Economics

Singapore Chartbook

No technical recession but support is still warranted

Economics/Growth/Monetary/Fiscal/Singapore

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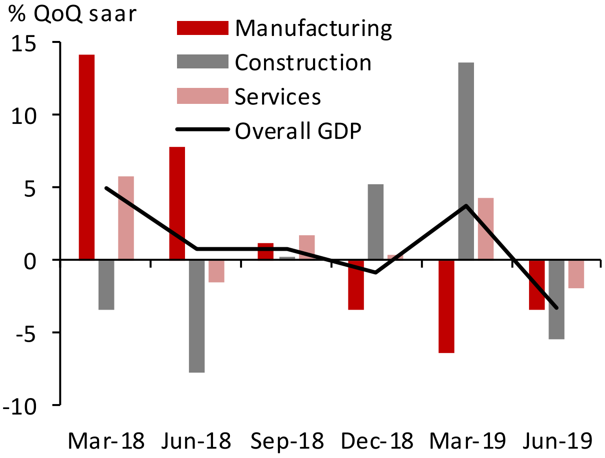
Charts of the month

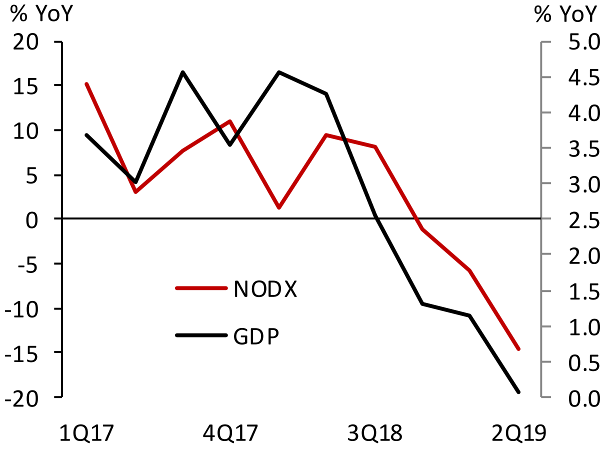
- *We continue to expect the Singapore economy to avert a technical recession in 3Q19.*
- *The economy will likely register a benign expansion of 0.4% YoY (2.1% QoQ saar) amid a mild improvement in the manufacturing sector.*
- *The global slowdown continues weigh on the domestic sector, with significant implications on the labour market.*
- *Our full year GDP growth forecast remains at 0.7%, and inflation is expected to stay muted at 0.5%.*
- *A robust fiscal budget is expected early next year to render support for the economy while the MAS will most likely ease the monetary policy stance moderately next month*

GDP growth % QoQ saar



Sources: CEIC, DOS, DBS

NODX weighing on growth

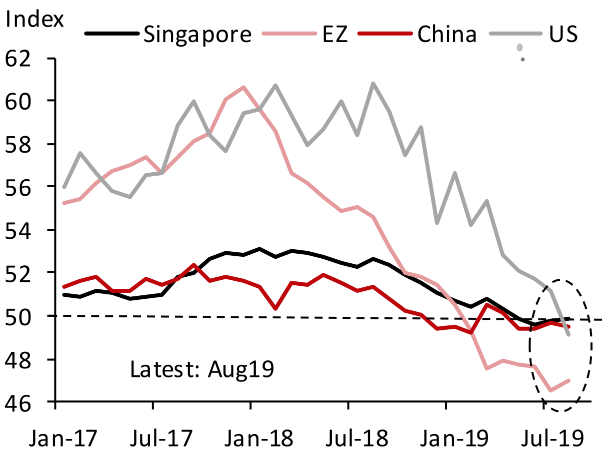


Sources: CEIC, DOS, DBS

External indicators

PMIs for key markets and Singapore are all falling amid slowing global demand and trade war. However, there are some signs of stabilisation in the PMIs for Singapore and China.

