2.1 Labour Market Conditions

Employment expanded in 2009 despite a decline in GDP.

Following a decline of 13,900 in H1 2009, total employment grew by 51,500 in H2 2009, with the gains in Q4 more than double those of Q3. (Chart 2.1) As a result, net job creation for the whole of 2009 was 37,600, despite a decline in GDP.

The recent recession saw smaller net job losses than in previous downturns …

The labour market has been more resilient during the recent recession than in previous downturns. This time round, employment fell later in the cycle and recovered earlier. Overall, employment contracted by a total of 13,900 over two quarters. In comparison, net job losses persisted for at least a year during the Asian Financial Crisis and 2001 IT Downturn, reaching 42,100 and 79,500 respectively. (Chart 2.1)

… with local employment being especially resilient.

Local employment expanded during the recent recession, while foreign employment fell. There were 41,800 more local workers employed in 2009, much larger than the 1,300 local net job gains in 2001 and a sharp contrast to the 27,700 local net job losses in 1998. (Chart 2.2) The relative stability of local employment during this cycle partly reflected the impact of the wage subsidy provided through the government's Jobs Credit Scheme.

Taking a longer term perspective, local employment growth was significantly stronger in the 2000s than in the 1990s, despite weaker output growth. (Chart 2.3)

Employment growth in Q4 2009 was broad-based …

Total job creation accelerated in Q4 2009 and growth was broad-based. This was reflected in the employment diffusion index, which rose sharply from a low of 48.1 in Q2 2009 to 83.3 in Q4. (Chart 2.4)

Chart 2.1
Total Employment Changes

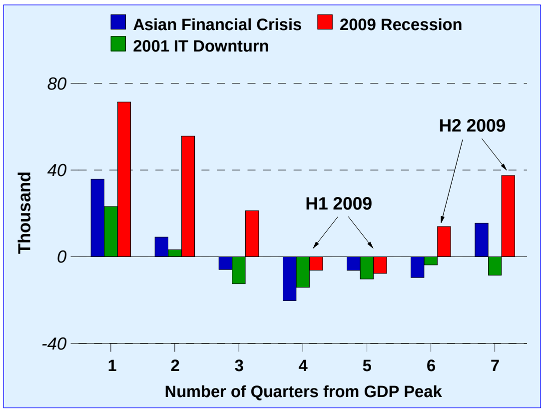


Chart 2.2
Local and Foreign Employment Changes

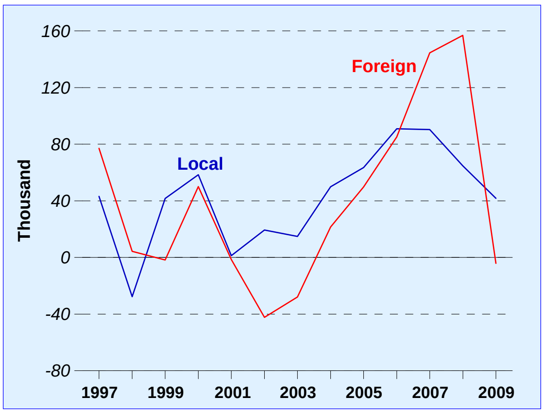
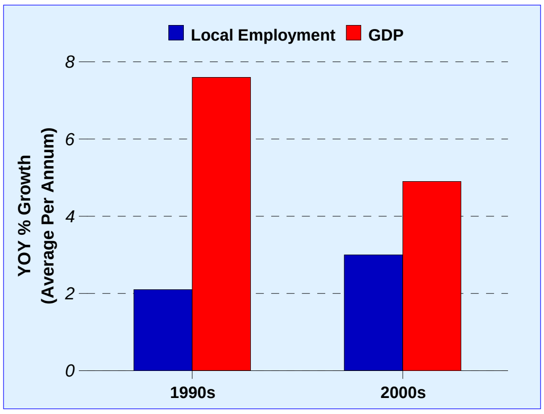


Chart 2.3
Local Employment and GDP Growth



Job creation in the services sector was particularly strong, more than offsetting the sharp retrenchment in manufacturing. In Q4 2009 alone, 31,500 new jobs were added in the services sector, supported by robust hiring in the retail and hospitality industries. (Chart 2.5) Community, social & personal services (CSP) employment also increased considerably, in part due to recruitment by the Integrated Resorts (IRs). Meanwhile, there was a spurt of hiring activity in the financial services sector, especially in commodities trading, wealth management and corporate banking, as financial institutions expanded their operations in the region. Business services also stepped up recruitment on account of the recovery in overall economic activity.

