Economics

Singapore Chartbook: Down but not out

Economics / Asia / Singapore / GDP

Group Research

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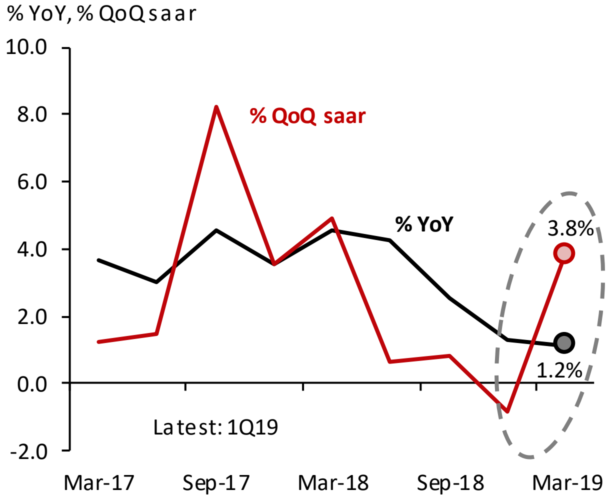
Charts of the month

- *GDP growth registered 1.2% YoY in 1Q, following a path of gradual deceleration, but on a QoQ basis, the outturn was rather robust*
- *The electronics downcycle and trade tension between the US and China will continue to be drags to growth*
- *While the externally oriented data series are pointing to a grim outlook, signs of bottoming out in services, and positive impetus from construction could cushion the slowdown.*
- *GDP growth in 2H19 will be marginally stronger than 1H, given the low base in the same period last year, improvement in liquidity conditions and spillovers from China's stimulus measures.*
- *Full year GDP growth is expected to average 2.1% in 2019, down from 3.1% previously*
- *Inflation is rising but will remain manageable. Juxtaposed with the downside risk on growth, the Monetary Authority of Singapore (MAS) is expected to maintain the current gradual appreciation stance in October*