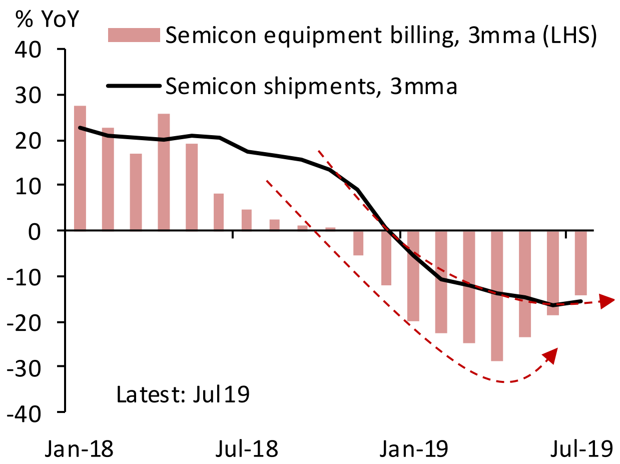
PMIs in contraction level



Sources: Bloomberg, DBS

The declines in billings of semiconductor equipment and global shipments of semiconductors are easing, suggesting that the global electronics cycle could be bottoming out.

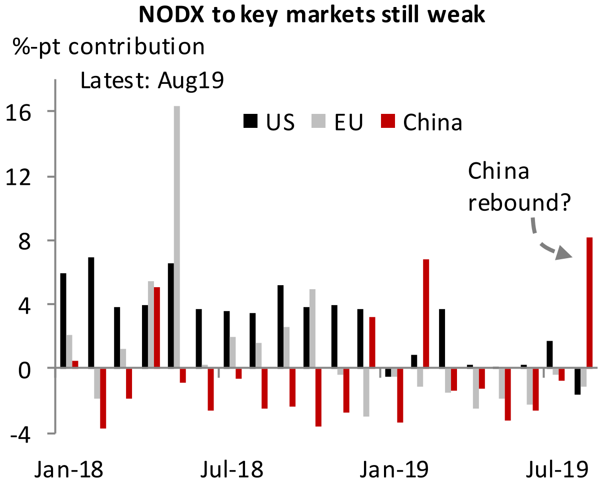
Global electronics cycle bottoming out



Sources: CEIC, DBS

Non-oil domestic exports to China has spiked up but it remains to be seen how sustainable that will be against the backdrop of the ongoing trade disputes between the US and China

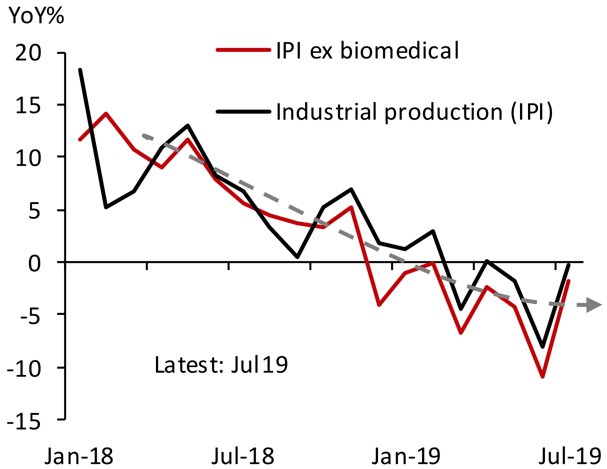
NODX to key markets still weak



Sources: CEIC, DOS, DBS

Industrial production growth remains in negative, but the pace of decline has eased. Most recent Jul19 industrial output growth registered -0.4% YoY, from -8.1% previously.