Unlike in previous recessions, the construction sector continued to increase headcount throughout the recent downturn. This was supported by major building projects such as the IRs.

The strong demand for manpower in services and construction can also be seen in the high incidence of vacancies that remained unfilled for six months or more in these sectors in 2009. (Table 2.1)

Meanwhile, manufacturing employment rose modestly in Q4 2009, following four consecutive quarters of decline. The electronics segment, in particular, showed a remarkable turnaround with 1,000 jobs created, after shedding a total of 13,300 workers in the first three quarters of last year. (Chart 2.5) The pickup in hiring was partly due to increased final demand in the semiconductor industry.

In the non-electronics segment, the number of job losses moderated significantly to 300 in Q4, compared with 6,300 losses in Q3, as the petroleum & chemical products cluster stepped up hiring. In contrast, the transport equipment cluster further reduced headcount in Q4. Weak orders in the marine & offshore segment and sluggish demand for maintenance and repair of airplanes likely contributed to these job losses.

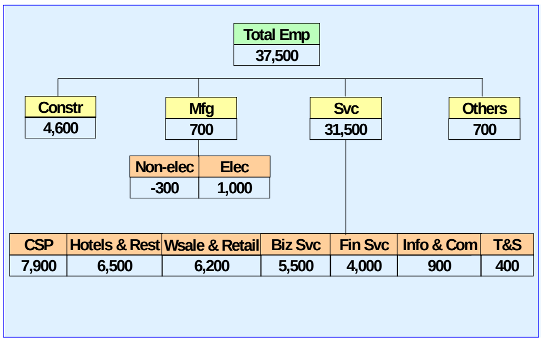
… and the unemployment rate fell sharply.

With the strong expansion in employment, the seasonally adjusted headline unemployment rate fell significantly from 3.4% in Q3 2009 to 2.1% in Q4. Indeed, the decline was quicker this time round compared to the previous two recessions. (Chart 2.6)

Chart 2.4
Employment Diffusion Index

Source: EPG, MAS estimates
Note: The index is equal to 100 when all industries are increasing employment and zero when all are decreasing employment. A reading of 50 indicates an equal number of industries that are increasing and decreasing employment.

Chart 2.5
Employment Changes by Sector, Q4 2009



Note: Business Services comprise Real Estate & Leasing Services, Professional Services and Administrative & Support Services.

Table 2.1
Incidence of Vacancies Unfilled for At Least Six Months by Industry

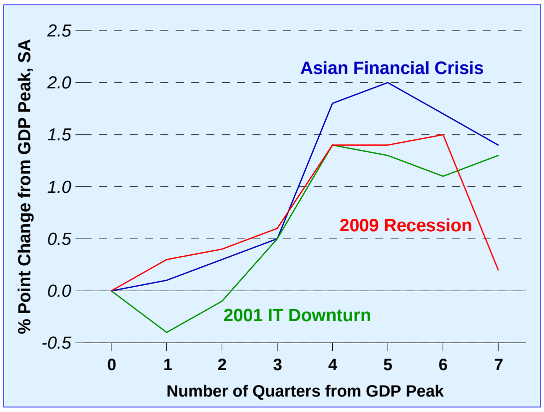
(%)

	2009
Total	**29.1**
Manufacturing	25.3
Construction	44.5
Hotels & Restaurants	54.5
Business Services*	40.2
Wholesale & Retail Trade	40.0
Transport & Storage	26.8
Information & Communications	14.1
Community, Social & Personal Services	11.9
Financial Services	9.6

Note: Incidence for an industry refers to the proportion of vacancies unfilled for at least six months out of total number of vacancies in that industry.
* EPG, MAS estimates

By Q4 2009, which was seven quarters from the peak in GDP in Q1 2008, the headline unemployment rate was already almost back to its pre-crisis level. In comparison, at a similar stage during the previous two recessions, the unemployment rate remained at more than 1% point higher than their respective pre-crisis levels. Furthermore, the fall in the unemployment rate during the recent recession was due to the sharp turnaround in employment growth while the size of the labour force remained roughly unchanged.[1] In contrast, during the Asian Financial Crisis, the initial improvement in the unemployment rate was due to the contraction in labour force while employment continued to decline. For the 2001 IT Downturn, the unemployment rate remained high until the SARS crisis in 2003. The intervening period saw persistent job losses, particularly in the manufacturing sector, which was undergoing a period of restructuring at that time.

