2.1 Labour Market Conditions

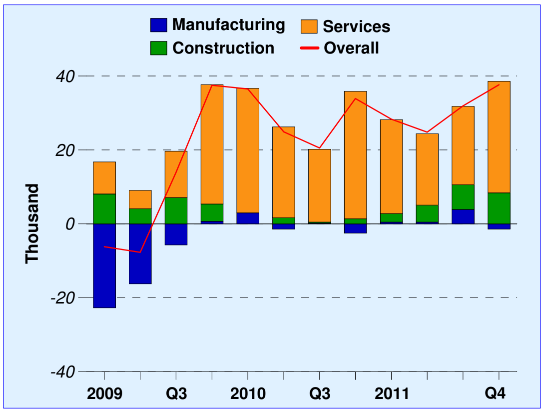
The Labour Market Remained Tight

Job creation strengthened in the second half of 2011 due to strong hiring in the construction sector and seasonal gains in services employment. However, hiring weakened and retrenchments rose in the external-oriented sectors. On the whole, employment growth was strong for the year. Resident wage growth eased in H2 2011, but stayed above its historical average.

Overall job creation was strong in H2 2011, but uneven across the sectors.

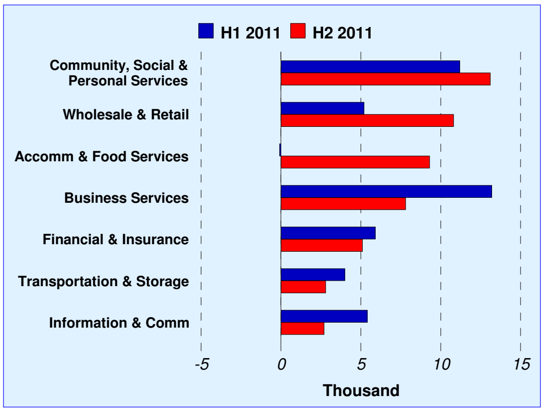
Net employment gains rose from 53,100 in H1 2011 to 69,500 in H2, bringing total job creation to 122,600 in 2011. (Chart 2.1) This was slightly higher than the 115,900 registered in 2010.

Chart 2.1
Employment Changes by Sector



The gains in H2 2011 were partly on account of stronger hiring in the construction sector, given the ramp up in residential construction and non-residential private construction of buildings, such as shopping malls.

Chart 2.2
Employment Changes in the Services Sector



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

The services sector also stepped up hiring in Q4 2011 to meet the seasonal increase in demand in the hospitality-related and retail trade sectors. (Chart 2.2) At the same time, new education facilities, such as the Yale-NUS College, Singapore University of Technology & Design and Singapore Institute of Technology, as well as capacity expansions in existing hospitals, supported job creation in the community, social & personal services (CSP) sector. These job gains more than offset the slower employment growth in the trade-related transportation & storage sector and sentiment-sensitive financial & insurance sector in the second half of 2011. The employment slowdown in these sectors, in turn, led to more moderate hiring by ancillary service providers in business services and information & communications.

In contrast, the manufacturing sector shed jobs in Q4 2011, its only quarterly loss for the year. (Chart 2.1) Job cuts were widespread across the sector. The machinery & equipment segment, a key source of job creation in manufacturing in the earlier part of 2011, also hired at a significantly slower pace in Q4.

Retrenchments in the external-oriented sectors picked up in Q4.

Weak business sentiment in the trade-related sectors led to an increase in retrenchments in Q4 2011, with around half of the 2,900 retrenchments taking place in the manufacturing sector, especially electronics. (Chart 2.3) At the same time, the number of workers placed on shorter work-weeks or temporarily laid-off in manufacturing rose sharply from 160 in Q3 2011 to 1,900 in Q4. Business services, financial & insurance services, as well as wholesale & retail trade, also saw higher retrenchments in Q4—accounting for over one-third of total retrenchments.

Nonetheless, the labour market remained close to full employment.

