VIRUS OUTBREAK: JOBS IMPACT

August unemployment rate hits decade-high; worst is not over

Resident unemployment rate up 0.4 point from July to 4.5% in Aug

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SINGAPORE'S unemployment rate in August rose to its highest level in over a decade, and economists believe the worst is yet to be over.

Resident unemployment rate, which includes Singaporeans and permanent residents, hit 4.5 per cent in August, a 0.4-percentage point increase from the previous month, according to data from the Ministry of Manpower (MOM) on Wednesday.

Marginally faster than the 0.3-percentage point rise in July, August's reading is just a notch lower than the 4.9 per cent seen during the peak of the Global Financial Crisis (GFC) in September 2009.

Meanwhile, August's overall unemployment rate, at 3.4 per cent, has edged past the previous recessionary high of 3.3 per cent, also seen in September 2009.

Speaking to reporters ahead of a visit to Samwoh Research & Development Centre, Manpower Minister Josephine Teo said: "We cannot tell at this point in time, whether in the coming months, the unemployment rate will uptick at a faster rate, or will it stay around the same.

"But nonetheless, we're keeping a very close watch, and when the next set of figures are available, we will share them with the public."

The ministry began tracking unemployment figures on a monthly, rather than quarterly, basis from July to monitor the situation more closely, Mrs Teo added.

Economists told *The Business Times* that the unemployment situation likely has not peaked yet, but offered varying degrees of pessimism.

Citi economists believe job losses in larger corporates are likely to increase, "if increased news flow on corporate retrenchments are any indication". This could bring resident unemployment rate above 5 per cent – or even above 6 per cent in "more bearish scenarios" – in the next few months, with disinflationary consequences, Citi said.

Selena Ling, chief economist of OCBC, said businesses in the hardest-hit industries like aviation, hospitality and entertainment may still be struggling to survive.

"Layoffs may continue to edge higher in the coming months if a vaccine is not made available, international borders are not reopened and global economies continue to struggle with resurgent waves of infections, which would still drag on business and consumer confidence," she noted.

DBS senior economist Irvin Seah said the fact that the current unemployment rate is comparable to that seen during the GFC – despite "significantly bigger" government support – shows the seriousness of the situation.

Even so, he believes Singapore is "at the bottom or near the bottom of the labour market cycle". This is because Singapore's economic contraction is likely to have bottomed out in the second quarter at 13.2 per cent year on year, and the labour market tends to lag behind the growth cycle by about one to two quarters, he said.

Another indicator, according to Mr Seah, is the mixed signals MOM's data appeared to send, which is "natural" at the bottom or peak of a cycle.

The latest *Jobs Situation Report* showed that 33,100 job seekers have been placed into the 117,500 committed opportunities in jobs and training available as of end-August, presenting a seemingly contradictory picture of the employment landscape even as unemployment figures rose.

Asked if the large number of vacancies also indicated underlying structural unemployment, Mr Seah said yes, adding: "The structural shift within the Singapore economy is happening too fast, and the middle-aged and older workers are scrambling to adjust to this transition."

This is especially apparent in the technology sector, which is aggressively hiring but is also having trouble filling roles due to a shortage of workers with matching skills, he said.

During the ministerial visit to Samwoh, Deputy Prime Minister Heng Swee Keat said what Singapore and the rest of the world is faced with is a "very sharp cyclical shock".

"There will be some degree of structural unemployment, but a lot of it is also cyclical shock of a very deep nature. There will also be some frictional unemployment and we're looking at how we can address this holistically, and that's why I'm also preparing for Budget 2021," Mr Heng added.

DPM Heng (centre), with Manpower Minister Josephine Teo (left) and Trade and Industry Minister Chan Chun Sing (second from left), at the Samwoh R&D Centre on Wednesday. With them is Kelvin Lee (right), Samwoh's senior technician manager. BT PHOTO: DESMOND FOO

Job-matching not a straightforward process, improvements needed: DPM

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THE process of matching job vacancies to people is "not straightforward" and there is scope for the system to be improved, said Deputy Prime Minister and Finance Minister Heng Swee Keat on Wednesday.

"If we persist in the effort, I think jobseekers will be able to find something that they may like. At the same time, there is also a whole range of training programmes," he told reporters at the end of a visit to construction company Samwoh Corporation's research and development centre in Kranji.