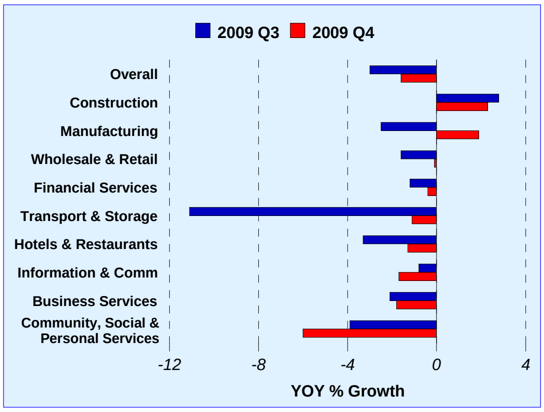
Chart 2.6
Changes in Unemployment Rate



However, wages continued to decline.

While labour demand has picked up, wage pressures remained muted, with nominal wages falling by 3.0% y-o-y in Q3 2009 and 1.6% in Q4. (Chart 2.7) This was the first time that wages have fallen for four consecutive quarters on a year-ago basis, suggesting that pay cuts introduced at the height of the recession towards end-2008 and early 2009 have, so far, only been partially restored. Companies could still be cautious in raising wages at the end of last year, even when economic conditions had improved and hiring had picked up.

Chart 2.7
Nominal Wage Growth by Industry



The decline in wages in Q4 2009 continued to be led by the services sector, where earnings fell across the board. In particular, the public sector (classified under CSP) saw a significant decline in wages, with smaller bonus payments for all employees and lower pay packages for selected groups of officers. (Chart 2.7)

[1] The change in the unemployment rate from the previous quarter is approximately the difference between the growth in the labour force and employment growth.

2.2 Consumer Price Developments

CPI inflation fell sharply in 2009 …

Against the backdrop of the global recession in 2009, price pressures in the Singapore economy dissipated rapidly and headline CPI inflation fell quickly from 3.4% in Q1 to -0.8% in Q4. (Chart 2.8) This brought the overall average CPI inflation rate in 2009 to 0.6%, compared with 6.6% in 2008.[2] MAS underlying inflation, which excludes the cost of accommodation and private road transport, also moderated significantly to a near historic low of -1.4% in Q4. For the year as a whole, it was flat, after reaching 5.7% in 2008. The combined effects of lower global commodity prices, weaker consumer demand and reduced business costs resulted in lower inflation rates for almost all the major items in the CPI last year.

… but picked up in Q1 2010.

However, CPI inflation has turned positive since the start of 2010 and averaged 0.9% y-o-y in the first quarter. This was partly attributable to strong sequential increases in the CPI since Q3 2009, owing to higher cost of private road transport and fuel & utilities, as well as the effects of the low base last year. (Chart 2.9) Consequently, the MAS underlying inflation measure came in nearly flat in Q1 2010 after staying negative for three quarters.

The CPI has seen a strong turnaround …

In level terms, the CPI has almost returned to its previous peak, taking less than three quarters in the process. In comparison, it took seven quarters following the Asian Financial Crisis and 2001 IT Downturn for the CPI to return to its previous peak. (Chart 2.10) This uptick in the CPI over the last three quarters largely mirrored the sharp increases in global oil prices and COE premiums for cars, which have affected the costs of fuel & utilities and private road transport, respectively.

