Economics & Strategy

DBS Flash

A better year ahead for Singapore despite ending 2019 on a dull note

Economics/growth/FX

Group Research

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- *Based on the advance GDP estimates, the Singapore economy has expanded by 0.7% in 2019*
- *Despite a lackluster performance in 4Q19, signs of improvements are emerging*
- ***Implication for our forecast** – We continue to expect GDP growth of 1.4% in 2020*
- ***Implications for investors** – Expect a tepid recovery ahead*

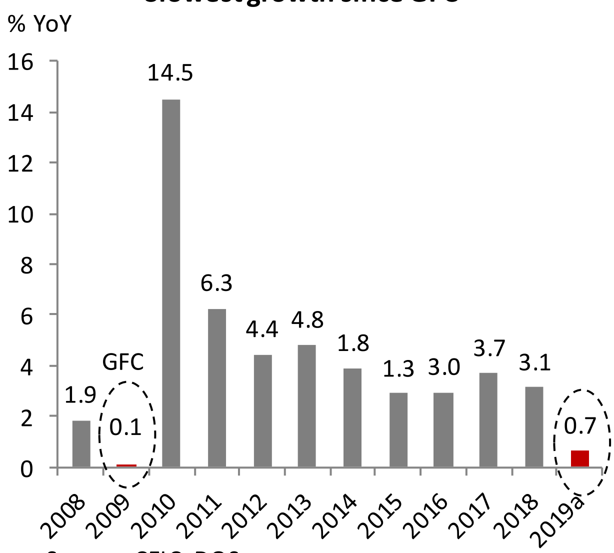
The Singapore economy is expected to expand by 0.8% YoY in 4Q19, based on the advance GDP estimates. On a QoQ saar basis, growth momentum slowed to just 0.1%, compared to 2.4% previously. Factoring in this set of figures, full year GDP growth for 2019 is now estimated to average 0.7%, much in line with our long-held forecast. Yet, this marks the worst growth performance for Singapore since the global financial crisis.

GDP growth by sectors

	2018	1Q19	2Q19	3Q19	4Q19*	2019*
% YoY						
Overall GDP	3.1	1.1	0.2	0.7	0.8	0.7
Manufacturing	7.0	-0.1	-2.9	-0.9	-2.1	-1.5
Construction	-3.7	2.7	2.8	2.4	2.1	2.5
Services	2.9	1.2	1.2	0.9	1.4	1.1
% QoQ saar						
Overall GDP	3.1	3.8	-2.6	2.4	0.1	0.7
Manufacturing	7.0	-5.4	-3.6	8.9	-7.3	-1.5
Construction	-3.7	13.2	-5.5	-1.7	2.1	2.5
Services	2.9	4.1	-1.4	0.6	2.4	1.1

* advance estimates

Slowest growth since GFC



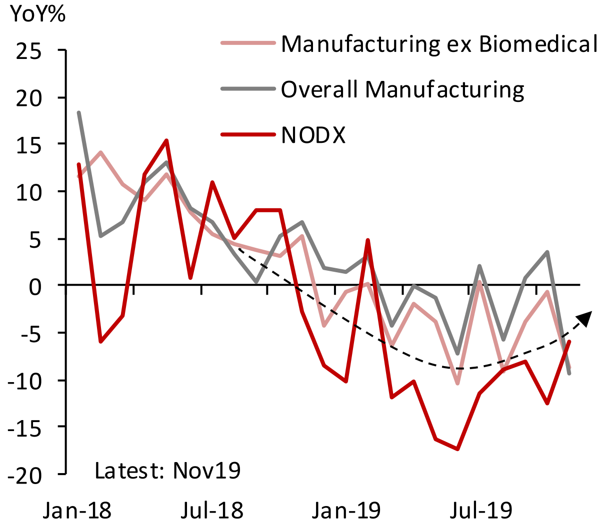
Source: CEIC, DOS

Despite the lacklustre growth performance, **the economy is slowly getting out of the woods**. A trough in the growth cycle has been registered, with emerging signs of bottoming in the external environment. Barring any unforeseen negative shocks, growth momentum is expected to pick up gradually in the coming quarters.

A turnaround in manufacturing

The manufacturing sector reported a contraction of 2.1% YoY, down from 0.9% previously. However, while high frequency data such as NODX and industrial production have remained in the red and choppy at times, these figures have bottomed and are gradually trending upwards (see chart below).