Overall, labour market conditions remained tight. Indeed, the resident labour force is almost at full employment, with the seasonally-adjusted resident unemployment rate edging down slightly from 3.0% in Q2 2011 to 2.9% in Q3 and Q4. (Chart 2.4) The tightness in the labour market was also reflected in the elevated ratio of job vacancies to unemployed persons, although the ratio has fallen from its peak in Q1 2011. There were approximately 1.2 jobs available for every unemployed worker in H2 2011, which was considerably higher than the average of 0.7 since 2000.

In addition, with the resident labour force participation rate close to an all-time high, a substantial number of foreigners were needed to support the construction and services sectors. (Chart 2.5) Foreigners accounted for over two-thirds of total employment gains in 2011.

Chart 2.3
Retrenched Workers and Workers on Short Work-week or Temporary Lay-off

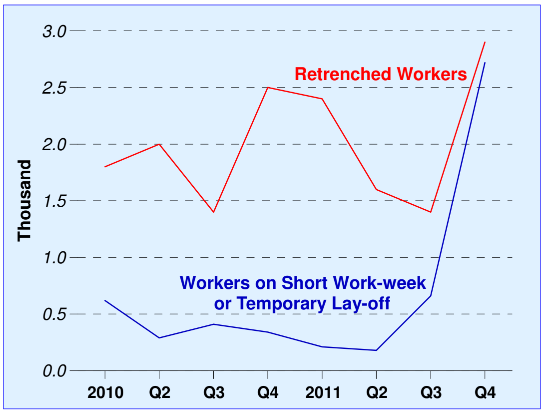


Chart 2.4
Resident Unemployment Rate and Ratio of Job Vacancies to Unemployed Persons

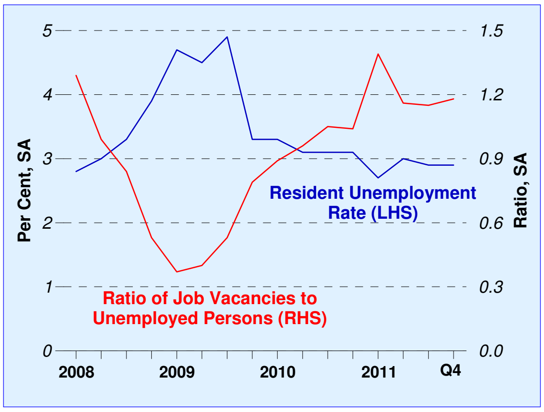
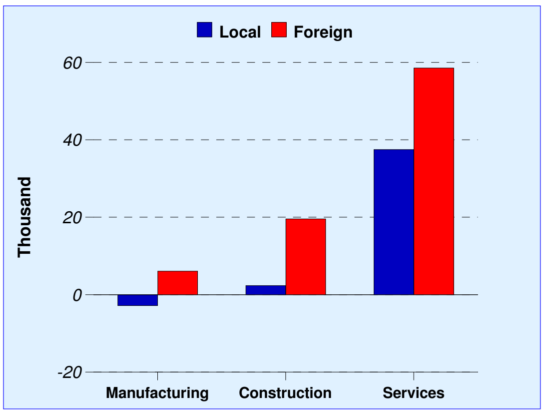


Chart 2.5
Local and Foreign Employment Changes by Sector in 2011



Slower wage growth helped to moderate the rise in unit labour costs.

Although resident wage growth eased, it was high at 4.0% y-o-y in Q4 compared to 3.3% average in the last decade. (Chart 2.6) Meanwhile, labour productivity growth slowed in H2 2011, but stayed positive. For the year as a whole, labour productivity rose by 1.0% compared to the average decline of 5.5% in previous downturns, largely because of the relatively mild output contraction this time round. Further, underlying manufacturing productivity appears to have picked up since its recovery from the Global Financial Crisis. (Chart 2.7) With slower wage growth and continued labour productivity increases, unit labour costs edged up at a more moderate pace in the second half of 2011.

