Economics & Strategy
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Singapore: Pandemic, economics, markets

Economics/growth/FX/rates

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- *Outbreak of the Novel Coronavirus (2019-nCoV) has thrown the Singapore economy a curveball*
- *The impact from the virus outbreak could potentially be deeper than the previous SARS episode given the significantly stronger economic links with the China economy*
- *We are downgrading our 2020 real GDP forecast to 0.9% (from 1.4%), considering likely hits to consumer and business sentiment, tourism, and the regional supply chain*
- *A robust fiscal response is expected. Further monetary easing could also be on the cards should the outbreak escalate*

The 2019-nCoV Pandemic

The Novel Coronavirus (2019-nCoV), which started from Wuhan, has thrown a spanner in the works. The virus has thus far infected more than twenty thousand people, and death toll has reached more than six hundred and still rising in China. While this virus is widely deemed to be more infectious than the Severe Acute Respiratory Syndrome (SARS) in 2002-03, the fatality rate has been lower. Apart from the epicentre, Wuhan, death rate from the 2019-nCoV stands at 2-3% as compared to 9.6% for SARS.

Situation on the Wuhan coronavirus (as of 7 Feb20)

	Confirmed cases	No. of recovered cases	No. of death	Death rate (%)
China	31211	1542	637	2.0
Hubei	22112	817	618	2.8
Wuhan	11618	476	478	4.1
Rest of the world	226	24	1	0.4

Source: China's National Health Commission

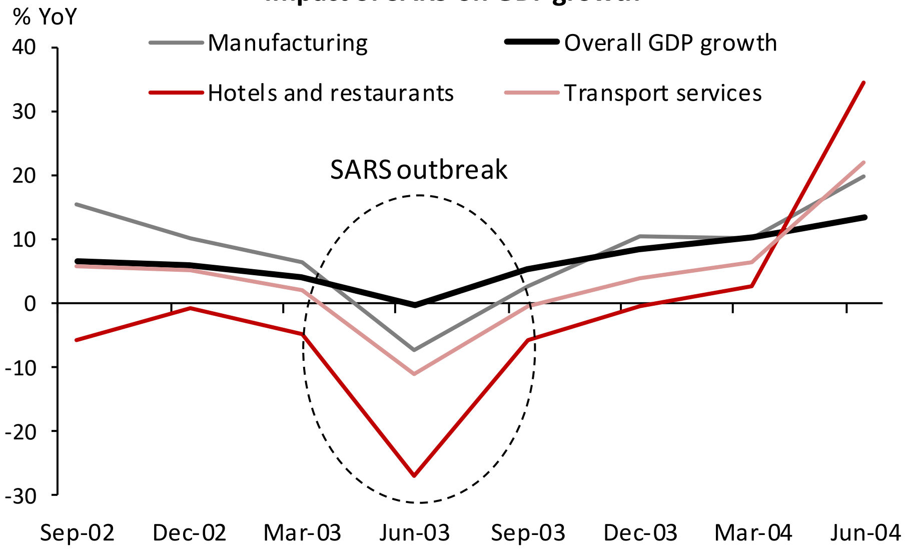
Governments around the world are not taking their chances. Decisive actions were taken to contain the spread. Temperature screening were set up, travel bans on travellers with travel histories to China have also been imposed, and medical facilities were all put on high alert [1]. In

Singapore, contact tracing is at full speed to ringfence the spread to the local community. The government will also announce a relief package in the upcoming fiscal budget to provide support for companies and industries affected by the virus outbreak. Indeed, robust and pre-emptive policy actions taken at this juncture will help to mitigate against the negative impact of the outbreak.

Cues from the SARS episode

The SARS outbreak hit the Singapore economy badly and could serve as a starting point in assessing the impact of the current epidemic. Impact of the SARS outbreak was mainly felt in the second quarter of 2003. GDP shrunk by 0.3% YoY during the quarter, with sectors such as hotels and restaurants (-26.8%), transport services (-10.8%), and manufacturing (-7.2%) all posting declines [2]. **The tourism industry had borne the brunt of the impact**. Overall GDP growth could have been a lot worse if not for strong performance from the wholesale and retail trade (+11.3%) and financial services (+19.7%).

Impact of SARS on GDP growth



Source: DOS, CEIC

Yet, **the SARS outbreak did not last long, and the impact was transient**. Economic growth recovered swiftly in the subsequently quarters, and the economy managed to report an even faster expansion of 4.5% in the year, as compared to 3.9% in 2002. Apart from the construction sector (-8.6%), which was recovering from a cyclical slowdown the year before, only the transport services (-1.3%) and hotel and restaurant industry (-9.3%) recorded full year contraction.

