors of manufacturing and wholesale trade could see greater employment weakness given the increasingly challenging global trade environment.

Nonetheless, labour market adjustments along the extensive margin should mostly impact non-resident workers. These workers account for a large share of employment in the trade-related sectors. Demand for resident workers in manpower-constrained sectors such as healthcare should remain resilient. According to the latest ManpowerGroup Employment

² Trend labour productivity is an estimate of output per worker excluding the influence of cyclical movements and is a better measure of labour productivity. It is determined by long-run factors such as quality of human capital (skills and health) and technological progress.

Outlook Survey, the net employment outlook reading in the healthcare and life sciences segment was higher than that for the overall economy (**Chart 4.5**).

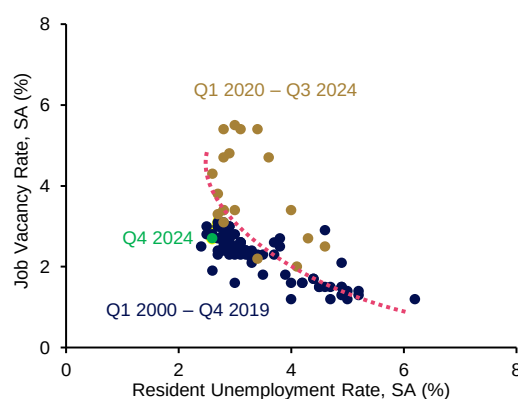
Chart 4.5: Sectoral Net Employment Outlook Relative to Overall Economy Reading, Q2 2025



Source: ManpowerGroup

Note: Net employment outlook is defined as proportion of employers planning to increase headcount less proportion of employers intending to reduce headcount.

Chart 4.6: Singapore Beveridge Curve, Q1 2000–Q4 2024



Source: MOM and EPG, MAS estimates

However, if aggregate labour demand were to fall more quickly than expected, slack in the labour market could emerge more conspicuously this year. The moderation in the overall job vacancy rate thus far has not been accompanied by a significant increase in the unemployment rate, as labour demand eased against a tight labour market. A significant reduction in labour demand going forward may cause the labour market to move towards a more elastic portion of the Beveridge curve, where further declines in job vacancies would lead to a greater increase in unemployment (**Chart 4.6**).

Against this backdrop, nominal wage growth should ease and in turn cap unit labour cost increases in the services sector. Growth in services ULC (adjusted by trend productivity) is projected to stay low and exert only modest domestic cost pressures. Overall, wage growth should slow in the more cyclically sensitive sectors in the economy even as resident wage growth for lower-income workers will continue to be supported by scheduled updates to PWM wage requirements.

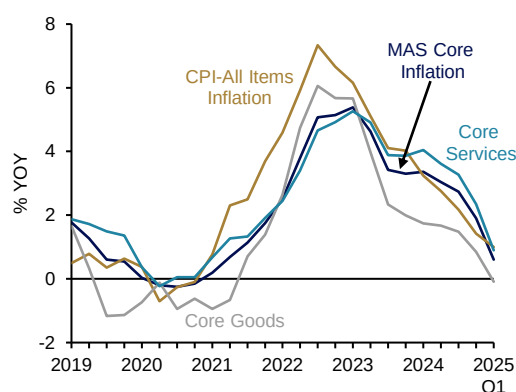
4.2 Inflation Developments

Inflation slowed further and came in below expectations in Q1

MAS Core Inflation fell significantly to 0.6% y-o-y in Q1 from 1.9% in Q4 2024, while **CPI-All Items inflation** moderated to 1.0% from 1.4% (Chart 4.7). In both instances, the pace of price increases was weaker than expected. The decline in core inflation in Q1 compared to the previous quarter was driven to a large extent by a broad-based weakening in underlying price pressures.

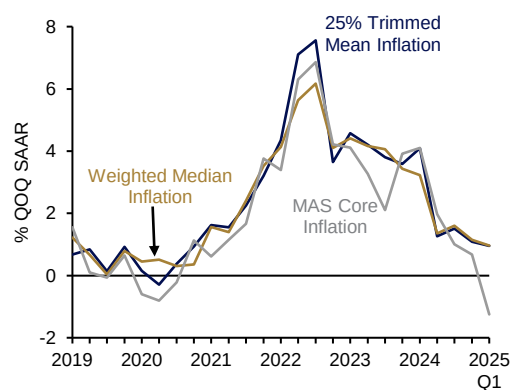
The low inflation prints reflect a strengthening of the disinflation trend that began in mid-2024. By Q4 last year, inflation momentum had fallen to low levels. It has since weakened further, turning negative in Q1 (Chart 4.8). Alternative measures of underlying inflation that abstract from more volatile price components also indicated continued disinflation.