Chart 2.6
Nominal Wage, Productivity and Unit Labour Costs

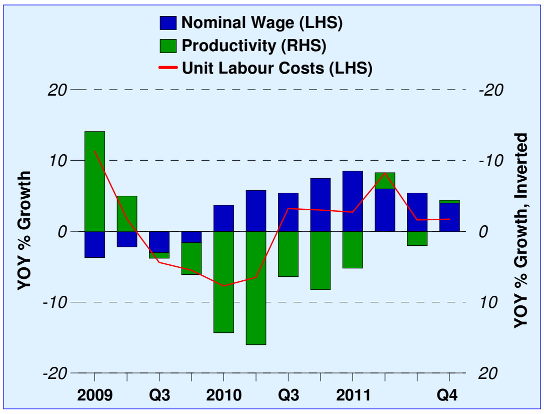
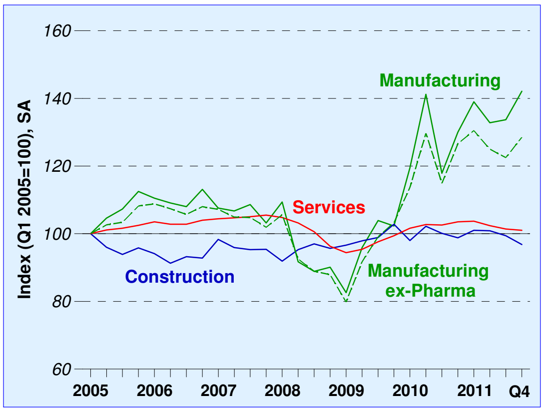


Chart 2.7
Labour Productivity by Sector



Source: EPG, MAS estimates

2.2 Consumer Price Developments

Consumer Price Inflation was Persistent

The pass-through of cost increases picked up amid resilient domestic demand …

Given the lacklustre performance of the trade-related sectors and the narrowing of the output gap, wage cost pressures started to subside in recent quarters. This helped to mitigate the impact of the cyclical slowdown in labour productivity growth on unit labour cost increases, which eased from 5.2% y-o-y in H1 2011 to 1.7% in H2. (Chart 2.8) The year-ago increase in the Unit Services Cost Index (USCI), EPG's measure of cost conditions in the services industry, also fell to 2.6% in the final quarter of 2011, down from 7.4% in Q1.

Despite easing cost pressures, firms continued to pass on the cost increases of the past two years to consumers, given resilient domestic demand conditions. Retail sales, in particular, held up well despite the slowdown in GDP growth. (Chart 2.9)

… while imported inflation came in slightly stronger than anticipated.

On the external front, core inflation in the advanced economies was subdued as a result of significant slack in factor markets. Inflation in the emerging economies also subsided, as the effects of earlier weather-induced supply disruptions dissipated and export growth moderated. Meanwhile, global commodity prices, in US$, corrected downwards in H2 2011 on the back of rising macroeconomic uncertainties.

However, the impact was offset by the temporary weakness in the S$ in Q4 2011. (Chart 2.10) In addition, towards the end of 2011 and into this year, global oil prices started to increase. Consequently, the overall import price index (IPI) rose by 3.0% sequentially in Q4 2011 and by another 0.9% in Jan–Feb 2012, after falling by 1.5% in Q3 2011.