Assessing the impact

The concern is that the impact from the 2019-nCoV could be deeper than SARS. Over the years, the Singapore economy has become much more integrated to China than in 2003. Take tourism for example, the number of China tourists rose by 6x from 568K in 2003 to 3.4mn in 2018. Not surprisingly, China is now Singapore's largest tourism market, accounting for about 19% of total visitor arrivals. Similarly, tourism receipt from China tourists surged by 14.5x (from SGD 313mn in 2003 to SGD 3.9bn in 2018) as a result of emerging consumerism within China and more marketing efforts to target this fast-rising market. In this regard, the travel restrictions imposed thus far will hit the tourism sector severely.

Rising dependence on China

Source: CEIS, DBS

We expect a decline of about 1 million tourists or about SGD 1 billion of lost tourism receipts for every three months of travel ban (based on an estimation of about 310k China tourists per month and including some immediate cancellations by regional travellers). This excludes the indirect effect of global travellers cancelling or deferring their travel plans to the region, including Singapore, due to the virus outbreak, as well as the risk of further spread of the virus outside of China resulting in even tighter travel restrictions.

China is also Singapore's largest non-oil domestic export (NODX) market, accounting for 17.3% of the total share in 2019. Supply chain disruptions such as extended factory closures within China, will have significant impact on Singapore's manufacturing sector. Lastly, companies that rely heavily on Chinese workers, particularly construction companies, will be affected by the mandatory 14 days leave of absence for workers returning from China [3]. They could face manpower shortage, and delays in their work schedule.

Another channel of impact would come from domestic consumption. Besides the potential transmission from slower growth to the job market, consumer spending is expected to be dampened as residents take more precautionary actions in their daily lives. Such second order impact will certainly weigh down on growth prospects further, but much will also depend on how the existing safeguard measures are able to prevent further local transmission of the virus.

Lowering GDP growth forecast

Taking reference from the SARS experience and considering the above, we reckon that **the 2019-nCoV outbreak will shave off about 0.5%-pt of Singapore's full year GDP growth**. The impact will be most deeply felt in the first quarter. Headline GDP is expected to contract by about 0.6-0.8% YoY in 1Q20, the first quarterly (YoY) decline since the Global Financial Crisis, and about twice as deep as the previous SARS outbreak.

The tourism sector (including F&B) will be the worst hit, and a double-digit decline can be expected. Sectors such as manufacturing, transport services, retail and construction will also be impacted, but comparatively less. These sectors are also expected to recover faster once the outbreak subsided.

In response to this scenario, **we have lowered our full year GDP growth forecast to 0.9%, down from 1.4% previously**. This assumes that like the SARS episode, the impact will be transient in nature. A sharp decline in the first quarter will soon be followed by a V-shaped recovery subsequently. However, if the epidemic persists beyond that, the impact on the Singapore economy will be more severe.

Policy implications

A strong fiscal response is expected to counter the impact of the virus outbreak. The government has announced that there will be targeted measures to help affected companies and workers in the upcoming Budget 2020. In the previous SARS outbreak in 2003, a relief package worth SGD 230mn was introduced to support the tourism, transport, retail and F&B industries. The package comprised of property tax rebates, road and diesel tax rebates, foreign workers' levies rebate, bridging loans and training support etc.

We expect the upcoming epidemic relief package to pack more punch and certainly more comprehensive than the previous one. This will form a significant portion of the overall budget plan. Expectation is that the government will put forth an overall deficit of about SGD 7.9bn (1.6% of nominal GDP) in Budget 2020. This will be the highest budget allocation since FY09 during the Global Financial Crisis period.

The Singapore dollar nominal effective exchange rate (SGD NEER) first fell below the mid-point of the policy band on February 5. The Monetary Authority of Singapore (MAS) has indicated no urgency for any inter-meeting policy adjustments before its next scheduled review April, citing ample room for the SGD NEER to ease within the policy band.

The SGD NEER had been resilient in the upper half of the band throughout the trade war into the Phase 1 trade deal signed in mid-January. The repositioning of SGD NEER to a more neutral level just below its mid-point is not unreasonable because of the potential negative spill-over from the novel coronavirus outbreak into 1Q20 growth. Until the global epidemic peaks and stabilizes, the SGD NEER is likely to remain in the lower half of the policy band. **If the assessment of the economic impact proves to be materially worse-than-expected, a policy adjustment in April will be in order.**

Notes:

[1] As of 1 Feb20, all new visitors who had travelled to mainland China within the past 14 days will not be allowed entry into Singapore, or transit through Singapore. In addition, returning residents and long term pass holders returning from China will be placed on a mandatory 14-day leave of absence after their return.

[2] The construction sector contracted by 9.4% YoY in 2Q03 but was recovering from a cyclical doldrum the year before.

[3] About 30,000 work pass holders who are of Chinese nationality left Singapore over the Chinese New Year break and have not returned.

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