Singapore has been reporting robust growth numbers so far this year

# Why wages are flatlining even as the economy picks up

Analysts expect Singapore to sustain its strong-growth stride into the second half of the year after first-quarter growth clocked in at a solid 2.7%.

A general understanding of economics holds that as an economy recovers, wages and incomes should likewise get a boost. But in a curious twist, Singapore's economy is starting to recover yet wage growth is actually falling behind the previous two years. What this means at this stage is unclear, and it has only been a quarter of bad news on the wages front, but workers may end up being more vulnerable as the Singapore economy continues to move away from labour intensive industries like retail. Wage growth had been elevated in Singapore, settling between 3-4%yoy in the past two years before dropping to 1.9%yoy in Q1 2017.

This is not news workers want to hear, but according to Deutsche Bank economist Diana del Rosario, a skills mismatch in line with the ongoing economic transition is likely to place upward pressure on the unemployment rate and consequently weigh on consumer sentiment. As noted in our story on retail in this issue of SBR, employment in the sector continues to fall and may be exacerbated with the recent arrival of Amazon Now.

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The other labour intensive sector of the economy, construction, also remains in contraction. The government has recently awarded contracts to quicken the pace of building major new rail lines so there may be some hope for new jobs for hard hatted and fluorescent vest wearing workers.

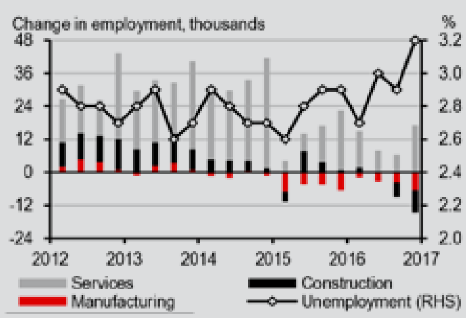
HSBC economist Joseph Incalcaterra noted that in recent years, growth in Singapore was driven primarily by services – both domestically oriented and tradable services – particularly finance and insurance. However, broad services activity decelerated sharply in 2016. "Although the recent upturn in the manufacturing sector should pass through to some externally oriented services providers, domestic services continue to see weak growth, reflecting a weakening labour market in recent quarters," he said.

**Sluggish domestic conditions**

Singapore really has become a two speed economy. The improvement in exports does not pass through to the domestic economy as it did in the past. "As a result, domestic conditions remain relatively sluggish – in particular, private consumption – further hindered by a large stock of household debt and still-deteriorating labour market conditions," he added.

If there was fear that Singapore's growth momentum would falter considerably as it approaches the yearend finish line, then one look at the strong electronics sector should help allay some of this apprehension. Analysts expect Singapore to sustain its strong-growth stride into the second half of the year after first-quarter growth clocked in at a solid 2.7%, underpinned by stable manufacturing output and an improving external economic environment. However, speed bumps remain on the horizon that could hinder Singapore's resurgence in 2017: weak China growth, subdued private consumption, and a beaten-up biomedical manufacturing sector.

**Unemployment moved higher in 2016 and seems to have stablished in H1 2017**




*Source: CEIC, HSBC*