"Where training is needed, I think we can enhance that. There's a very good suite of programmes to help our people build new skills, so I hope our workers can make full use of these schemes," he added.

"But at the same time, of course, we will look into how we can improve the matching, and how the database system that we have can be better utilised for that purpose."

Mr Heng's comments came soon after the Ministry of Manpower (MOM) released its latest Jobs Situation Report.

In the month of August, 25,500 new jobs and training positions were made available under the SGUnited Jobs and Skills Package, overseen by the National Jobs Council. This means the council has now identified a total of 117,500 opportunities in both public and private sectors, exceeding its initial target of 100,000. However, just over 33,000 jobseekers have been matched to these roles, of which 9,000 were matched in August.

Considering how many opportunities were identified, "there remains a significant number of unfilled vacancies", said the MOM in its report on Wednesday.

Manpower Minister Josephine Teo, who was also at the visit to Samwoh, said the focus now must be to try and get as many of those vacancies filled as possible.

She called on employers to "keep an open mind" in their hiring processes and to consider candidates with transferable skills, where government funding could help bridge any skills gaps.

Jobseekers should likewise be open-minded and willing to enter roles and sectors less familiar to them, Mrs Teo added. She encouraged jobseekers to seek help early, and to draw on career-matching services by Workforce Singapore and e2i, both online and offline, via the various career centres across Singapore.

The gap between vacancies available, and jobseekers matched, came into focus on the same day as the MOM announced that the the seasonally-adjusted resident unemployment rate reached 4.5 per cent in August.

This is Singapore's highest resident unemployment rate in over a decade, since the 4.9 per cent rate in September 2009 in the wake of the global financial crisis.

Mrs Teo said the government would continue to monitor the situation carefully, while helping employers bring forward their hiring plans through the co-payment of wages.

On top of existing wage support schemes, the government also recently introduced a jobs growth incentive scheme, which provides funding support for new hires. The scheme was launched in September, and would take time for its impact to be felt, she added.

DBS senior economist Irvin Seah agreed that the unemployment situation is largely a cyclical shock, while pointing out that there are underlying structural shifts at work.

"First, it takes time to re-skill workers from one industry or skill set to another. Second, some of the jobs lost could be higher-paying PMET (professionals, managers, executives and technicians) jobs," he said.

"It is typically difficult for workers to accept a job that cannot even cover their monthly expenditures. Some companies may also be unwilling to pay a higher wage despite government subsidies, since the subsidies are not permanent," he added.

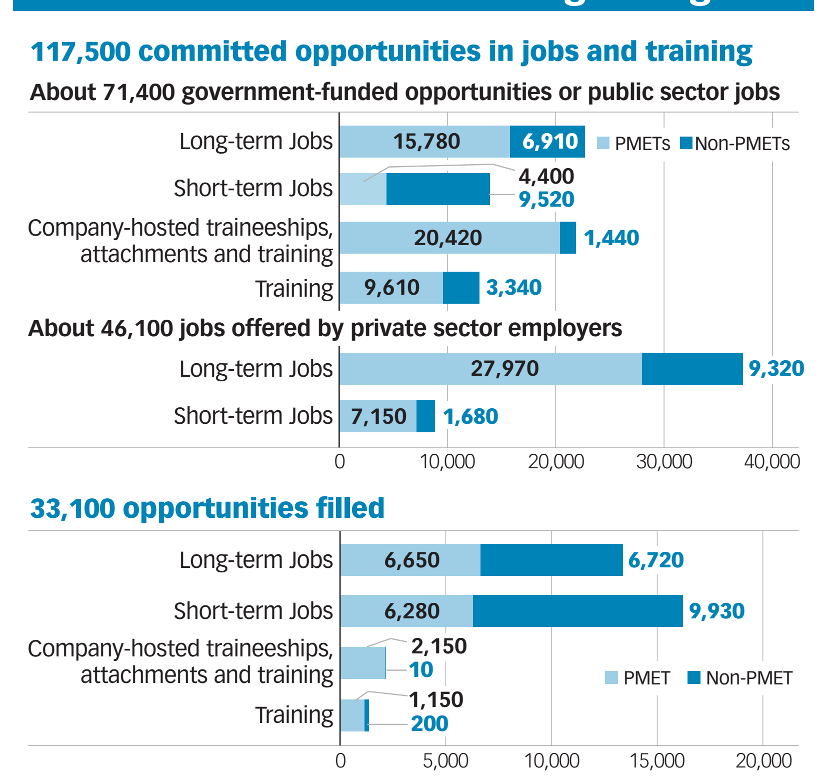
Mr Seah said the structural shift within the Singapore economy is happening too quickly, and middle-aged and older workers are scrambling to adjust to the new normal.