Chart 4.7: MAS Core Inflation and CPI-All Items inflation



Source: DOS and EPG, MAS estimates

Chart 4.8: Alternative Measures of Underlying Inflation



Source: DOS and EPG, MAS estimates

The current negative momentum in inflation is atypical, having only occurred in two instances in the decade before the pandemic. Recent outturns appear more similar to the episode in 2019, when global trade conflict led to cyclical weakness in the economy, and correspondingly, in inflation pressures (Table 4.1). By contrast, the low inflation in 2015 was more narrowly based, primarily driven by a large fall in energy- and travel-related prices due to sharply lower crude oil prices. While the weighted median inflation is higher than in the preceding two episodes as at Q1 this year, it remained significantly below its historical average.

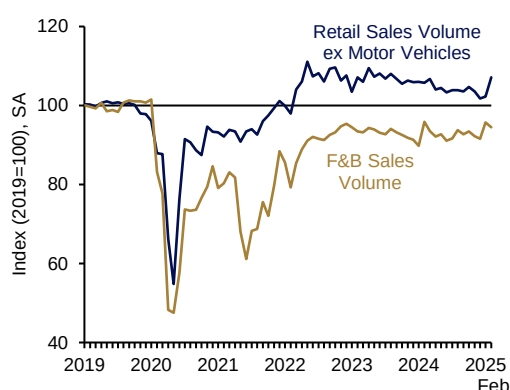
Table 4.1: Previous Episodes of Negative Inflation Momentum (%)

	Inflation Momentum (QOQ SAAR)	Weighted Median (QOQ SAAR)	Weighted Proportion of Core Basket Below Historical Average YOY Inflation	YOY Core Inflation for Corresponding Calendar Year
2015 Q2	-1.0	-0.2	61	0.5
2019 Q3	-0.1	0.0	78	1.0
2025 Q1	-1.2	1.0	78	0.5–1.5 (Forecast)

Source: DOS and EPG, MAS estimates

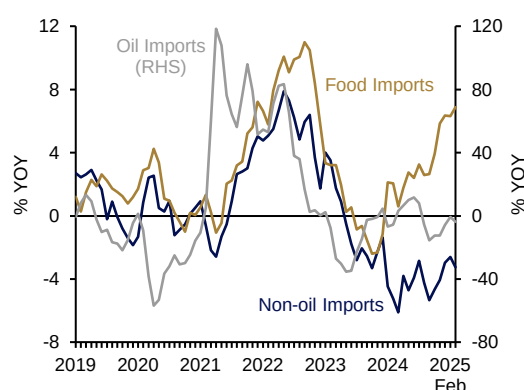
Continuing lacklustre consumer spending locally was likely a factor dampening inflation. Retail and F&B sales volumes have been tepid for several quarters, with the latter remaining well below pre-COVID levels (**Chart 4.9**). Pressures on real wage growth as well as some expenditure switching abroad due to the elevated S\$ real effective exchange rate (S\$REER) have likely been factors dampening consumption expenditure in Singapore. Moreover, competitive pressures in sectors such as F&B may have increased, reducing the ability of firms to pass through cost increases.³

Chart 4.9: Retail and F&B Sales Volumes



Source: DOS

Chart 4.10: Import Price Indices

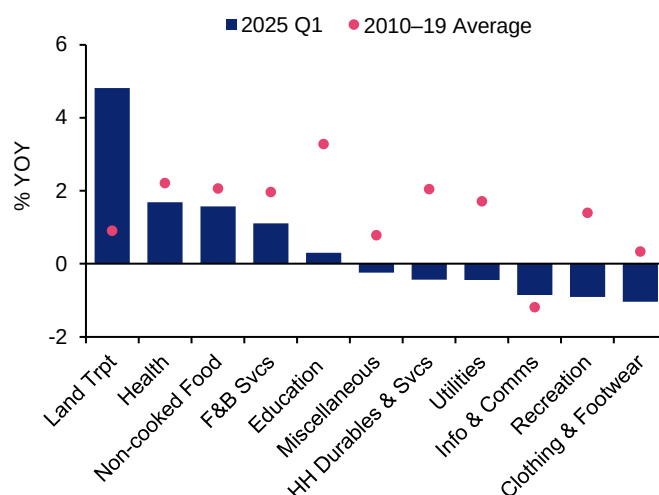


Source: DOS

Meanwhile, business cost pressures have also remained relatively modest. In recent months, Singapore's oil and non-oil import prices have continued to fall on a y-o-y basis, lowering the cost of utilities and imported intermediate goods (**Chart 4.10**). While the cost of food imports rose, this was driven mainly by sharp increases in a narrow group of items such as coffee and cocoa, the prices of which have risen by over 30% y-o-y in recent months amid poor harvests globally. Excluding these items, food import prices have risen more modestly by 2.8% y-o-y in Jan–Feb. On the domestic front, commercial rents for retail spaces have also stayed broadly flat since 2021, while services ULC grew at a moderate pace of 1.4% y-o-y in 2024, in line with its historical average.

