Economics

DBS Flash

Recalibrating Singapore's GDP outlook

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- *First quarter GDP growth figures have brought out several peculiarities, caused mainly by a revision in last year's figures*
- *The drastic backward revision has shed more light on the underlying weakness of the economy in recent quarters*
- ***Implication for our forecast*** *– We have lowered our 2019 full year growth forecast to 2.1% in response to this data revision*
- ***Implications for investors*** *– Risks have picked up in the horizon, weighing down on outlook*

First quarter GDP growth figures announced this morning turned out to be mixed. While the headline number was revised marginally downward to 1.2% YoY (from 1.3% previously), the sequential figure was raised to 3.8% QoQ saar (from 2.0% previously). It is not clear to many if the outcome is better or worse than what was previously projected in the official advance GDP estimates announced last month. There are several takeaways from scrutinizing this most recent set of figures.

Based on the advance estimates, a sharp decline of 9.5% in manufacturing output was factored in the projection. As it turns out, industrial output contracted less than expected at -4.8% YoY. This was better than previously thought and as a result, consensus expectation was skewed towards an upward adjustment in both the YoY and QoQ saar figures. However, the twist of the story arises from the backward revision to last year's figures. **The headline YoY figure was revised down marginally as a result of now a higher base of comparison**. While this is a common practice by the Department of Statistics to revise previous year's figures, this is usually done by February when the full year numbers for the previous year are finalised.

GDP growth by sectors

	1Q18	2Q18	3Q18	4Q18	2018	1Q19
% YoY						
Overall GDP	4.6	4.2	2.6	1.3	3.1	1.2
Manufacturing	10.0	10.6	3.5	4.6	7.0	-0.5
Construction	-6.4	-4.3	-2.6	-1.2	-3.7	2.9
Services producing	4.4	2.9	2.8	1.5	2.9	1.5
% QoQ saar						
Overall GDP	4.9	0.7	0.8	-0.8	3.1	3.8
Manufacturing	14.2	7.8	1.1	-3.4	7.0	-7.1
Construction	-3.5	-7.8	0.2	5.3	-3.7	14.0
Services producing	5.8	-1.5	1.7	0.4	2.9	5.5

* advance estimates

Secondly, to view the upward adjustment in the quarter-on-quarter figure as an improvement is also not exactly right. Note 4Q18 GDP growth was significantly downgraded from an expansion of 1.4% QoQ saar (1.9% YoY) to a contraction of 0.8% QoQ saar (1.2% YoY). **That is a whopping 2.2%pt change in the sequential figure, and this also marks the first quarterly decline since 1Q15. Another concern is that the downward adjustment is mainly on the services sector** (from +2.8% to 0.4%), which accounts for the bulk of the economy.

Hence, one can argue that the bounce-back in 1Q19 figure (+3.8% QoQ saar) is nothing more than just a technical payback, merely because the bottom in 4Q18 was deeper than expected. To put things in a different perspective, it makes sense to average out the quarterly figures over the past two quarters. At just 1.5% on average over two quarters, growth momentum is far from strong.

More importantly, we forecast GDP growth on a sequential basis. As such, the sequential growth performance of fourth quarter last year will have the strongest bearing on the growth forecast this year. With today's massive downward revision in 4Q18 GDP figures,

the trajectory for our full year 2019 growth forecast has now been lowered significantly, even if we maintain our previous sequential forecast figures.

Risks in the external environment have also picked up with the renewed hostilities between the US and China. Uncertainties have spread to some of the key tech giants, which will likely impact global electronics demand. Indeed, it is not a promising sign when the two biggest economies in the world are trying to test the “pain tolerance” of each other. While we continue to maintain the view that first quarter GDP growth will be the lowest this year (in year-on-year basis), and we should see gradual improvement going forward, we also note that the downside risk has heightened and the new set of figures have also shed more light on the underlying weakness of the economy. As such, **we have thus lowered our full year 2019 GDP growth forecast to 2.1%**.

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