Chart 2.8
Headline CPI and MAS Underlying Inflation

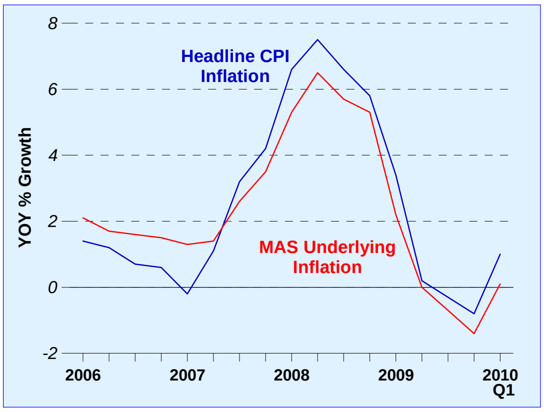
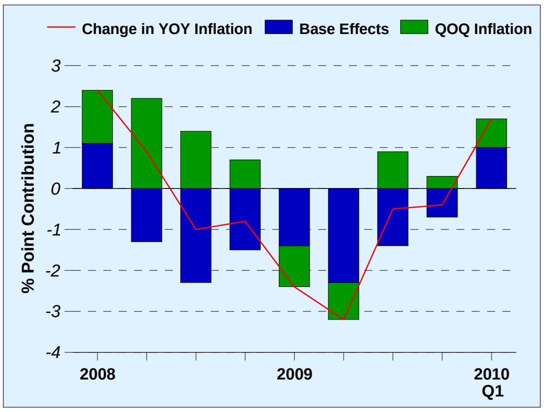


Chart 2.9
Breakdown of Change in y-o-y CPI Inflation



Source: EPG, MAS estimates
Note: The difference in y-o-y inflation rates between the current and the preceding quarter is approximately the difference between the q-o-q inflation rate in the current quarter and the q-o-q inflation rate four quarters before, i.e. "base effects".

[2] The inflation rate of 0.6% in 2009 was an upward revision from 0.2% under the previous 2004 base year. This largely reflected a more significant contribution from accommodation costs, which carry a larger weight in the new 2009 base year CPI basket. In addition, the pricing indicator used to track changes in owner-occupied housing costs was changed from the Annual Values of residential properties to rental data collected on a monthly basis. The owner-occupied housing cost series was changed retrospectively from 2007.

… largely as a result of rises in the cost of fuel & utilities …

The global financial crisis and the sharp drop in economic activity that ensued led to a collapse in crude oil prices between H2 2008 and Q1 2009. However, oil prices rose subsequently after large output cuts from OPEC, as well as recovering demand from emerging economies and improved investor sentiment since the latter part of last year. By Q1 2010, crude oil prices had risen to nearly double their level in Q1 2009. (Chart 2.11)

Correspondingly, domestic electricity tariffs, which adjust to global oil prices with a lag, had risen since the middle of 2009. Nevertheless, due to the high base in 2008, housing fuel & utilities cost inflation declined steeply throughout 2009. It was only in Q1 2010 that fuel & utilities inflation turned positive, averaging 0.7% y-o-y, compared to -20% in Q4 2009. Similarly, domestic petrol pump prices (subsumed under private road transport costs) registered large double-digit declines on a year-ago basis for the first three quarters of 2009 before rising sharply.

… and private road transport.

Car prices had also climbed significantly following an unprecedented spike in COE premiums. Although COE premiums for cars plummeted in Q4 2008 and Q1 2009, they recovered swiftly thereafter to over $23,000 on average in Q1 2010, from a historic low of about $3,500 in Q1 2009. This rebound was due to the stronger-than-expected economic recovery and two consecutive cuts in the COE supply, first by 24% in April 2009, and then by 16% in October 2009, both compared to the preceding six months. (Chart 2.12) These cuts were made in anticipation of lower vehicle deregistration rates, due to the economic downturn, and were intended to achieve a lower targeted vehicle population growth rate.[3] On the whole, private road transport costs added around 1.3% points to overall CPI inflation in Q1 2010, compared to a negative 1.2% points in H1 2009. (Chart 2.13)