Against this backdrop, inflation fell across a broad range of CPI categories in Q1. Retail & other goods prices continued to register outright declines from year-ago levels while discretionary services inflation eased. Notably, inflation for food services and essential services both fell below their historical norms with the latter partly reflecting enhanced government subsidies. Overall, inflation rates for most broad components of the CPI basket are now below their historical averages (**Chart 4.11**).

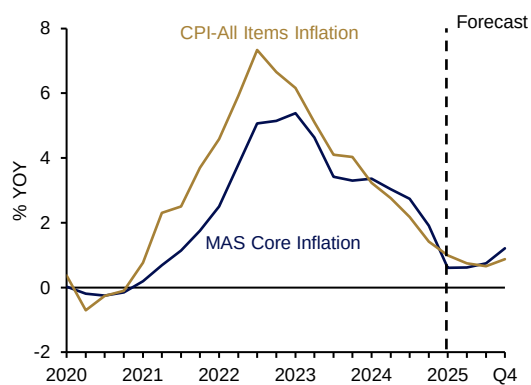
³ Chong, Xin Wei. 2025. "Too many cooks: Singapore's F&B sector at risk of oversupply as openings outpace closures." *The Business Times*, April 14, 2025.

Chart 4.11: Inflation of Broad CPI Categories

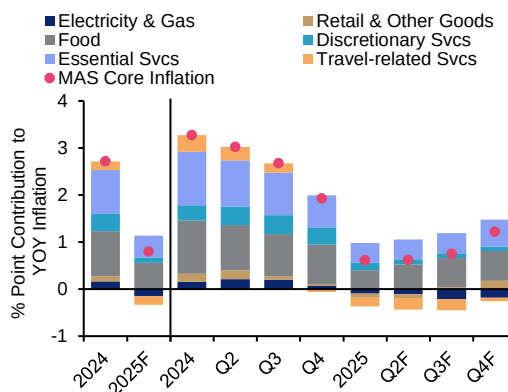
Source: DOS and EPG, MAS estimates

Core and headline inflation are now projected to come in lower

Both MAS Core and CPI-All Items inflation are now projected to average 0.5–1.5% in 2025. The downgrade in the core inflation forecast, from 1.0–2.0% previously, reflects the weaker-than-expected inflation outturns in Q1 as well as expectations that domestic demand and business cost pressures will come in more moderate than previously anticipated (**Chart 4.12**). The CPI-All Items inflation forecast range has also been lowered, from 1.5–2.5% previously, due to both the step-down in the core inflation forecast and softer-than-anticipated headline inflation at the beginning of the year.

Chart 4.12: Core and Headline Inflation Forecasts

Source: DOS and EPG, MAS estimates

Chart 4.13: % Point Contribution to MAS Core Inflation

Source: DOS and EPG, MAS estimates

Singapore's imported inflation should be modest as slowing global demand dampens global inflation. Since 2 April, Brent crude oil prices have fallen significantly and are expected to average US\$68/barrel this year, compared to US\$81/barrel last year. Meanwhile, the extent of food commodity price increases over the rest of the year should be capped, as global supply conditions for most commodities are forecast to remain favourable.

On balance, higher global tariffs are expected to exert broad-based disinflationary impulses.

While the US imposition of higher import duties on nearly all its trading partners will lift imported inflation in the US, its passthrough to consumer prices locally should be limited by Singapore's relatively modest imports of consumer goods from the US. At the same time, some global exports originally destined for the US may be redirected to countries that have not raised import duties, such as Singapore, increasing the supply of goods and lowering import prices for the domestic economy. Further, weaker global aggregate demand will weigh on the prices of commodities and manufactured goods, exerting demand-driven disinflationary pressure on Singapore's import costs.

With the downgrade in Singapore's GDP growth forecast, domestic demand and cost pressures are also expected to moderate. The easing in aggregate labour demand will exert a drag on nominal wage growth and thus discretionary spending, which, together with the projected negative output gap, will further dampen inflationary pressures. Growth in services ULC (adjusted by trend productivity) is also forecast to be slower than last year, and below its historical average.

All in, the anticipated slippage in global and domestic demand will temper inflation across several broad CPI components for the year as a whole. In particular, falling global crude oil prices will cause electricity and gas prices to decline, while the anticipated below-trend services ULC growth will dampen discretionary and essential services inflation (**Chart 4.13**). Cost passthrough to prices should also be mitigated by soft consumer demand.

The risks to the inflation outlook are tilted to the downside. The near-term disinflationary effects of higher global tariffs for Singapore could intensify if the associated negative demand effects turn out to be larger or more long-lasting than expected.