Chart 2.8
Growth in ULC and USCI

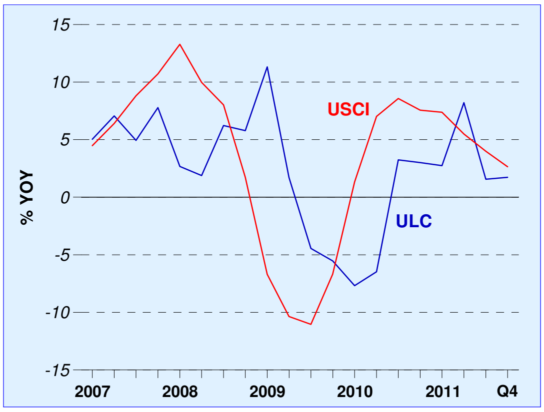
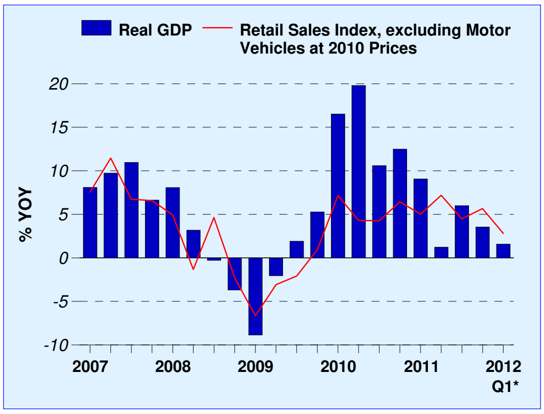
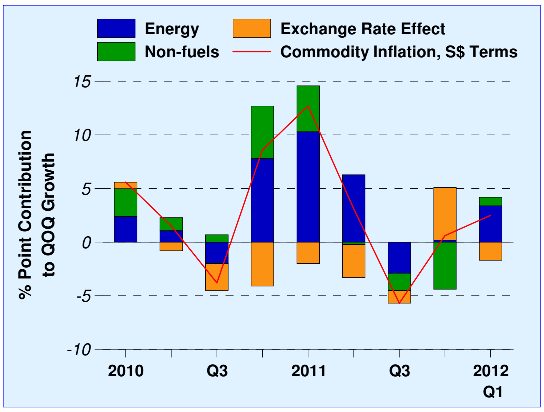


Chart 2.9
Growth in Retail Sales & Real GDP



* Refers to *Advance Estimates* for real GDP and Jan–Feb data for Retail Sales Index.

Chart 2.10
Contribution to Global Commodity Price Increases in S$



Note: The estimates are derived from changes in the energy and the non-fuel sub-indices of the IMF Primary Commodity Price Index, in US$, converted using the S$-US$ bilateral exchange rate.

Sequential increases in CPI-All Items and MAS Core Inflation were strong.

The proportion of the MAS Core Inflation basket that saw sequential price increases remained fairly high.[1] (Chart 2.11) In part reflecting this, MAS Core Inflation and CPI-All Items inflation was also strong in Q1 2012, at 1.0% q-o-q and 1.2% respectively.

On a year-ago basis, CPI-All Items inflation was more persistent than previously anticipated. It was 5.5% in Q3 and Q4 2011, and only moderated to 4.9% in Q1 2012 owing to base effects associated with high car prices in the same period last year. (Charts 2.12 and 2.13) Meanwhile, MAS Core Inflation rose from 2.4% in Q4 2011 to 3.1% in Q1 2012. Of the 0.7% point increase, around 0.5% point was due to the removal of radio & TV licence fees a year ago.

There were fee increases across several consumer services in recent months.

The robust economic recovery in 2010, subsequent expansion into early 2011, and consequent tightening of the labour market, pushed up firms' operating expenses. However, a series of shocks also buffeted the global economy last year.

Due in part to these global uncertainties, domestic cost increases did not filter through significantly to consumer services fees for the most part of 2011. (Chart 2.14) This is even after accounting for the removal of radio & TV licence fees from January 2011, without which services inflation would have been 1.0% point higher. However, with the dissipation of downside risks and strong domestic consumption, the pass-through of accumulated wage costs to consumer prices strengthened recently, leading to a spate of services fee adjustments. (Chart 2.15)

Chart 2.11
Proportion of Items with Sequential Price Increases in the MAS Core Inflation Basket

