Economics

DBS Flash

Singapore's GDP: Expect a better 2H19

Group Research

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- An improvement in sequential growth to 2.0% QoQ saar, from 1.4%, indicates that the Singapore economy is far from recession

- In fact, we expect the headline number to be revised upwards, and first quarter should also mark the bottom of the cycle

- **Implication for our forecast** - Growth performance in the second half will be stronger

- **Implications for investors** – Data beneath the headlines are suggesting more upsides ahead

The economy is off to a slow start. Advance GDP estimates for the quarter suggest that growth has turned out weaker than expected. GDP growth is projected to register 1.3% YoY, down from 1.9% previously. This will be the weakest quarterly growth since Jun09, essentially the Global Financial Crisis period. However, the economy is far from a recession. Sequential growth has in fact picked up to 2.0% QoQ saar, from 1.4% previously. The subpar headline YoY figure is partly due to the high base effect in the manufacturing sector, as well as the risk-adverse behavior of manufacturers amid the height of the trade tension between the US and China.

GDP growth by sectors

	1Q18	2Q18	3Q18	4Q18	2018	1Q19*
% YoY						
Overall GDP	4.7	4.2	2.4	1.9	3.2	1.3
Manufacturing	10.1	10.6	3.5	5.1	7.2	-1.9
Construction	-6.0	-4.2	-2.5	-2.2	-3.4	1.4
Services producing	4.4	3.0	2.7	1.8	3.0	2.1
% QoQ saar						
Overall GDP	4.7	0.0	1.4	1.4	3.2	2.0
Manufacturing	16.7	7.4	0.7	-2.7	7.2	-12.0
Construction	-2.0	-8.5	0.7	5.1	-3.4	7.8
Services producing	4.2	-2.2	2.6	2.8	3.0	4.8

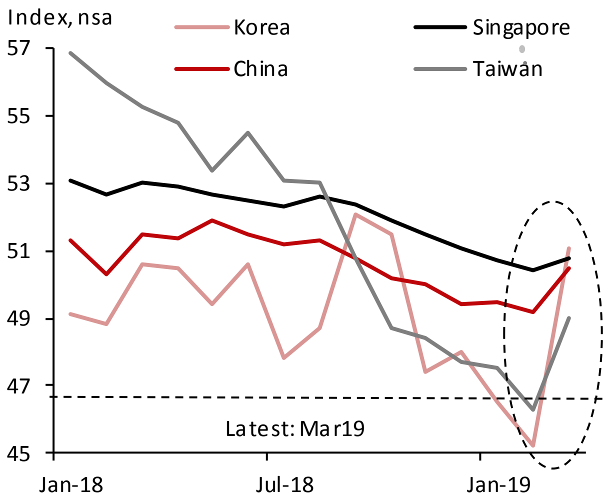
* advance estimates

Manufacturing has bottomed

The manufacturing sector was the key drag. Growth is expected to come in at -1.9% YoY (-12% QoQ saar). Trade tension between the US and China has led to a massive cutback in orders from China. And this came on top of an ongoing moderation in growth pace within China due to its domestic deleveraging process.

However, most recent March manufacturing PMI in Singapore, China and some regional peers have all rebounded. This may suggest a restocking process to make up for the "over-cutting" of purchases by procurement managers earlier on [1]. Concerns regarding the impact of trade war may have led to a more than required destocking of inventories and production cutback. **Expect some positive "payback" in industrial production and export numbers in the coming months**.

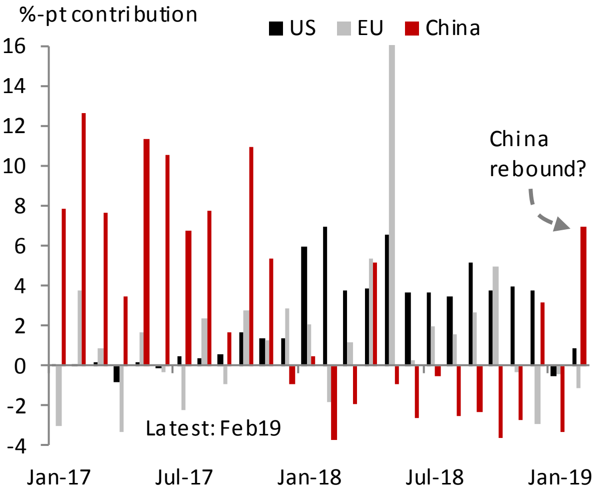
PMIs have rebounded



In fact, February non-oil domestic export (NODX) figures are already hinting of a turnaround in the export cycle. Headline NODX rose by 4.9% YoY after a sharp decline of 10.9% previously. Although March NODX figure could dip back into the red due to a high base in the same period last year, a strong month-on-month figure will indicate a turnaround in the cycle and the above point on restocking.

