Economics & Strategy

DBS Flash

Singapore's dour growth outlook

Economics/growth/rates

Group Research

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- *The Singapore economy registered a mild expansion of 0.1% in 2Q*
- *The official GDP growth forecast for 2019 has been lowered to 0.0-1.0%*
- ***Implication for our forecast** – We are maintaining our full year growth forecast for 2019 at 0.7%*
- ***Implications for investors** – External economic conditions will continue to weigh down on growth outlook*

The Singapore economy registered a GDP growth of 0.1% YoY, based on the final 2Q19 GDP growth figures released today. On the margin, the economy shrunk by 3.3% QoQ saar, almost unchanged from the advance numbers announced last month.

However, in response to the latest set of poor data, **the official GDP growth forecast for 2019 has now been downgraded to 0.0 - 1.0%**, which is in line with our current forecast of 0.7% for the year.

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	-0.3	-3.1
Construction	-4.3	-2.6	-1.2	-3.7	2.8	2.9
Services	2.9	2.8	1.5	2.9	1.2	1.1
% QoQ saar						
Overall GDP	0.7	0.8	-0.8	3.1	3.8	-3.3
Manufacturing	7.8	1.1	-3.4	7.0	-6.4	-3.4
Construction	-7.8	0.2	5.3	-3.7	13.7	-5.5
Services	-1.5	1.7	0.4	2.9	4.3	-2.0

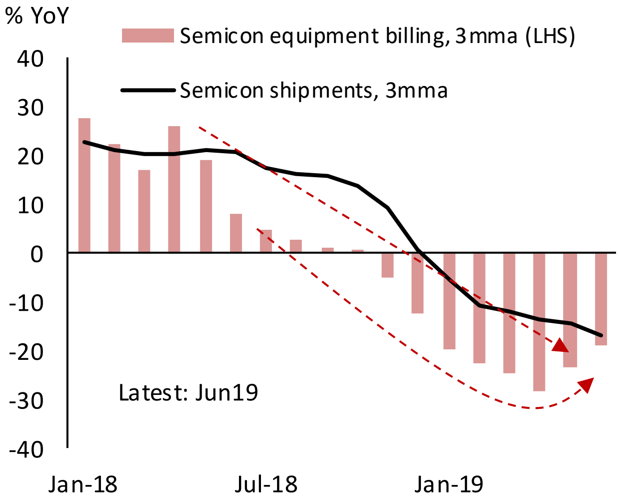
* advance estimates

Manufacturing recession

The manufacturing sector has continued to be the key drag. The sector is already in a technical recession, with three consecutive quarters of sequential declines. Industrial 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.

Though there appears to be some signs of bottoming out in recent months in semiconductor equipment billings, shipment growth in semiconductors globally has continued to slip. Further tariffs by the US on an

Global electronics cycle bottoming out?



additional 300bn of imports from China, as well as the ongoing trade dispute between Japan and Korea, could potentially derail any possible turnaround in the electronics cycle.

Outlook for the manufacturing sector remains 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).

Watch services closely

While there has been some upward revision in construction data, the biggest concern is the services sector (two-thirds of GDP and employment). The latest set of figures saw further downgrades in services growth figures. The sector is now expected to post a benign expansion of 1.1% YoY, which translates into a decline of 2.0% QoQ saar.

The key drag came from wholesale and retail trade (-3.2% YoY, -7.9% QoQ saar). Business services fared poorly too. Growth registered a benign 0.5% YoY (-3.9% QoQ saar) and note this is one of the three major clusters within the overall services sector. Though this is a predominantly domestic driven cluster, poor underlying business confidence and slowdown in economic activities probably has taken a toll.

Policymakers need to stay vigilant and work closely with companies that could be struggling in order to mitigate the risk of retrenchment. Increasing the quantum and/or duration of support for some of the existing policy measures (e.g., Career Support Programme) while at the same time rendering the necessary support for companies could be an option.

Growth downgraded

The latest set of figures has prompted a downgrade to the official growth forecast to 0.0-1.0%, from 1.5-2.5% previously. The revision has taken in account new risks that emerged over the past one month. Risks of more trade actions between the US – China and Japan-Korea, and higher probability of a no-deal Brexit have compounded the risk barometer.

However, we are maintaining the view that the economy could avert a technical recession. Beside the expectation of a technical payback, importers could potentially front-load their orders ahead of the next round of tariffs. This could see some marginal bounce back in export sales. Yet, whether Singapore will dip into a technical recession or not is entirely meaningless. Even with a positive sequential growth in 3Q19, it probably will not be enough to offset the sharp drop in 2Q, judging from the fragile economic conditions at present. Average QoQ growth for both quarters will still be in negative level.

With the latest set of poor data, **chance is high that both monetary and fiscal policies will have to turn more accommodative.** The Monetary Authority of Singapore (MAS) is expected to flatten the slope of the Sing NEER policy band in October. Though we do not expect a counter-cyclical fiscal stimulus package in the near term, a robust fiscal budget early next year should be a given.

Indeed, the economy is not at risk of a full recession yet. The government can afford to keep its powder dry and be more calibrated on the policy front at the moment. The key is to be prepared should the situation deteriorates sharply.

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