Chart 2.12
CPI-All Items Inflation and MAS Core Inflation

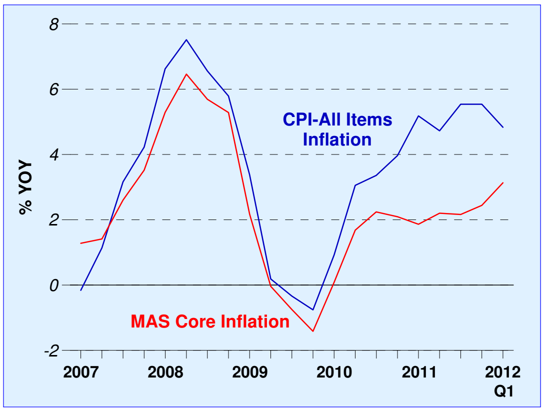
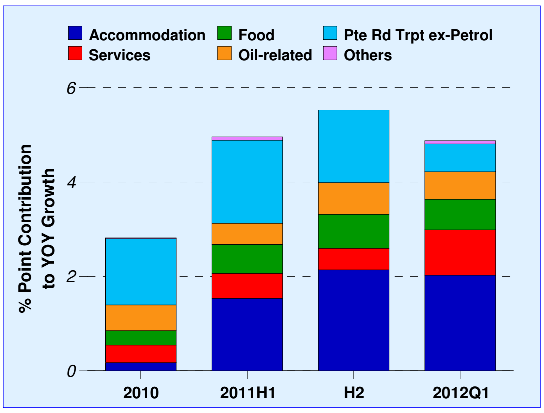


Chart 2.13
Contribution to CPI-All Items Inflation



[1] Despite the dip in the most recent quarter, the proportion averaged 80% in Q4 2011 and Q1 2012, compared to 75% in the two preceding quarters and 68% over the past five years.

In particular, the seasonal rise in holiday travel costs began earlier than usual in November last year. Taxi operators also raised fares from end-2011, the first revision in more than three years. Upward fee adjustments by educational institutions, such as kindergartens and childcare centres, as well as medical establishments have also been widespread since Q4 2011.

As a result, the sequential increase in services costs more than doubled from 0.4% in Q3 2011 to 1.0% in Q1 2012. (Chart 2.15) On a year-ago basis, services cost inflation stepped up from 1.4% in Q3 2011 to 3.2% in Q1 2012.

Higher import prices contributed to an increase in retail prices of food …

The UN FAO Food Price Index, a proxy for global food prices, edged down throughout most of 2011 and is currently 9.3% lower than the peak in February 2011. (Chart 2.16) This was due to normalising weather conditions and increased crop production in response to earlier high prices, along with moderating global demand.

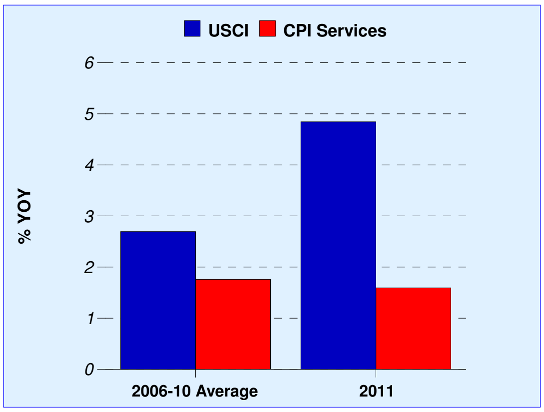
However, Singapore's food import prices continued to increase throughout most of 2011 and only corrected from November onwards. Up till Q3 2011, food import prices could still be responding to the sharp increase in global food commodity prices in 2010, as food importers typically enter into long-term contractual agreements with their suppliers. In September and October 2011, food import prices were also pushed up by the weaker S$.

As a result of earlier increases in food import prices, higher business costs and strong seasonal demand during the Chinese New Year, sequential retail food price increases picked up slightly from 0.6% q-o-q in Q3 2011 to 0.8% in Q1 2012.

… and oil-related items.

