

Irvin Seah

Senior Economist



Please direct distribution queries to

Violet Lee +65 68785281 violetleeyh@db.com

- 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-averse 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

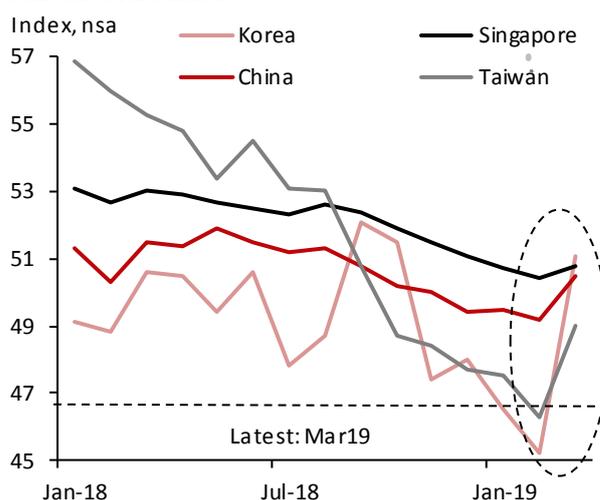
* advance estimates

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.**

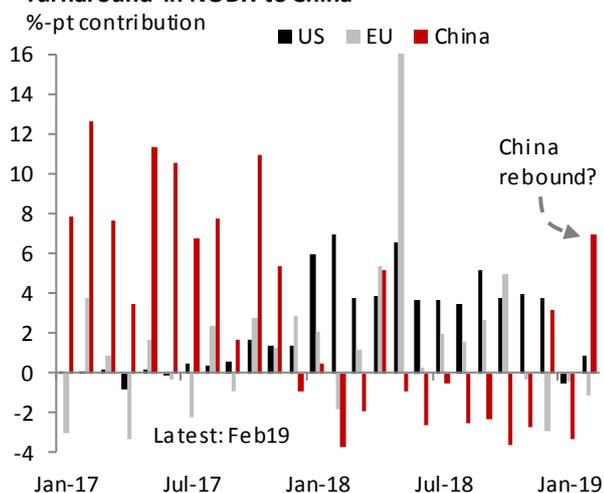
PMIs have rebounded



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

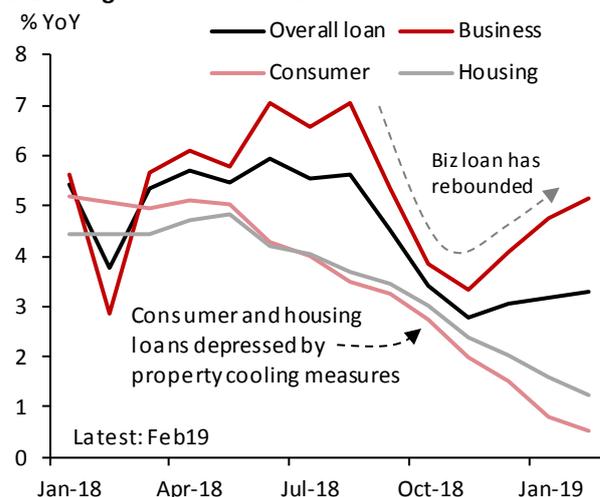


Services and construction to drive growth

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.

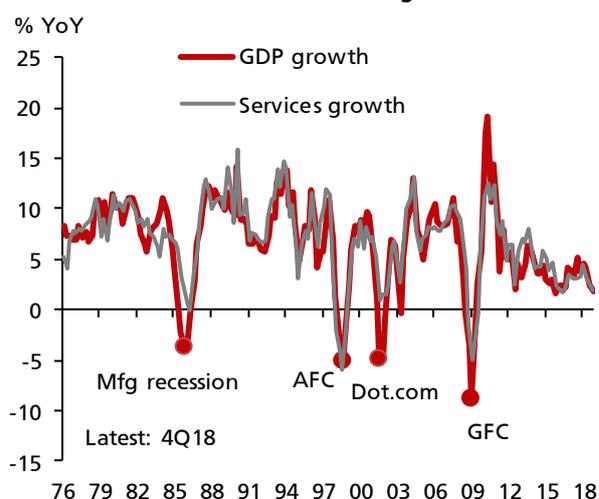
For example, though loan growth - a proxy for the financial services and an indicator of business activities - has been sluggish, it was mainly dragged down by housing and consumer loans. This can be partly