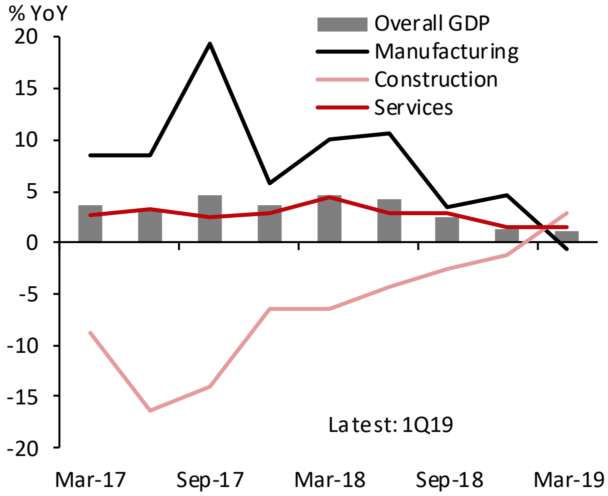
GDP growth

Chart 1: Mixed outcome in 1Q19



GDP breakdown

Chart 2: GDP growth by key sectors

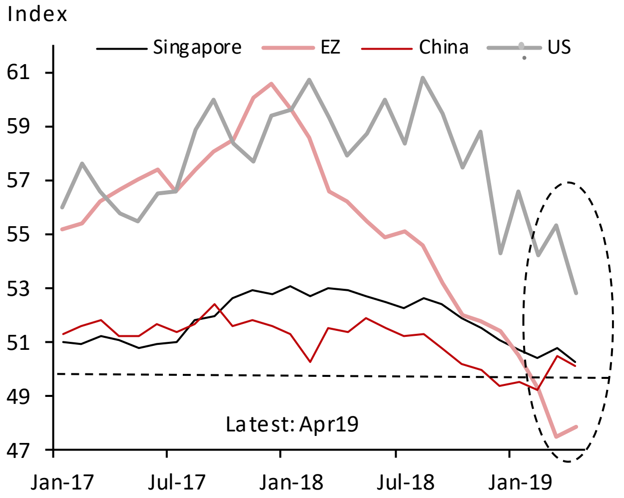


Manufacturing sector

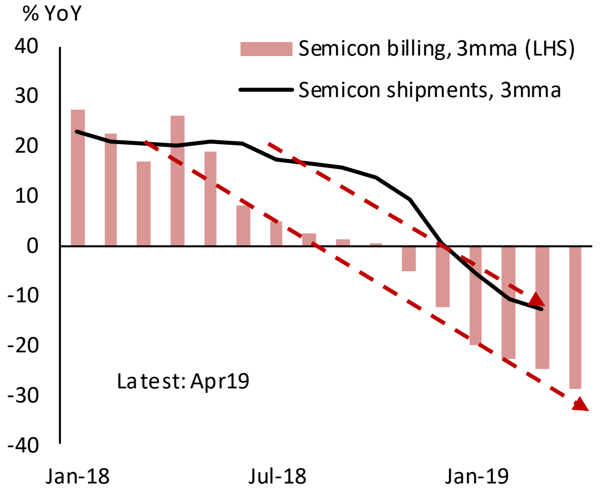
PMIs for key markets and Singapore are all falling across the board amid slowing global demand and trade war. However, most are still in expansion territory except for Eurozone.

Electronics is on a two-year downcycle. The shipments and billings for semiconductors are both on a downward trend. This will weigh on the export and manufacturing sector performance

Chart 3: PMIs dipping again



Global electronics cycle heading south



Non-oil domestic exports (NODX) continue to be dragged down by weak electronics demand. High base effect from pharmaceuticals has further exacerbated the downside. NODX is expected to fall by -1.7% in 2019.

A grim export outlook has weighed down on the performance of the manufacturing sector. The sector could potentially be tipped into contraction this year if the trade tension persists.

Chart 5: Both electronics and pharma are down

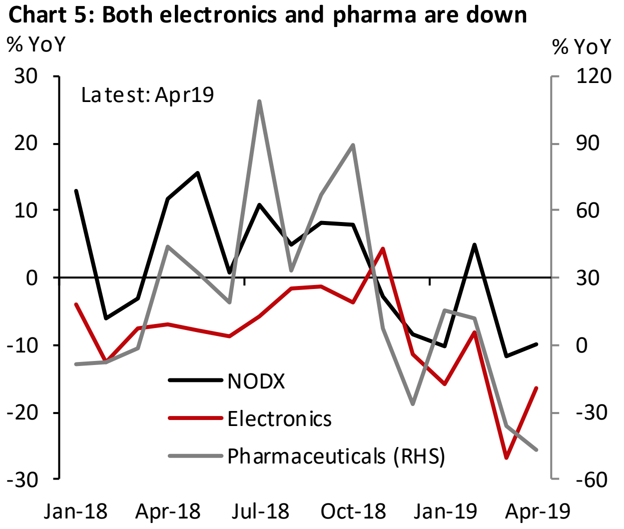
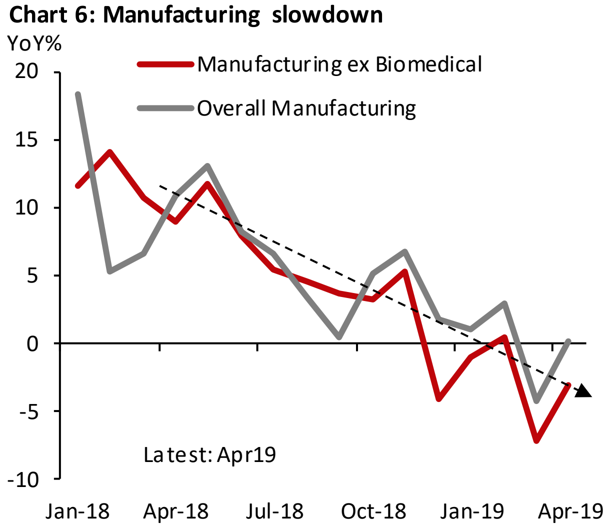