More importantly, the latest upticks in trade and PMI figures can be attributed to China. Singapore's NODX to China in February surged by 34.4% YoY and was the key contributor to NODX growth in the month. And February is supposed to be a lull period due to the Lunar New Year. That is, exports to China will usually slump instead of surge during the festive period, but the most recent data has defied the conventional wisdom. **In light of the above, the manufacturing GDP figure could be revised up when the final set of figures are out next month**.

Turnaround in NODX to China

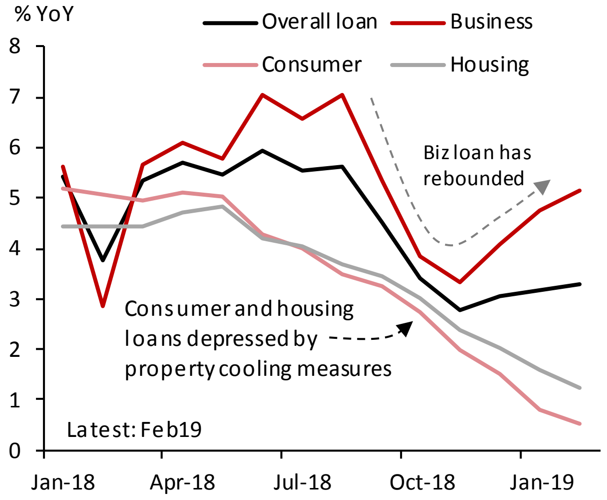


Services and construction to drive growth

In line with expectation, the services sector has picked up some of the slack. Yearly growth is likely to improve to 2.1% (from 1.8%), but the most encouraging sign is an acceleration in growth momentum to 4.8% QoQ saar, from 2.8% previously. While trade related services probably have been weighed down by the manufacturing sector, domestic services (i.e., IT, business services) and key financial services are expected to do the heavy-lifting.

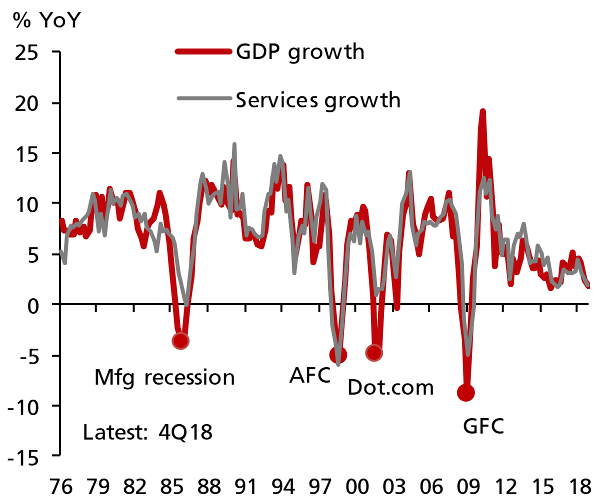
For example, though loan growth - a proxy for the financial services and an indicator of business activities – has been sluggish, it was mainly dragged down by housing and consumer loans. This can be partly

Biz loan growth has rebounded



attributed to the property cooling measures introduced last year. In contrast, while business loan growth plunged during the height of the trade war, it has bottomed late last year and is now on the way up. Businesses probably shelved their investment plans when trade tension escalated during the period between Sep-Dec18. With positive rhetoric from the ongoing trade negotiation between the US and China recently, **there is emerging optimism on business outlook as reflected by the business loan growth figure**.

Historical GDP and services sector growth

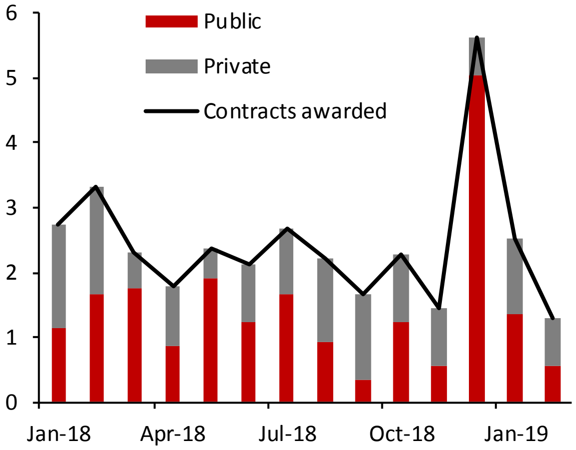


Most importantly, the services sector accounts for about 70% of the economy and employment. GDP growth is driven more by services than by the manufacturing sector. **Continued improvement in services will have significant implications on the performance of the overall economy, as well as employment outlook**.