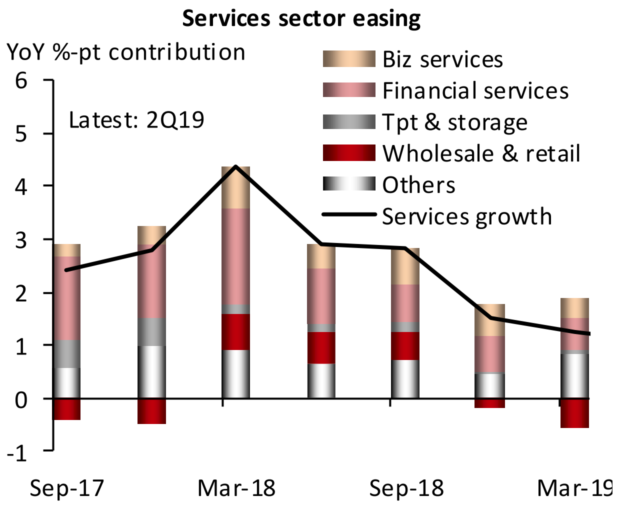
Decline in IPI moderating



Sources: CEIC, DOS, DBS

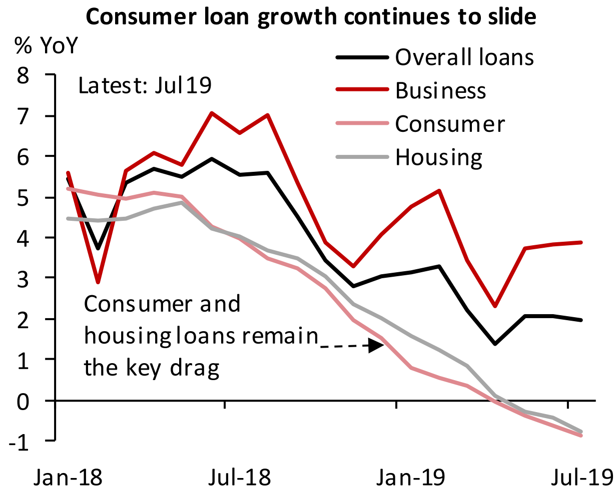
Domestic indicators

The slowdown in externa demand has spill over to the services sector. Overall services growth continues to moderate, led by the contraction in wholesale and retail trade services



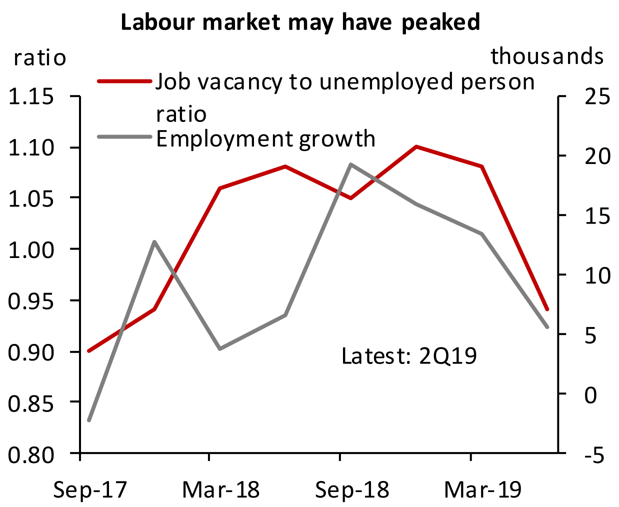
Sources: CEIC, DOS, DBS

Overall loan growth is still slipping, driven mainly by decline in consumer and housing loans, largely due to weak consumer sentiments and a sluggish property market.