Chart 2.10
CPI in Post-recession Periods

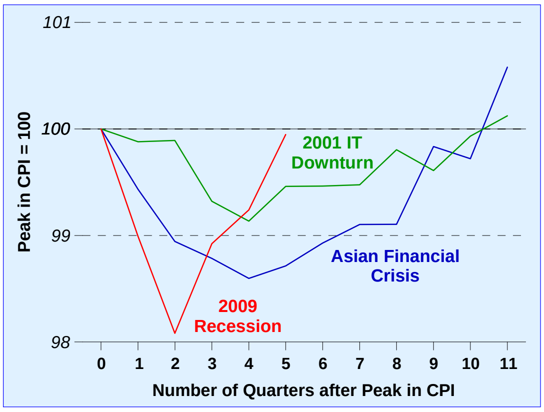
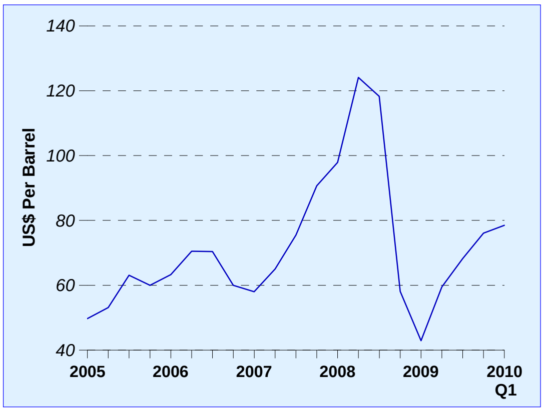
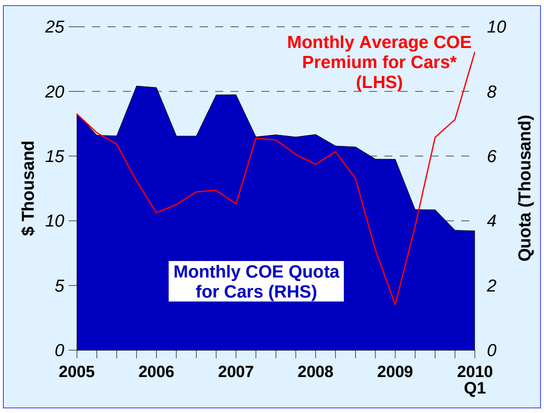


Chart 2.11
Crude Oil Prices



Source: Bloomberg

Chart 2.12
Average COE Car Premium and Quota



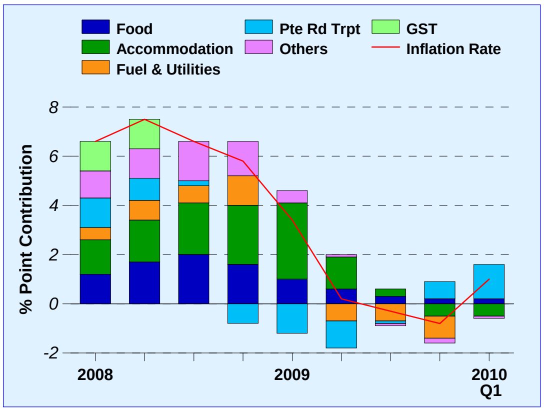
* EPG, MAS estimates

[3] Until April 2010, the COE quota for each quota period was largely based on the number of COEs needed to replace de-registered vehicles in the coming year and the quota for allowable growth in vehicle population.

However, accommodation costs continued to fall …

In contrast, accommodation cost inflation dropped from 17% y-o-y in Q1 2009 to -2.3% in Q4 2009, and was one of the key contributors to the large decline in CPI inflation last year. (Chart 2.13) This reflected both the fall in residential property rents, in tandem with the economic downturn (Chart 2.14), as well as the increased weight of accommodation cost in the CPI basket.[4] In Q1 2010, with little change in residential rents, accommodation cost inflation remained negative at -2.3% y-o-y.

Chart 2.13
Contribution to CPI Inflation



Source: EPG, MAS estimates

… while food price inflation remained low in Q1 2010.

Food price inflation eased to a six-year low of 0.7% y-o-y in Q4 2009 and Q1 2010. This was largely a result of cheaper imports, following favourable supplies from the 2008-09 global crop cycle, and lower global demand alongside weaker economic growth. The prices of cereals and coarse grains, in particular, plunged from their highs in 2008, while the prices of meat, seafood and poultry weakened in line with cheaper feeds. (Chart 2.15)

While there have been pockets of imported price pressure in "breakfast commodities" such as sugar, tea, coffee, cocoa and milk recently (Charts 2.15 and 2.16), due largely to weather-related supply disruptions in India and Africa, these items account for only a small part of the food basket in the CPI.