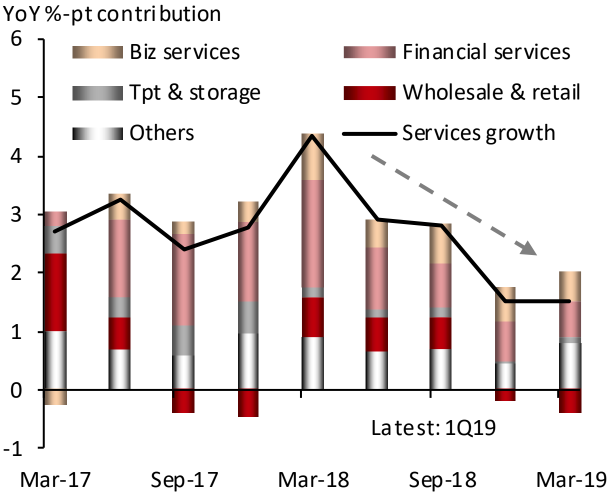
Chart 6: Manufacturing slowdown



Services and construction sectors

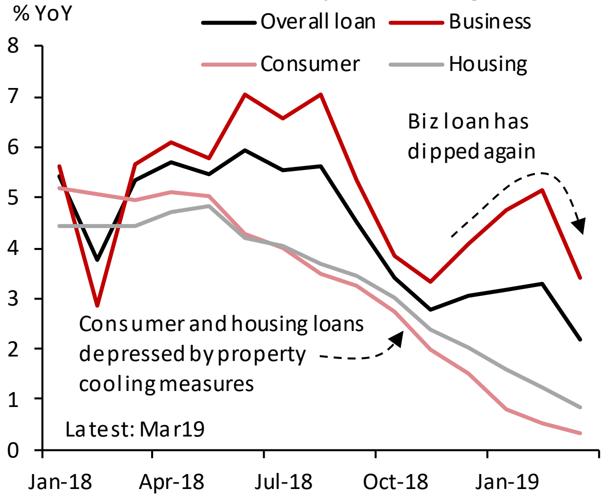
Overall services sector growth appears to have bottomed as drag from the trade sector is partially offset by some support from domestic oriented services clusters. We expect growth to remain tepid in the coming quarters.

Chart 7: Services sector easing



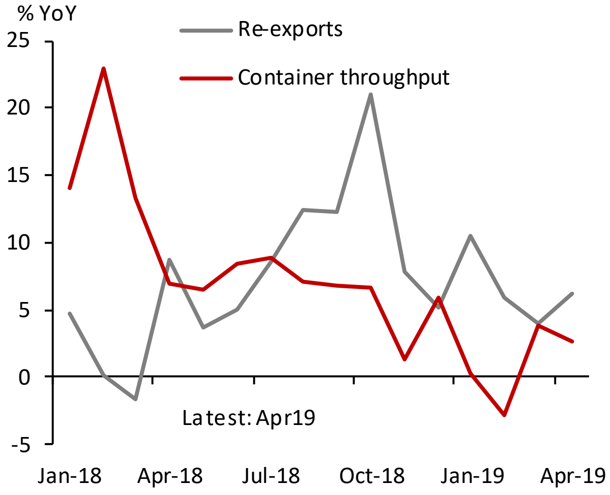
Business loan growth has dipped again while consumer loan growth, particularly from the mortgage loan segment, is expected to remain subdued amid a sluggish property market.

Chart 8: Weak sentiment depressed loan growth



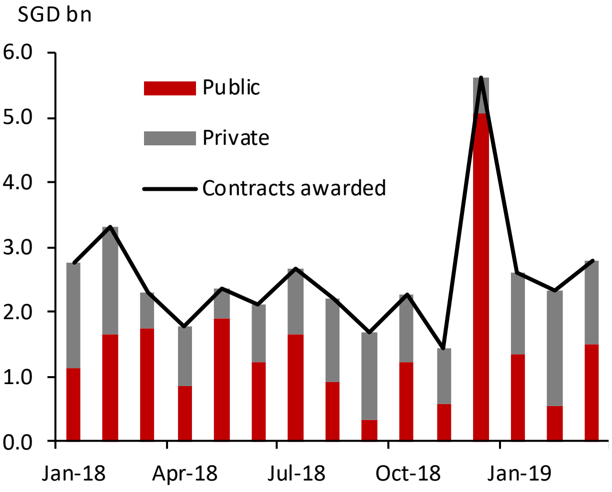
Container throughput growth has eased amid softer re-export growth. Outlook for the trade related services sector will depend on global trade flows, which is bias on the downside given ongoing trade disputes.

Chart 9: Trade related services continued to weaken



Expect strong impetus from the construction sector on the back of a healthy pipeline of infrastructure projects. The sector has rebounded from recession and growth outlook will stay positive in the coming quarters.