Similarly, geopolitical events in Iran and a series of other supply disruptions pushed up global oil prices and hence, imported oil prices in Q4 2011 and in early 2012.[2] In particular, the WTI benchmark price surged

Chart 2.14
Growth in USCI and CPI Services



Source: EPG, MAS estimates

Chart 2.15
Incidence and Magnitude of Sequential Services Fee Increases in the CPI

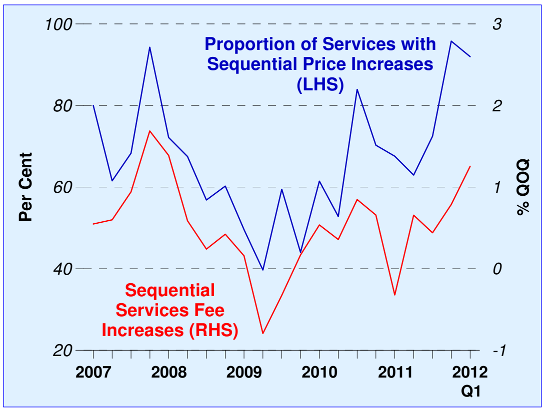
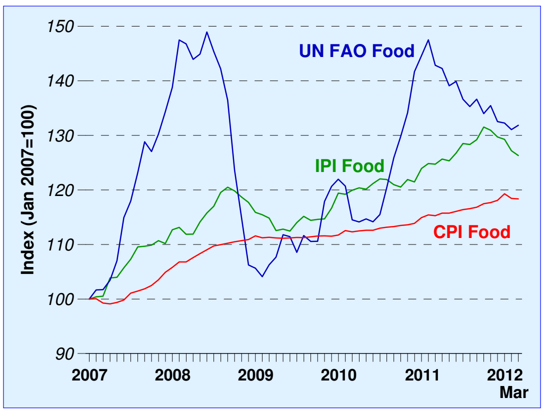


Chart 2.16
FAO, IPI and CPI Food Price Indices



Source: FAO

2 Disruptions arose from the production shutdown in South Sudan, the labour strikes in Yemen and international sanctions on Syria's exports. As a result, over one million barrels per day are estimated to have been removed from the oil market, amounting to more than one-third of OPEC's surplus production capacity.

to US$106 per barrel in March this year, only slightly lower than the levels following the outbreak of the civil war in Libya in Q1 2011. (Chart 2.17)

As a result, electricity tariffs rose in January while petrol pump prices were adjusted upwards on four occasions in Q1 2012. On a year-ago basis, the contribution of oil-related items to CPI-All Items inflation was around 0.6% point in Q1 2012, similar to that in Q3 2011.

COE premiums were lower in late 2011 amid subdued bidding activity.

Biddings for COEs, which are indicative of the strength of demand, were generally sluggish from H2 2011 to early 2012. (Chart 2.18) As such, car COE premiums fell in December 2011 and January 2012 by a cumulative 14% before surging again in February. The earlier declines, together with a much higher base a year ago, resulted in private road transport cost (excluding petrol) adding 0.6% point y-o-y to CPI-All Items inflation in Q1 2012, down from 1.5% point in H2 2011.

Accommodation cost continued to rise as leasing contracts were reset to higher rentals.

Weaker demand for both private and HDB rental properties led overall leasing activity to fall slightly in H2 2011, before stabilising in recent months. In the private residential segment, with the number of completed units also increasing, vacancy rates rose marginally to above the recent five-year average. (Chart 2.19) Correspondingly, rental values for new contracts in the private residential segment broadly stabilised. In contrast, the HDB segment continued to see some supply-side constraints which supported further increases in new HDB leasing contract values.

Nevertheless, rentals for newly-contracted leases in both the private residential and HDB segments were still much higher than those on existing leases. The "resetting" of existing contracts to prevailing market rates thus led to a significant rise in CPI accommodation cost. On a y-o-y basis, accommodation cost jumped by 11% in H2 2011 and 10% in Q1 2012 and accounted for 2.0% points, or more than 40% of CPI-All Items inflation in Q1 2012.