Meanwhile, the cost of eating out increased very moderately in Q1 2010, reflecting not only the lack of price pressures from raw materials, but also subdued business costs in 2009.

Chart 2.14
Private Residential Properties Rentals

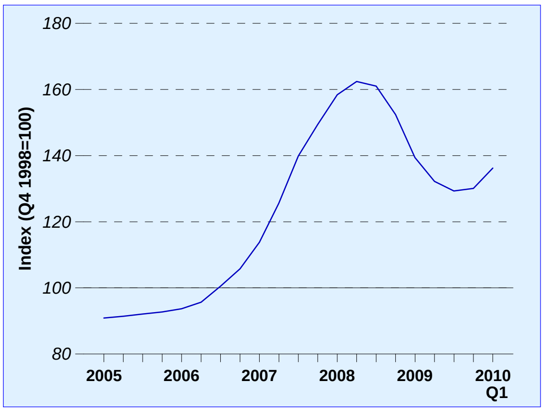
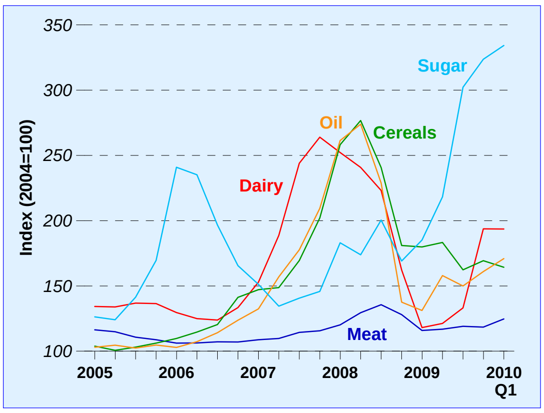


Chart 2.15
Global Food Prices



Source: FAO

Other domestic sources of inflation were restrained thus far by generally subdued factor costs.

While economic growth has recovered quite strongly in recent quarters, business costs have remained generally subdued at this point owing to slack in the factor markets.

4 Accommodation now accounts for 20% of the rebased CPI basket, up from 14% previously. Other notable changes in the weighting pattern of the CPI include reductions in the weights of non-cooked food, public road transport, education and oil-related items. Aside from accommodation, the weights for prepared meals and health care were also revised up slightly.

Nominal wages continued to fall on a year-ago basis in Q4 last year, while commercial space rentals also fell from their peaks in mid-2008. (Chart 2.17) In particular, office floor rents plunged by 30% from mid-2008 to the end of 2009 due to a vast amount of new supply added and weakened demand during the downturn, as firms either put expansion plans on hold or downsized.

Given the benign cost environment, the Unit Services Cost Index, EPG's measure of cost conditions in the services industry, was nearly 7.5% lower in Q4 2009 compared to the same quarter a year ago. Similarly, the Unit Business Cost Index of the Manufacturing Sector eased by more than 9% over the same period.

These same benign cost conditions also kept services cost inflation, which includes communication and healthcare and retail goods (subsumed under "Others" in Chart 2.13), modest in Q1 2010.

Chart 2.16
Changes in Food Import Prices

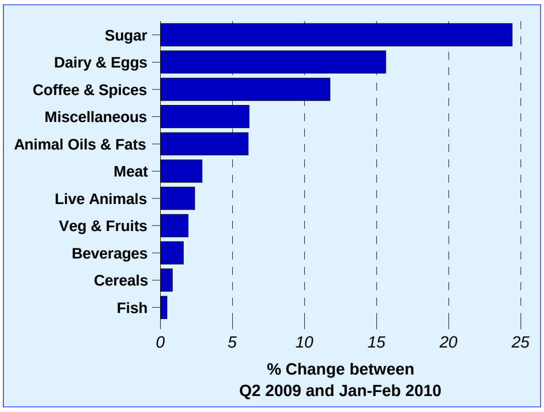


Chart 2.17
Commercial and Industrial Property Space Rentals