MINISTRY OF TRADE AND INDUSTRY SINGAPORE

MTI's reply to media queries on economic restructuring – Aug 2014

Economic restructuring is a long-term undertaking. Some analysts have cited the slowdown in 2Q14 GDP growth as evidence that economic restructuring is failing. It is too hasty to draw such conclusions from a single quarter of economic data.

- ***Weak GDP growth in 2Q14 not reflective of the impact of economic restructuring.***

Given Singapore's externally-oriented economy, quarter to quarter fluctuations of our GDP growth are to be expected. For first half 2014, GDP growth averaged 3.4% year-on-year (yoy), representing a healthy growth rate given our current stage of economic development.

Latest leading indicators such as the Purchasing Managers' Index for the manufacturing sector and Business Expectations Survey for the services sector have shown that business sentiments and outlook for the rest of the year have generally improved in tandem with an expected improvement in the global economy.

- ***It is important for analysts to also consider other indicators beyond GDP when assessing the state of the economy.***

Some other positive indicators are:

- In 2Q14, the net formation of companies and businesses was 8,837, higher than the quarterly average of 5,051 establishments in 2013.
- Singapore remains an attractive location for doing business. In 1Q14, investment commitments remained healthy, with Fixed Assets Investment (FAI) and Total Business Expenditure (TBE) commitments coming in at $2.5 billion and $1.3 billion respectively.
- Labour market conditions remain healthy, with the resident unemployment rate at 2.8% in June 2014 and the employment rate at a high of 79% as at 2013.
- Steady wage growth remains. The nominal median gross monthly income from work of employed residents (including employer CPF contribution) rose by 6.5% in 2013.

- ***We are restructuring our economy at a balanced pace.***

We need to press on with restructuring at a steady, sustainable pace. To give firms sufficient time to adjust, we have introduced measures in phases. For example, the reductions in dependency ratio ceilings (DRCs) were announced two years before they take full effect. We

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have also provided support packages, such as the Wage Credit Scheme, to help businesses adjust as they undergo this period of restructuring.

- ***While overall productivity growth remains weak, we have seen improvement in competitive sectors.***

From 2009 to 2013, labour productivity grew by 2.9% per annum, within the National Productivity and Continuing Education Council (NPCEC)'s productivity growth target of 2.0% to 3.0% per annum until 2020. This aggregate figure, however, masks some cyclical fluctuations. Notwithstanding the strong performance in 2010, recent productivity growth has been weak, with labour productivity growing by 0.2% per annum from 2010 to 2013.

However, a sectoral analysis gives a clearer picture of the restructuring landscape. From 2010 to 2013, exportable sectors such as Precision Engineering, Transport Engineering and Finance & Insurance showed healthy productivity growth of 4.1%, 8.1% and 2.2% per annum respectively. These sectors are globally competitive and were therefore, able to transform and adjust their processes quickly to changing market conditions.

On the other hand, the domestic sectors, such as Construction, Retail Trade and Food services, have seen poor real productivity growth. In particular, productivity in the Construction sector declined by 0.2% per annum from 2010 to 2013. These sectors are struggling with the tightening manpower supply, with some companies facing problems moving up the value-chain or improving their processes. Nevertheless, we must continue to press on with our restructuring efforts in these sectors.

- ***The restructuring progress is gaining momentum. Businesses are changing their mindsets and adapting to the new environment.***

On the ground, the situation is improving. There are encouraging signs that companies' attitudes towards restructuring have shifted. Businesses have responded well to the call to raise productivity, and take-up of our incentives has ramped up. To date, more than 17,000 companies have benefitted from the various productivity initiatives under the National Productivity and Continuing Education Council (NPCEC), with 7,000 companies in 2013 alone. Take-up is also healthy in laggard low productivity sectors. For examples, over 6,000 companies have tapped on the various schemes under BCA's $250m Construction Productivity and Capability Fund (CPCF), with about $190m committed

In terms of specific schemes, the Productivity and Innovation Credit (PIC) scheme, which provides businesses with enhanced tax benefits and cash incentives for investing in a broad range of productivity and innovation activities, saw take-up rates increase from 36,000 or 33% of all active companies in Singapore in Year of Assessment 2011, to 50,000 or 40% of all

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companies in Year of Assessment 2013. As of 28 February 2014, businesses have enjoyed more than $1.5 billion of tax savings and cash payouts under the PIC scheme.

Similarly, we have seen take-up rates for the Innovation and Capability Voucher (ICV) scheme increase over time. The scheme, which previously only supported consultancy services, was enhanced in March 2014 to also support the implementation of productivity solutions, including the purchase of equipment, training of workers and the redesign of workspace to enhance productivity. From 1 March to 13 June 2014, more than 2,700 vouchers were awarded to businesses.

In summary, we have made progress in our restructuring efforts but more needs to be done. We are implementing our restructuring drive from a strong position. Our labour market is more flexible today than it was in the 1980s and our workforce today is higher-skilled — these are key advantages that we did not have before, and are factors that will help support our competitiveness even as we restructure the economy. We remain confident that the economy will be able to restructure successfully over time to be more productivity-driven.

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Exhibit 1: Real productivity growth by sector

Real productivity growth by sector (%)

	Annualised growth		Year-on-year productivity growth				
	2009 - 2013	2010 - 2013	1Q13	2Q13	3Q13	4Q13	1Q14
Overall economy	2.9	0.2	-2.5	-0.2	0.8	0.8	0.9
Manufacturing	9.1	2.3	-8.3	-0.6	4.2	6.0	8.8
Electronics	2.6	-5.0					
Chemicals	2.3	-0.8					
Biomedical manufacturing	14.5	6.4					
Precision Engineering	12.1	4.1					
Transport Engineering	6.8	8.1					
General manufacturing	2.2	-0.3					
Construction	0.8	-0.2	-4.0	-2.8	-3.1	-0.9	-0.4
Services	2.2	0.7	0.8	1.8	1.9	1.5	0.3
Wholesale & Retail Trade	4.1	1.3	2.2	4.7	4.0	3.7	2.6
Transportation & Storage	1.6	0.6	-5.0	-2.3	0.9	0.8	1.0
Accommodation & Food Services	2.9	0.9	0.0	-0.2	-0.2	-1.2	-3.5
Information & Communications	0.0	-0.5	2.9	-1.2	-2.1	-3.7	-3.2
Finance & Insurance	3.2	2.2	9.0	8.1	5.5	7.9	2.6
Business Services	0.6	-0.2	-1.1	-1.1	-1.0	-1.0	-2.0
Other Services Industries	1.4	-0.4	-3.6	-0.3	1.6	-2.1	-0.4

Note: Quarterly productivity growth figures for the manufacturing clusters are not available.

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