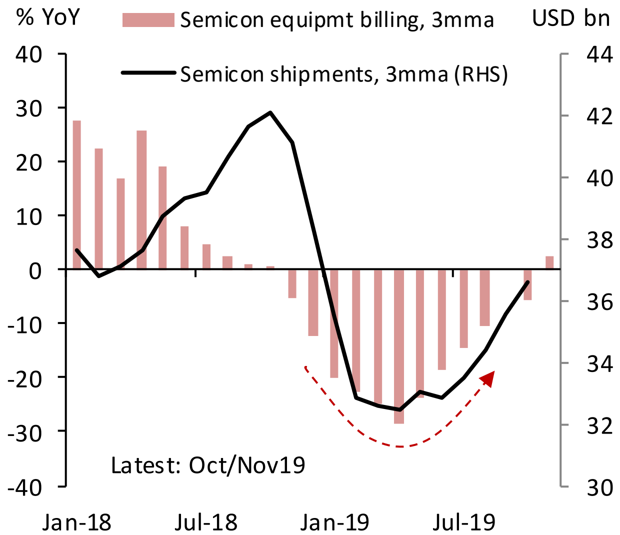
Manufacturing bottoming out



Source: CEIC, DOS

In addition, although electronics has been a drag for the past two years, this cluster could well provide some impetus in 2020 due to restocking and new demand for parts and components for 5G implementation across the globe, as well as broadening of usage of new technologies such as IoT, AI, driverless vehicles

Global electronics cycle turning around



Sources: CEIC, DBS

etc. Indeed, electronics indicators such as the growth in semiconductor equipment billings has registered the first expansion since Oct18 while semiconductor shipments have risen by a healthy 12.8% from the trough in Apr19. A turnaround in the electronics cluster is in the making, which could help to drive growth in the overall manufacturing sector in the coming quarters.

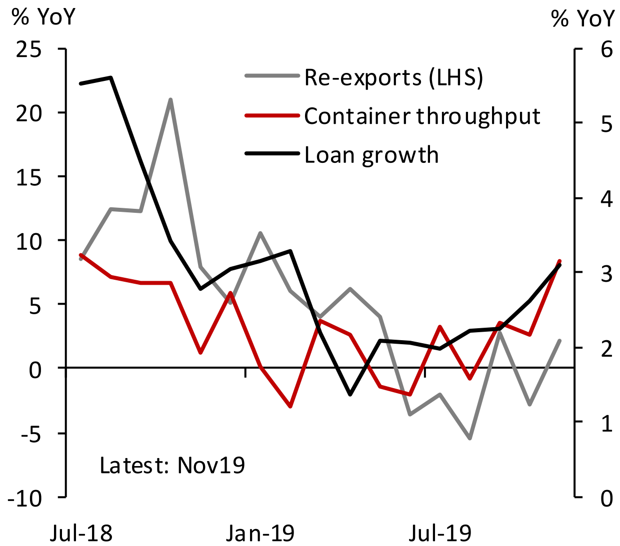
That said, while the worst could be over, global demand remains fragile and ongoing trade talks between the US and China is still a risk factor. The phase one deal marks a significant de-escalation of the trade dispute but not the end of the trade war. High tariff rates remain a huge barrier to free trade and growth. In short, **the manufacturing sector could be turning around, but the outlook will remain challenging in the coming months**, pending a more pronounced improvement in global economic conditions.

Services holding up

The services sector has managed to pick up the slack from the manufacturing sector in the past quarters, and fourth quarter was no exception. Services grew by 1.4% YoY, which translated into a sequential expansion of 2.4% QoQ saar. This sector accounts for about two-thirds of the economy. Further improvement in this cluster will be instrumental in lifting the overall economic performance.

High frequency data is encouraging. Re-exports growth has turned positive, suggesting a turnaround in global trade flows and potentially better prospects for trade related services. Container throughput growth is also rising,

Services turning around



Source: CEIC, DOS

which reflect improving trade activity. Loan growth appears to have bottomed out, and now inching higher on the back of stronger business loan growth. With that, **we continue to expect the services sector to remain a stable engine of growth for Singapore**, and to buffer any unexpected weakness in the other sectors in the coming quarters.

A tepid outlook

Signs of a turnaround are emerging, but recovery could be weak. While small and agile economies such as Singapore could bounce back faster, its openness and trade dependent nature also imply vulnerability to unexpected negative shocks. Beyond uncertainties around trade talks, geopolitical risks in various parts of the world could test the resilience of the global economy just when growth momentum in the three major economic blocs, US, Eurozone and China, is slowing down.

External headwinds will remain strong. An improvement in global outlook will first be premised on further positive resolution in the trade talks. Weakness in Eurozone fundamentals should also be closely watched. Slowdown in China is a concern, and more policy support is certainly required. Across Asia, beyond accommodative monetary policies, robust and synchronized fiscal boost in the region would be helpful in lifting overall growth outlook, but some countries could be constrained by their high debt ratio.

Considering the above, **GDP growth in 2020 is expected to register 1.4%.** While this is an improvement from last year, it is still below Singapore's potential growth rate of about 2.5%.

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