The construction sector is finally out of recession. The sector registered its first positive year-on-year growth and posted a strong 7.8% QoQ (saar) expansion. Although residential construction activities remain sluggish, impetus from a healthy pipeline of infrastructure projects is gradually taking effect. Specifically, the government awarded a total of SGD 5.1bn worth of infrastructure contracts in December last year, which should help to support construction activities in the coming quarters [2]. Indeed, **expect better showing from this sector going forward**.

Public projects to drive construction sector in 2019

SGD bn



The worst is behind for this year

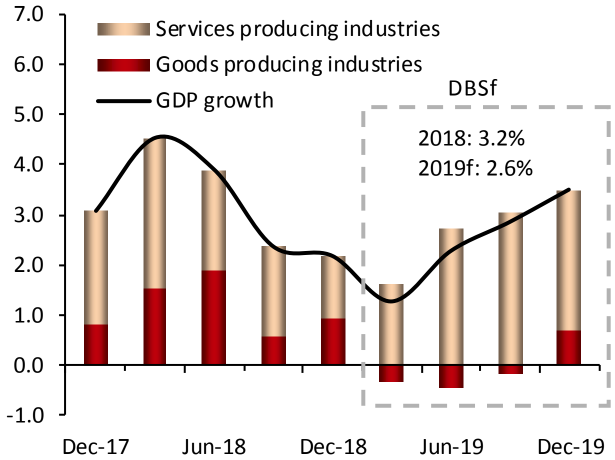
While we expect the advance figures to be revised marginally upward, we do note the lower trajectory registered in the first quarter will have a significant impact on the full year number. Considering that, **our full year GDP growth forecast had been lowered to 2.6%.**

However, **we believe the economy has reached the bottom of the current growth cycle**. **The worst is probably behind us.** GDP growth for the first quarter (on a YoY basis) will be the weakest. We expect a steady pick-up in growth performance in the coming quarters, as economic outlook improves.

A slew of policy stimulus from China, and stable monetary policies by global central banks (e.g., no more hike from US Fed) will provide the uplift in global economic conditions. Concerns regarding Brexit have also subsided with most of its potential risks priced in. All these should bring about a significantly stronger second half compared to the first quarter for Singapore. In short, **this year will likely be back-loaded**.

Steady pick-up ahead

% YoY, %-pt contribution

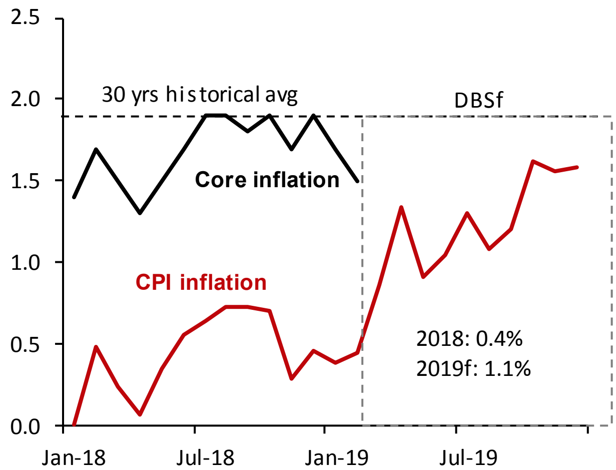


Inflation lower than expected

Inflation has persistently surprised on the downside. Headline CPI inflation averaged just a mere 0.4% YoY in Jan-Feb while core inflation has also dipped to 1.5% in Feb19, from 1.9% in Dec18. Lower global oil prices at the start of the year and lower electricity tariffs have kept the lid on inflation. Going forward, inflation is expected to pick up along with the steady rise in oil prices. But a sharper than expected decline in electricity prices due to the liberalization in the electricity market should tamper domestic price pressure and keep inflation in check. **We have lowered our inflation forecast to 1.1%** to reflect such benign inflationary environment.

Inflation to pick up but remains manageable

% YoY



More importantly, while overall inflation will be higher compared to 0.4% in 2018, risk remains manageable and the headline number is still below the historical average level. Coupled that with an improving, albeit slower growth outlook, the **MAS will likely continue to keep its policy stable in the upcoming October review**.

Footnotes:

[1] Refer to DBS article "Singapore: Opportunities from the trade war" dated 1 Oct18

[2] This includes six transport related contracts totaling SGD 3.14bn for tunneling and construction of commuter facilities

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