DBS Flash
Downgrading Singapore's growth forecast

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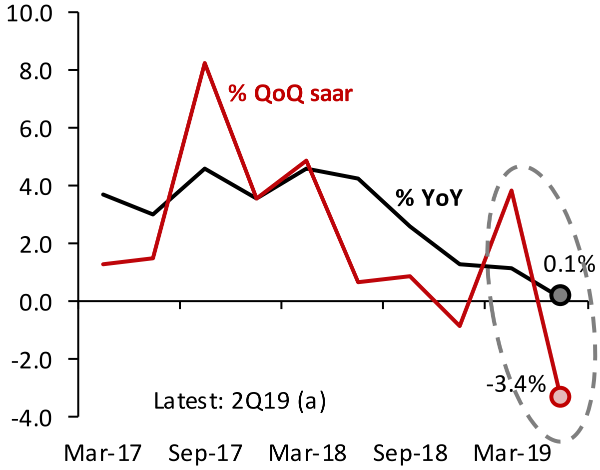
- *Second quarter's advance GDP estimates have surprised on the downside*
- *Beside risk of a technical recession, the key concern is that overall GDP growth for the year could turn out significantly lower*
- ***Implication for our forecast** – In light of the latest set of exceptionally poor data, we have lowered our full year growth forecast for 2019 to 0.7%*
- ***Implications for investors** – This will be the weakest growth since the global financial crisis*

Advance estimates for second quarter GDP have surprised on the downside. The economy is projected to register a paltry growth of just 0.1% YoY, the weakest in ten years. On the margin, that translates into a contraction of 3.4% (QoQ saar). Overall economic performance was way below market expectation (Consensus: 1.1% YoY, 0.5% QoQ saar).

Sharp drop in 2Q19
% YoY, % QoQ saar



GDP growth by sectors

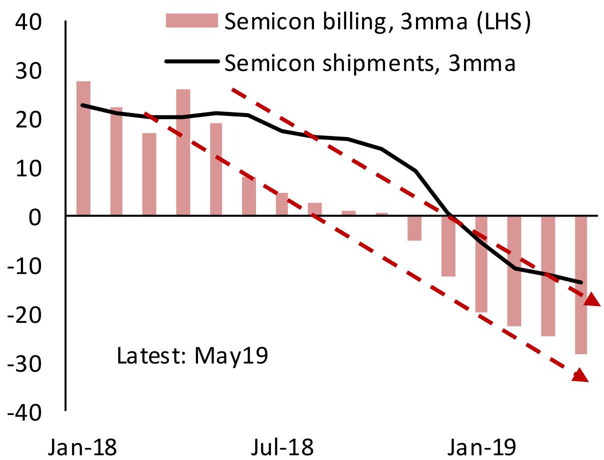
	2Q18	3Q18	4Q18	2018	1Q19	2Q19*
% YoY						
Overall GDP	4.2	2.6	1.3	3.1	1.1	0.1
Manufacturing	10.6	3.5	4.6	7.0	-0.4	-3.8
Construction	-4.3	-2.6	-1.2	-3.7	2.7	2.2
Services	2.9	2.8	1.5	2.9	1.2	1.2
% QoQ saar						
Overall GDP	0.7	0.8	-0.8	3.1	3.8	-3.4
Manufacturing	7.8	1.1	-3.4	7.0	-6.4	-6.0
Construction	-7.8	0.2	5.3	-3.7	13.3	-7.6
Services	-1.5	1.7	0.4	2.9	4.4	-1.5

* advance estimates

Drag from manufacturing

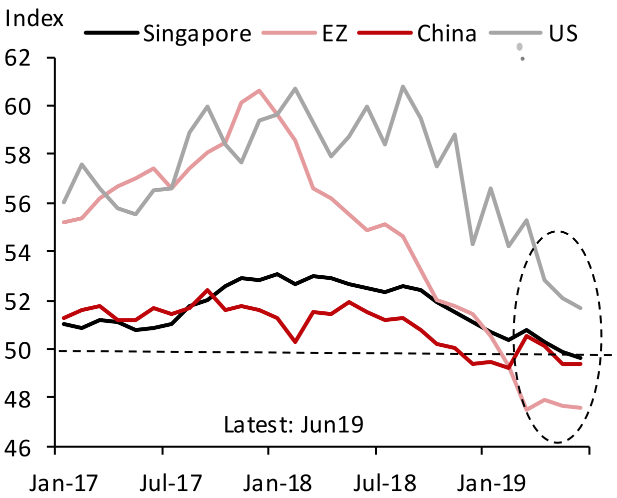
The manufacturing sector is already in a technical recession, with three consecutive quarters of sequential declines. Industrial

Global electronics cycle heading south
% YoY



output has continued to deteriorate amid the ongoing down-cycle in the electronics industry, persistent slowdown in China, and direct knock-on impact from the trade war.