"To be fair, restructuring is the necessary thing to do, in order to maintain Singapore's economic relevance. But Covid-19 has accelerated these changes in a more forceful way that is now beyond our control. Covid-19 has done what the government has been trying to do for the past 10 years, within months," he said.

Speaking to the media, Mr Heng also made the point that Covid-19 will "re-shape the economy and labour market quite significantly".

"But if we can build the right skills and career ladders, I think we can emerge stronger from this," he said. "We will continue to work closely with companies, unions and employers to ensure that Singaporeans can come through this crisis."

SGUnited Jobs and Skills Package at a glance



Source: Ministry of Manpower

Wirecard shutdown leaves some merchants stranded

⌘Continued from Page 1

Starbucks customers, encountering payment terminals in the stores being down, have taken to social media to vent their frustration.

Price point may also have been a reason behind the failure to switch from Wirecard before the disruption.

Mr Tan said fintechs like Wirecard may offer merchants a lower price than other competing systems. BT understands that smaller fintech players typically charge lower rates; in some cases, some undercut rates to the point of being loss-making in order to build market share.

But Mr Tan said complacency plays a part in explaining why some retailers did not act fast enough.

"The larger companies are very much resistant to changes, especially those with large footprints, outlets and complex IT systems.

"Ultimately, it means extra work and many are resisting the need to do this so unless forced to, which is what's happening now."

Several large merchants are now switching providers following disruptions to their payment services.

In an e-mail to customers on Friday, M1 said that its monthly recurring-payment mode is temporarily unavailable because of Wirecard ceasing its services.

In the meantime, customers can pay their bills via AXS, PayNow and the My M1 app. "We're working on it and will update you once your recurring-payment arrangement is back," said M1.

In response to queries from BT, the telco said it is working with a local bank and an alternative payment gateway service provider to handle the credit card bill payments which have been disrupted.

"This process has been expedited and is expected to be ready in two weeks," it added.

Safra, via an alert on its website and e-mail to members on Friday, said all online payment services have been temporarily suspended because of Wirecard's exit, and that members may visit Safra clubhouses for transaction matters.

"Safra is working expediently to reinstate the online payment and will provide a status update in due course," it said.

Wirecard became a well-known payments player in the Asia-Pacific after acquiring the customer portfolio of Citigroup's merchant acquiring business. Following that 2017 announcement, Wirecard said its merchant-clients in Singapore, Hong Kong, Macau, Malaysia, Taiwan, Indonesia, the Philippines, Thailand, India, Australia and New Zealand numbered more than 20,000.

Prof Ghosh said: "Bigger businesses have to possibly invest in building in-house capabilities or look for smaller fintech providers.

"Having said that, this is providing space for smaller players to fill in the void left by the collapse of Wirecard."

Even as the disruption to affected businesses is likely short-term, observers say that the Wirecard debacle should be a good lesson; Mr Tan said it is best practice to plan for an alternative digital payment gateway, even if it is a daunting task.

Prof Ghosh agreed on the need to build redundancies in the system, even though it is not easy and may be a strain for small and medium-sized enterprises with limited resources.

On a higher level, he emphasised the importance of regulation and corporate governance in fintech firms.

"In an often winner-takes-all setup in a hyper-competitive landscape striving for efficiency, both redundancy and corporate governance might take a back seat," he noted.

MONETARY POLICY

MAS tipped to stand pat on Singdollar policy next week

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THE central bank has been tipped to leave Singapore's currency settings untouched next Wednesday, after adopting easing measures at the last two half-yearly policy reviews.

That's as there's little work left for monetary policy to do at this point, according to analysts, who believe expectations of economic recovery help stave off the need for more easing.

Jobs pose the key challenge to this outlook, with watchers flagging the off-chance of the Monetary Authority of Singapore (MAS) shifting the centre of the Singdollar policy band downwards if the labour market worsens.

