

Manu Bhaskaran: What will the economic recovery mean for Singaporeans?



Written by Manu Bhaskaran

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AS THE SINGAPORE economy continues to recover, Singaporeans might want to think about what the rebound in economic growth data will actually mean to them as ordinary consumers or as businessmen catering to these consumers. Recall the situation in late 2008 and in early 2009, when GDP growth numbers showed our economy plunging at frightening rates of about 16% and 12%, respectively: While the numbers suggested something close to an economic depression, most Singaporeans appeared to be going about their normal lives unfazed. So, does this mean that when the recovery comes, Singaporeans will not feel very good, either?

Clearly, the GDP data did not capture what truly drives the welfare of Singaporeans. So, it might be worth looking at recent information to try and build a better picture of the drivers of Singaporeans' welfare and wellbeing. A more detailed look at the income, employment and net wealth of Singaporeans is quite revealing:

The average Singaporean's income rose nicely in 2008

The data on the breakdown between profits and wages shows that Singapore has one of the highest profit shares of income in the world. It was almost 50% in 2007, but edged down in 2008. Interestingly, in 2008, as the economy weakened and just barely grew (up 1.1%):

- Employees' compensation or wages/ salaries actually rose by 11.6%.
- Profits fell 5.8%, but there was wide divergence among different business segments. Financial institutions enjoyed a rise in profits of 5.7% while non-financial companies (a much larger sector) saw profits fall by 5.8%. Small, unregistered businesses (mainly self-employed people who do not incorporate their businesses) enjoyed a 13.4% rise in their incomes.

In other words, the average Singaporean — who is either a wage earner or runs a small business of his own — actually did quite well in 2008 despite the onset of the recession. Profits took the brunt of the economic slowdown. The big loser was non-financial businesses, probably reflecting the weakness in the export sector, which is dominated by multinational corporations whose shareholders mainly live outside Singapore.

Employment conditions weakened gradually

Another measure that reflects Singaporeans' well-being is the resident unemployment rate (the unemployment rate of citizens and permanent residents). This rate rose significantly during the economic slowdown — from 2.8% in March 2008 to 4.8% in March 2009, before easing to 4.6% in June 2009. Higher unemployment suggests some pain for the household sector in Singapore. But, the data also shows that long-term unemployment remained exceedingly low in Singapore. The number of people remaining unemployed for more than 25 weeks actually fell slightly in 2008, remaining below 10,000 while the long-term unemployment rate remained at around 0.5%. In other words, while jobs were lost, most Singaporeans seemed to be able to find a new job relatively quickly. The relative ease of finding a replacement job would have alleviated the negative impact on welfare.

Savings and wealth of average Singaporeans

Another important driver of how financially comfortable Singaporeans are, is the state of their balance sheet. Remarkably, in 2008, as the financial crisis destroyed wealth all over the world, total household wealth in the country actually rose, albeit by a paltry 0.3%. The details are interesting:

- For most Singaporeans, property is the main component of wealth. Residential property assets account for more than half of total assets. Residential property prices actually rose by about 5% in 2008. This was because the value of public housing — which more than 80% of Singaporeans own — rose by around 14% even as private property prices fell.
- While the value of stocks plunged, this component comprises less than 10% of total assets. Moreover, the fall of 29% only reversed the gains of the previous year and a half, leaving Singaporeans who owned shares still at the same level as in 2006, not great but not disastrous either.
- In fact, household assets would have been in even better shape were it not for the 12.2% fall in the value of insurance products, reflecting the collapse in the value of investment-linked insurance products which in several cases appear to have been mis-sold to the public.
- The data on debt in household balance sheets also shows that credit-card debt experienced the sharpest rise in several years in 2008. Clearly, cash-strapped Singaporeans were able to make up for it by — at least temporarily — resorting to credit-card debt.

What does this tell us about the impact of the recession?

First, government measures such as the Jobs Credit Scheme and the unexpectedly short duration of the recession meant that companies with weak profits or losses did not get around to doing the things such as slashing payrolls and cutting wages substantially that would have really hurt the average Singaporean. So, despite the large fall in GDP in October 2008 to March 2009, the average Singaporean was not particularly badly hit.

Second, the unequal distribution of income in favour of profits does lend some resilience to the household sector in a crisis of short duration: profits take the brunt of such a slowdown, not wages.

Third, the rise in the prices of public housing helped buffer household balance sheets, but this appears to be a one-off and cannot be relied upon in future.

Fourth, if there had been a lot more financial education and consumer protection for those buying insurance products, the household sector may well have been in even better shape.

So, how will the recovery affect the average citizen?

After an initially sharp bounce, the global recovery will be a modest one, marked by a substantial dependence on government support measures and quite possibly marked by occasional episodes of new financial or other stresses. Oil prices are likely to continue rising, adding to the cost of living. In addition, we are likely to see large flows of liquidity in search of higher yielding assets, especially in Asia.

In this context and given the findings above, we are likely to see a reasonably positive outlook for the wellbeing of the average Singaporean:

- The opening of the integrated resorts and a couple of large manufacturing plants will help boost employment conditions. But, outside that, in a modest economic recovery, companies are unlikely to be

rushing to hire workers or raise wages. In fact, many companies will be restructuring their operations in response to reduced profitability and the new, post-crisis world of slower global growth and higher energy and transportation prices. This restructuring could limit wage increases in some sectors.

- Asset prices, however, could continue to rise in Singapore. Assuming continued inflows of foreign talent, continued low interest rates, a real likelihood of much larger inflows of foreign money into our property market and no further financial shocks or punitive policy measures in the property sector, real-estate prices will tend to continue rising.

In short, while wages may not rise as much as in the good years, household balance sheets are likely to remain strong. This augurs well for Singaporeans next year.

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