Chart 10: Public projects to drive construction in 2019



Growth and inflation

First quarter GDP growth (1.2% YoY) will be the weakest before mild uptick in the next few quarters. Overall GDP growth for 2019 is expected to register 2.1%. Marginal improvement in domestic sectors should pick up some slack from the externally oriented clusters, while stimulus measures from China could also lend some support

Inflation has bottomed and will likely pick up, although impact from the liberalisation in the retail electricity market will moderate the rise. Full year inflation is expected to average 1.1% in 2019, from 0.4% previously, and essentially returning to the historical average by year end.

Chart 11: Gradual pick-up ahead

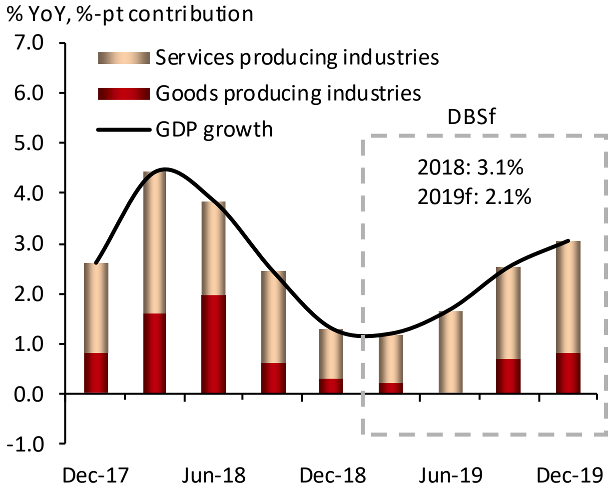
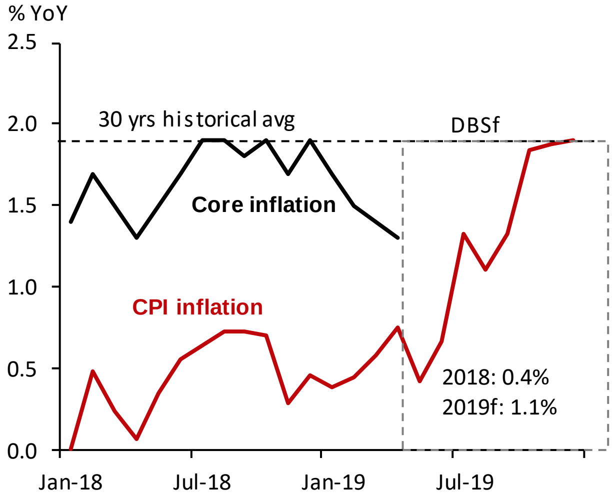


Chart 12: Inflation to pick up



Monetary

Despite higher inflation, the downside risk on growth should prompt the Monetary Authority of Singapore (MAS) to keep monetary policy on hold in October, with a gradual appreciation of the Sing NEER.

Both M2 growth and M2/GDP ratio have bottomed and could possibly rise over the next few quarters. This may suggest some easings in domestic liquidity ahead, which is necessary to buffer the downside risk to growth.

Chart 13: DBS SGD NEER and policy band

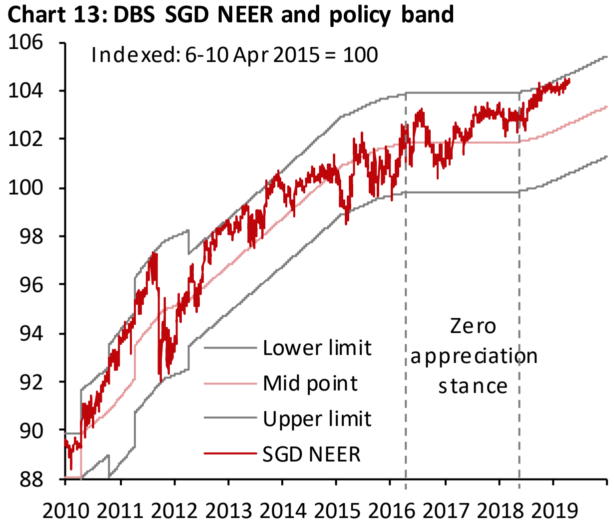
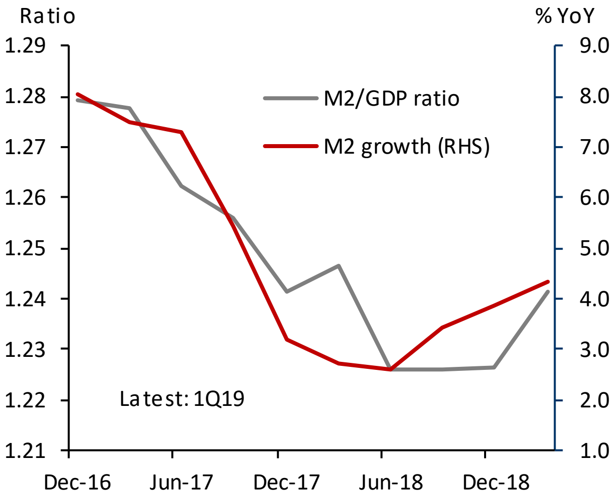