Yet "at this juncture, the upside and downside risks remain fairly balanced", OCBC chief economist Selena Ling told *The Business Times*.

"This means there is no urgency to recalibrate the SGDNEER policy settings for now."

There are three levers involved in Singapore's monetary policy: the rate of appreciation, or slope, of the SGDNEER band; the width of the band; and the level at which it is centred. Judging from reports, the consensus among watchers is for all three settings to stand unchanged in October.

A dovish MAS last cut policy to a zero-appreciation "flat slope" amid a global oil price slump in 2016, before tightening the reins again later.

But the MAS took an even more aggressive shock approach with the Covid-19 crisis in end-March: pairing a zero slope with downward re-centring of the band, in a one-two blow.

Now, "we believe there is a limited role for additional support from Singapore's foreign exchange-based monetary policy", HSBC strategists said in late September, citing resilience in key pharmaceutical and semiconductor exports in recent months.

Maybank Kim Eng's Chua Hak Bin and Lee Ju Ye added: "Monetary policy is a less effective tool to deal with the pandemic recession, and fiscal policy will play the leading role in supporting firms and households."

Singapore delivered a record four Budgets in response to the pandemic in 2020, while Deputy Prime Minister and Finance Minister Heng Swee Keat recently extended or enhanced key support measures in August through S$8 billion in reallocated funds.

"Monetary policy remains focused on price stability, fiscal on growth," as Ong Sin Beng and Arthur Luk, from JP Morgan's Asian emerging markets economic and policy research team, described the prevailing sentiment.

Monetary policy may have to step up if fiscal stimulus is pulled back in next year's Budget, "especially if downside risks shift towards external demand", Citi analysts Kit Wei Zheng and Ang Kai Wei warned in a report.

Still, Barclays economist Brian Tan said "we doubt this will pressure the MAS to provide additional support through (foreign exchange) policy", as he believes that "the government retains ample fiscal firepower" for aid.

Meanwhile, since the April review, the Singapore dollar nominal effective exchange rate (SGDNEER) has held steady at just above the estimated mid-point of the band it can trade in.

The policy settings now in force leave "ample room for SGD to weaken if needed", UOB economist Barnabas Gan wrote in a quarterly outlook.

And, noting that core inflation – which strips out accommodation and private road transport costs – is "expected to mark a broadly stable path through Q1 2021", Mr Ong and Mr Luk said: "Core stability argues for no move at (the) October MAS meeting."

While core inflation turned negative in February and was last recorded at -0.3 per cent per cent in August, ANZ head of Asia research Khoon Goh said that it has passed its trough "and we do not see a risk of destabilising disinflationary pressures emerging".

Mr Tan, from Barclays, similarly said that there is "no need to fear deflation", as lower energy prices have been offset by costlier food imports.

Another concern for economists is Singapore's output gap, or the difference between actual and potential levels of economic activity. The output gap is now negative, with demand below the capacity of the economy.

But "there is not much more that monetary policy can do to close the output gap, given that it is partly a structural issue", said ANZ's Mr Goh.

Instead, a softening job market is seen as the main threshold for the MAS to pursue further monetary easing, with Dr Chua and Ms Lee warning that more job losses and wage cuts would cap domestic price pressures.

The Citi duo said that, taking growth forecast downgrades "alongside further disinflationary impulses from the job market, a case could be made for a weaker NEER within the band to accommodate those risks".

And Vishnu Varathan, economics and strategy head at Mizuho, told BT the MAS will likely keep a dovish stance for a prolonged spell – meaning "SGDNEER appreciation bias will not be restored (in the) near term".

Yet, since policy is already at zero slope, any further loosening would likely take the form of another downward shift in the band mid-point.

"Although the MAS could theoretically adopt a negative slope to the SGDNEER policy band in response to the softening economic outlook, it has never been done in practice," said Mr Gan, pointing to the risk of a Singdollar sell-off and market instability.

All the same, Mr Varathan noted: "Given that the SGDNEER is volatile around the mid-point... calibrating the mid-point to the prevailing SGDNEER at this point may be tricky."

He added that, as the central bank works with fiscal policymakers to support economic recovery, "easing banking and credit risks may be more apt".