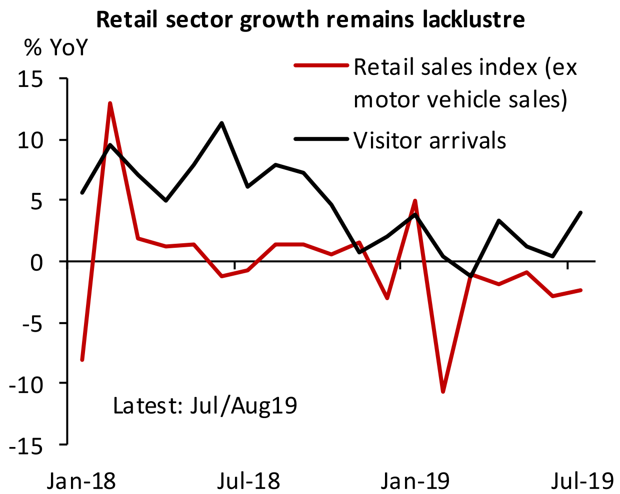
Sources: CEIC, DOS, DBS

Labour market has weakened. Job vacancy to unemployed person ratio has dipped below one where employment growth eased to a three-year low.



Sources: CEIC, DOS, DBS

A soft labour market has translated into weak growth in the retail sector. Though visitor arrivals have picked up, it remains lower compared to the average level in 2018.



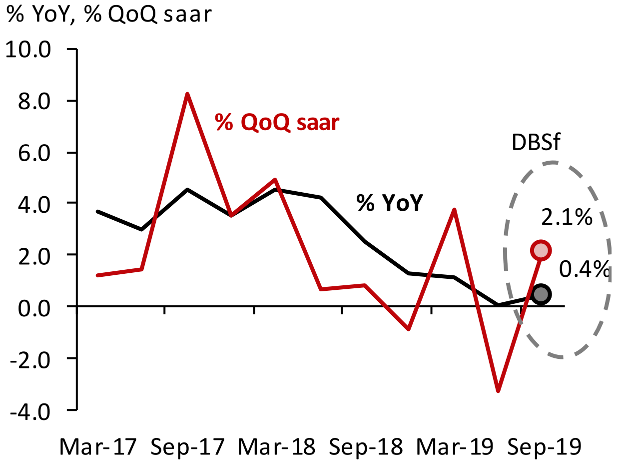
Sources: CEIC, DOS, DBS

Growth and inflation

The economy is expected to avert a technical recession amid marginal improvement in the manufacturing sector. Growth is expected to register 2.1% QoQ saar (0.4% YoY) in 3Q19, and 0.7% for the full year.

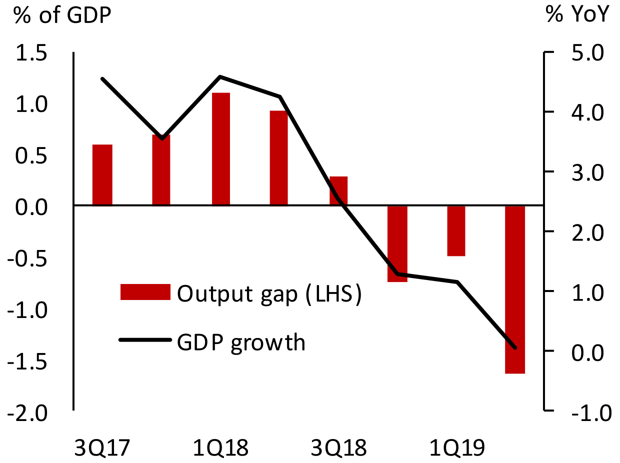
Yet, output gap has turned even more negative in 2Q19. This explains why inflation has persistently surprised on the downside thus far. Overall inflation for the year is projected to average 0.5%, before rising to 1.1% in 2020.