Chart 14: Bottoming out in M2



FX and interest rates

The SGD has eased about 1.42% vis-à-vis the USD year-to-date. With the dollar expected to remain firm amid the trade tension and slowdown in China, we expect the SGD to soften marginally to 1.39 by the end of 2019.

While the 3M Libor has come off and there are no longer any Fed hikes expected for the next two years, tight liquidity and the firm USD has kept the 3M Sibor/SOR elevated.

Chart 15: SGD to weaken further

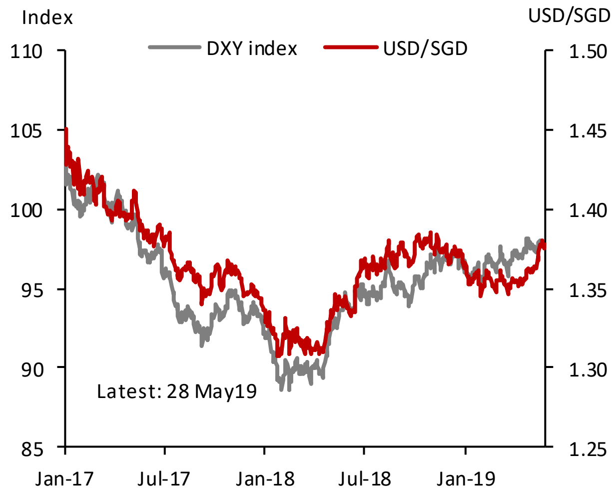
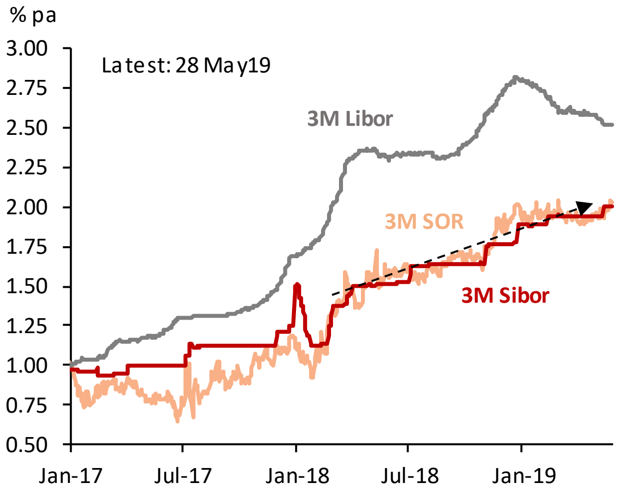


Chart 16: SGD rates up gradually



Forecasts on major indicators

	GDP				CPI inflation			
	2017	2018f	2019f	2020f	2017	2018	2019f	2020f
Annual change (%, YoY)	3.9	3.2	2.1	2.5	0.6	0.4	1.1	1.5

Exchange rate and interest rates forecasts									
		1Q19	2Q19f	3Q19f	4Q19f	1Q20f	2Q20f	3Q20f	4Q20f
USD/SGD	(eop)	1.36	1.37	1.40	1.39	1.38	1.37	1.36	1.35
3M SIBOR	(%, eop)	1.94	1.95	1.95	1.95	1.95	1.95	1.95	1.95
Government bond yields	2Y (%, eop)	1.92	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	10Y (%, eop)	2.07	2.15	2.18	2.20	2.20	2.20	2.20	2.20
	10Y-2Y (bps)	15	15	18	20	20	20	20	20

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