Economics

DBS Flash

Singapore: Ending 2018 on a low note

Group Research

2 January 2019

Irvin Seah
Senior Economist

Please direct distribution queries to
Violet Lee +65 68785281 violetleeyh@dbs.com

- Advance GDP growth for the fourth quarter registered 2.2% YoY, lower than expected
- The slowdown was broad-based as external headwinds continued to weigh down performances in all key sectors
- While last year had been a roller coaster ride, this year could be just as challenging. We expect GDP growth in 2019 to slow to 3.0%, from 3.3% in 2018

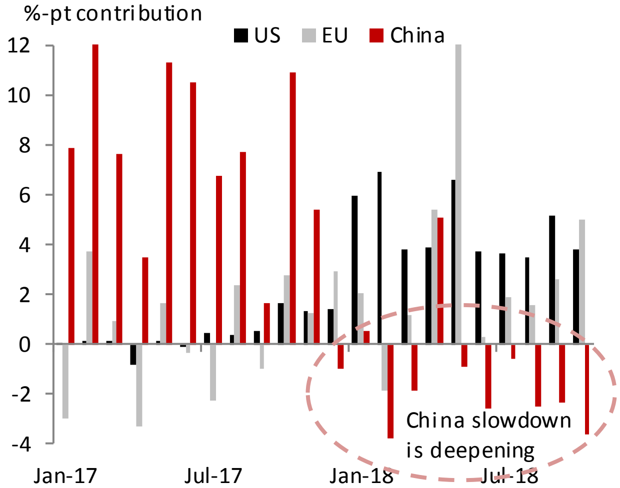
The Singapore economy ended 2018 on a low note. Advance GDP growth for the fourth quarter came in lower than expected at 2.2% YoY, from a revised 2.3% in the previous quarter. Sequentially, growth momentum slowed to 1.6% QoQ saar, from a robust 3.5% previously. Overall, the economy expanded by 3.3% in 2018.

Notably, the slowdown in the fourth quarter was broad-based. While the manufacturing sector saw a higher year-on-year growth, this was largely due to the low base last year. Sequentially, output from the sector has declined by 8.7%. The slowdown from China could be a key factor. Non-oil domestic exports to China has shrunk by an average of 20.9% between Oct-Nov18. Latest December manufacturing PMI in China also contracted (49.4) for the first time in more than two years. The trade dilution impact of the trade war has started to bite.

GDP growth by sectors

	2017	1Q18	2Q18	3Q18	4Q18*	2018*
% YoY						
Overall GDP	3.6	4.5	4.1	2.3	2.2	3.3
Manufacturing	10.1	10.4	10.9	3.7	5.5	7.5
Construction	-8.4	-5.0	-4.0	-2.5	-2.2	-3.4
Services producing	2.8	4.0	2.8	2.6	1.9	2.8
% QoQ saar						
Overall GDP	3.6	2.1	1.4	3.5	1.6	3.3
Manufacturing	10.1	24.6	5.5	3.1	-8.7	7.5
Construction	-8.4	1.5	-13.6	3.3	1.1	-3.4
Services producing	2.8	-1.4	0.2	5.3	3.7	2.8

China is now the drag

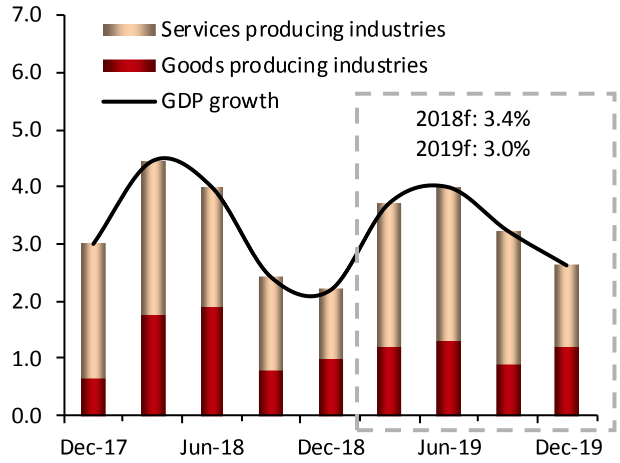


The drag from the manufacturing sector has in part spilled over to the services sector. While the sector has remained in expansion, the pace of growth in this key sector has continued to moderate. Note that the services sector accounts for about 70% of the economy and employment. Continued moderation in the growth momentum in this sector would have significant implications on the performance of the overall economy, as well as employment outlook.

The construction sector has remained in recession, but the worst for the cycle may have passed. Overall growth remains stuck in negative and the sequential growth momentum has also eased to 1.1% QoQ saar, from 3.3% previously. Impetus in the coming quarters will come from infrastructure projects, but this will be juxtaposed with a slowdown in the residential construction activity.

Slower growth ahead

% YoY, %-pt contribution



External headwinds have picked up. Global electronics demand is easing, and the trade war is adding salt to wound in the near term. Trade diversion from China to ASEAN countries could help but this will take time to materialise. Besides, liquidity conditions will get tighter in 2019. Although rising US rate expectations have simmered, we still see the Fed Funds Rate increasing another 50 bps to 3%. Overall, last year has been a roller coaster ride but this year could be just as challenging. We expect GDP growth in 2019 to slow to 3.0%, from 3.3% in 2018.

.

Group Research

Economics & Strategy

Taimur Baig, Ph.D.
Chief Economist - G3 & Asia
+65 6878-9548 taimurbaig@dbs.com

Nathan Chow
Strategist - China & Hong Kong
+852 3668-5693 nathanchow@dbs.com

Joanne Goh
Regional equity strategist
+65 6878-5233 joannegohsc@dbs.com

Neel Gopalakrishnan
Credit Strategist
+65 68782072 neelg@dbs.com

Eugene Leow
Rates Strategist - G3 & Asia
+65 6878-2842 eugeneleow@dbs.com

Chris Leung
Economist - China & Hong Kong
+852 3668-5694 chrisleung@dbs.com

Ma Tieying
Economist - Japan, South Korea, & Taiwan
+65 6878-2408 matieying@dbs.com

Radhika Rao
Economist - Eurozone & India
+65 6878-5282 radhikarao@dbs.com

Irvin Seah
Economist - Singapore, Malaysia, & Vietnam
+65 6878-6727 irvinseah@dbs.com

Samuel Tse
Economist - China & Hong Kong
+852 3668-5694 samueltse@dbs.com

Duncan Tan
FX and Rates Strategist - Asean
+65 6878-2140 duncantan@dbs.com

Philip Wee
FX Strategist - G3 & Asia
+65 6878-4033 philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).