Positive growth in 3Q19



Sources: CEIC, DOS, DBS

Output gap turned even more negative

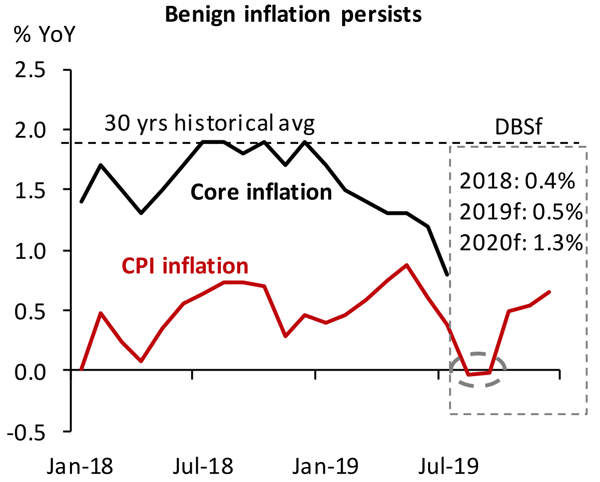


Sources: CEIC, DOS, DBS

Inflation continues to slip in recent months on the back of lower electricity tariffs. However, the headline number is likely to bottom before rising steadily in the coming months.

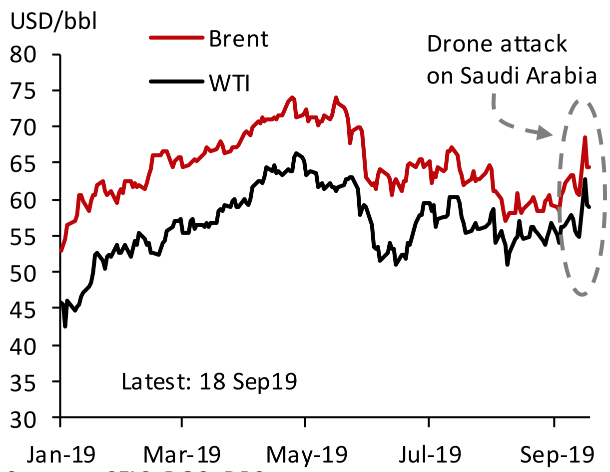
Beside the fading based effect, spikes in oil prices could be one of the key drivers of inflation going forward. A 10% rise in oil prices will lift CPI inflation by about 0.3ppt.

Benign inflation persists



Sources: CEIC, DOS, DBS

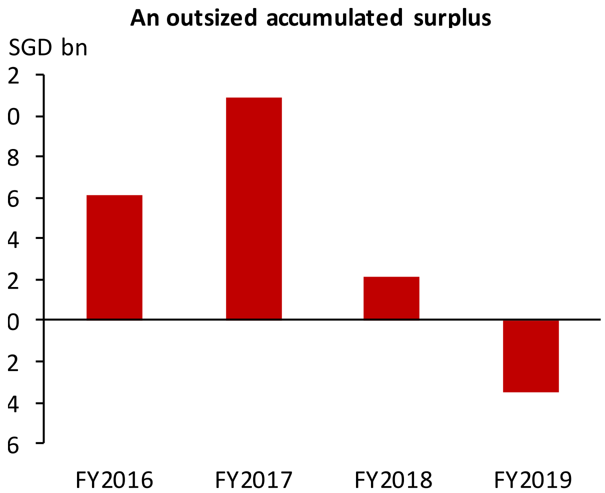
Risk on inflation from oil prices



Sources: CEIC, DOS, DBS

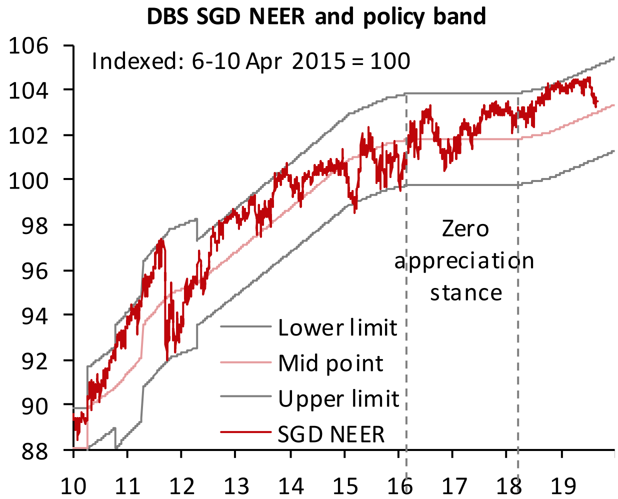
Fiscal, monetary, FX and rates

An outsized accumulated surplus of about SGD 15.6bn implies ample room for aggressive fiscal support for the economy. We expect a highly expansionary fiscal policy early next year.