Chart 2.17
WTI Oil Price and CPI Oil-related Items

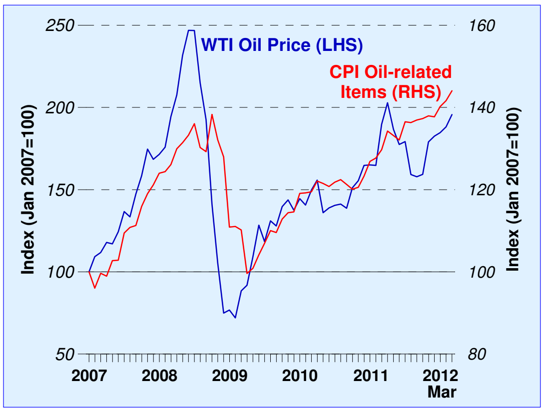


Chart 2.18
Number of Bids Received & Car COE Premiums

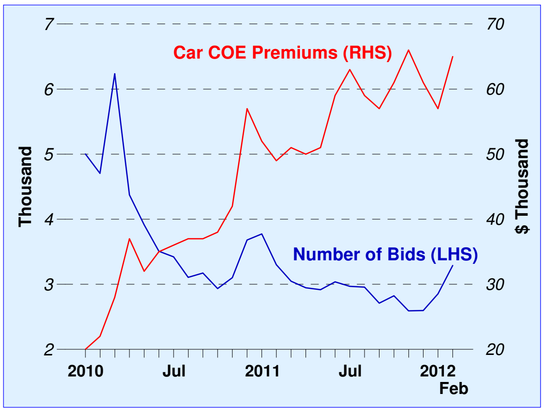
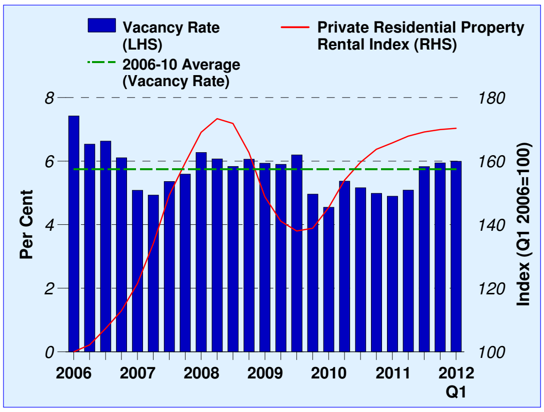


Chart 2.19
Private Residential Property Vacancy Rate & Rental Index



It is important to note that in the CPI-All Items series, residential property rentals are used as a proxy for the costs that households incur in consuming housing services. Given that homeowners do not actually pay rent, this amount is therefore purely notional. As such, DOS also reports the "CPI excluding imputed rentals on owner-occupied accommodation" (CPI-ex OOA) series to capture the impact of price changes on households' cash expenditure. While imputed rentals are not captured in the CPI-ex OOA series, actual rentals incurred by households leasing residential properties are included in this series.[3]

The y-o-y increase in CPI-ex OOA eased from 4.3% in Q4 2011 to 3.6% in Q1 2012, reflecting the lower contribution from car prices. Notably, the increase in CPI-ex OOA was more than 1.0% point lower than that of CPI-All Items inflation for the fourth consecutive quarter. This was due to the significant weight (15.6%) of OOA in the CPI-All Items series, which is reflective of the high home ownership rate in Singapore, and the sharp rise in market rentals over the past few quarters.

[3] Another measurement issue that frequently arises concerns the treatment of mortgage repayments in the CPI. The CPI measures the costs of consumption goods and services, rather than investments. As rentals clearly capture consumption costs, they are conceptually compatible with the CPI. However, mortgage repayments, incurred by households residing in their own properties, are associated with the cost of asset acquisition which includes an investment element. Thus, mortgage repayments are not reflected in the Singapore CPI, similar to the practice in most other countries.