PMIs slipped further

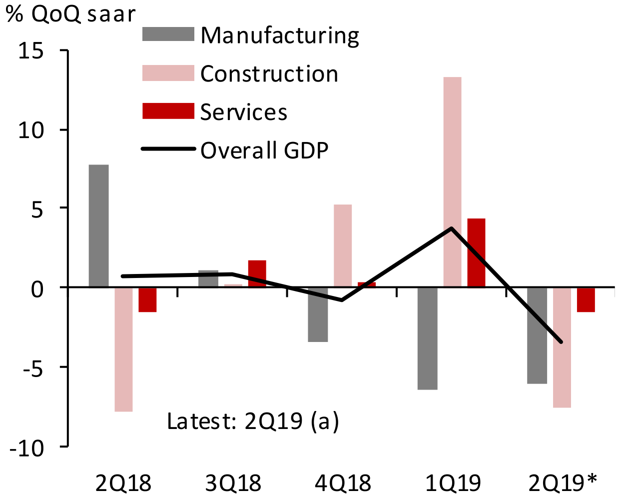


In fact, the PMIs of key markets such as the US, China and Eurozone have continued to slide. Singapore's own manufacturing PMI has also dipped into contraction territory. Outlook for the sector appears bleak. **Another quarter of disappointment, which is likely judging from the hostile external environment and weak global demand, would push the manufacturing sector into an outright recession (i.e., full year contraction)**.

The key disappointment

Amid the external headwinds, the subpar performance in manufacturing did not come as a surprise. Instead, the biggest letdown in our view, came from the services and construction sector. The construction sector experienced a deep sequential decline of 7.6% QoQ saar while the services sector, traditionally a stable engine of growth for Singapore, has also dipped by 1.5% QoQ saar. **This is where the main disappointment lies, as expectation was for both sectors to hold up, and to cushion the slide in manufacturing**.

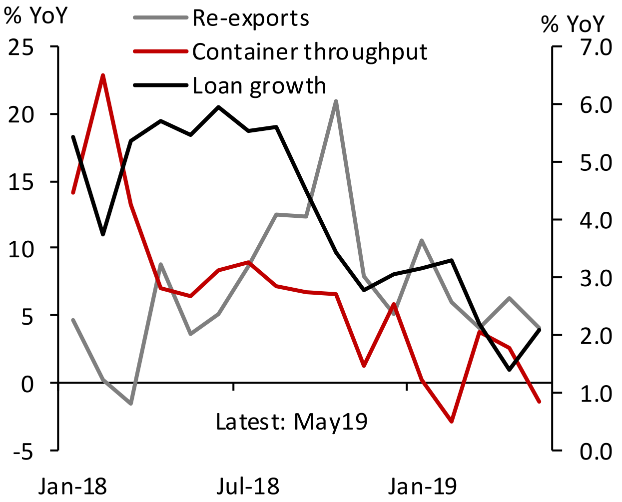
Sharp declines in construction & services



The narrative for construction was originally very positive but it has now shrunk by 7.6% QoQ saar. Granted that as the construction sector is currently driven mainly by public infrastructure projects, and that payment schedules tend to be lumpy, volatility in the growth figures can thus be expected. In contrast, the biggest concern is the services sector. Note this sector accounts for about two-thirds of GDP and employment. **Further weakness in the service sector would not only weigh down on growth but also hit the labour market squarely**.

Recent higher frequency data seem to suggest tougher times ahead for the services sector, particularly for the externally oriented

Externally oriented services continued to weaken



segment. Loan growth has continued to slip, pointing to weaker business confidence and financial services growth. Re-exports and container throughput figures are also reflecting the headwinds arising from slower trade flows. Though domestic services segment such as IT services and business services may provide some support, the GDP shares of these industries are relatively smaller, and hence may not be enough to offset the receding tide. **The services cluster, a traditionally stable engine for the Singapore economy is waning.**

Growth downgraded

The latest set of GDP figures have made the debate on whether Singapore will dip into a technical recession entirely meaningless. Even with a positive sequential growth (i.e. Singapore averts technical recession), and even if the 2Q19 GDP figures are revised up marginally, full year GDP growth will still fall sharply below expectation, and below the official forecast range of 1.5-2.5%. Plainly, even if there is an improvement in 3Q19, it won't be strong enough to offset the decline in 2Q, judging from the fragile economic conditions at present. Average QoQ growth for both quarters will still be in negative level.

Indeed, the drop in the second quarter has drastically lowered the growth trajectory for the full year. Average GDP growth for 1H19 is at a meagre 0.6% YoY. Our view is that **the official GDP growth forecast for 2019 is likely to be lowered to 0.5-1.5% in August** when the final 2Q figures are released. Even if there is a marginal upward revision to the services growth figures, it probably won't make much of a difference.

Moreover, risks in the external environment continues to cloud near term growth outlook. Despite the truce between the US and China, a resolution is unlikely in the near term. Juxtaposed with the Middle East tension on Iran, and risk of a trade spat between the US and Eurozone, growth outlook has been gloomier than ever. An impending Fed cut may lift market sentiments but underlying global economic fundamentals remain weak.

Taking all these into account, our **full year GDP growth forecast for 2019 has thus been lowered to 0.7%**. **This will be the weakest annual growth since the global financial crisis period (0.2% in 2009)**.

And with the economic climate likely to remain challenging in the coming quarters, such sluggish growth momentum is expected to persist. This essentially warrants a downward adjustment to next year's growth projection. **We now expect GDP growth in 2020 to average 1.8%, down from our previous forecast of 2.5%.**

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