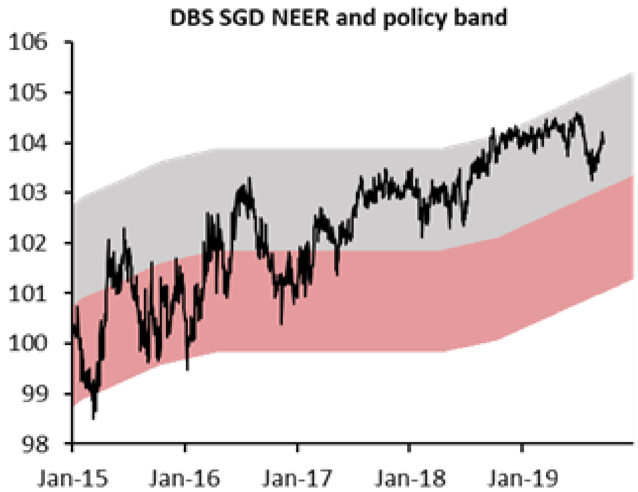
Sources: CEIC, DOS, DBS

The SGD NEER is approaching the mid-point of the policy band, which make for an easing in monetary policy stance. We expect the MAS to lower the slope of the band in October.



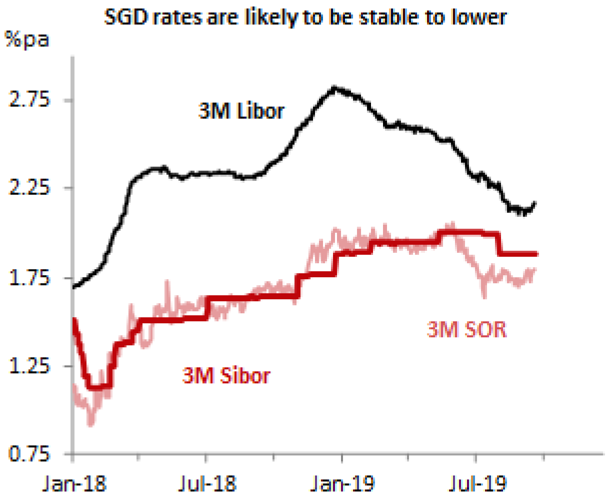
Sources: CEIC, DOS, DBS

We expect the MAS to, at its policy review in mid-October, slightly decrease the annual appreciation pace of the SGD NEER policy band to 0.5% from 1% presently.



Source: DBS Research

The passthrough from Fed cuts to SGD rates has been muted amid persistent USD strength and tight SGD liquidity. ST SGD rates are still somewhat elevated.



Source: Bloomberg

Forecasts on major indicators

	GDP				CPI inflation			
	2017	2018	2019f	2020f	2017	2018	2019f	2020f
Annual change (%, YoY)	3.9	3.2	0.7	1.8	0.6	0.4	0.5	1.1

Exchange rate and interest rates forecasts									
		1Q19	2Q19	3Q19f	4Q19f	1Q20f	2Q20f	3Q20f	4Q20f
USD/SGD	eop	1.36	1.35	1.40	1.42	1.41	1.41	1.40	1.40
3m SIBOR	(%, eop)	1.94	2.00	1.60	1.60	1.60	1.60	1.60	1.60
Government bond yields	3Y (%, eop)	1.92	1.66	1.70	1.70	1.65	1.60	1.60	1.65
	10Y (%, eop)	2.07	2.00	1.70	1.70	1.70	1.80	1.90	2.00
	10Y-3Y (bps)	15	34	0	0	5	20	30	35

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