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.**

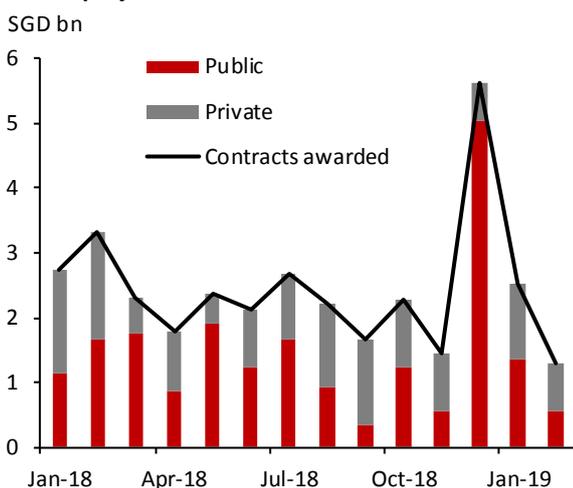
Historical GDP and services sector growth



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



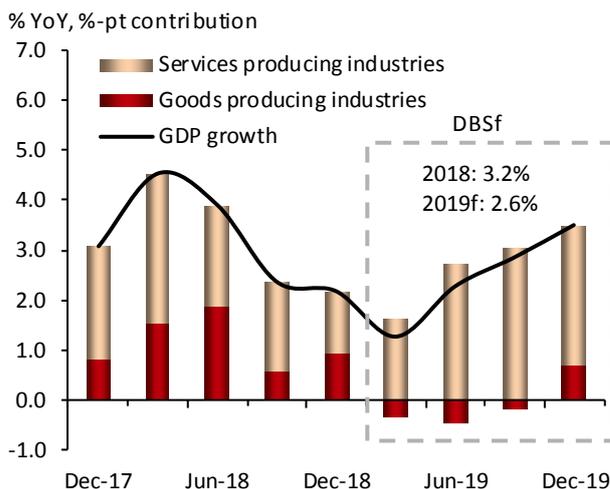
The worst is behind for this year

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.**

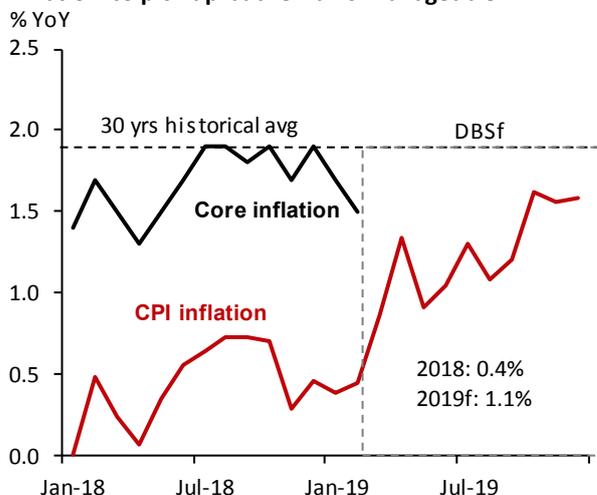
Steady pick-up ahead



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 temper 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



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

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).

Disclaimer:

The information herein is published by DBS Bank Ltd and PT Bank DBS Indonesia (collectively, the "DBS Group"). It is based on information obtained from sources believed to be reliable, but the Group does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation & the particular needs of any specific addressee. The information herein is published for the information of addressees only & is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Group, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Group or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Group & its associates, their directors, officers and/or employees may have positions or other interests in, & may effect transactions in securities mentioned herein & may also perform or seek to perform broking, investment banking & other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Sources for all charts & tables are CEIC & Bloomberg unless otherwise specified.

DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.
PT Bank DBS Indonesia, DBS Bank Tower, 33rd floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000.
Company Registration No. 09.03.1.64.96422.