

Irvin Seah

Senior Economist



Please direct distribution queries to

Violet Lee +65 68785281 violetleeyh@db.com

- *The Singapore economy registered a mild expansion of 0.1% YoY in 3Q*
- *A technical recession was averted with an expansion of 0.6% QoQ saar in the quarter*
- **Implication for our forecast** – *We are recalibrating our growth forecast for 2019 to 0.6%*
- **Implications for investors** – *Signs of stabilization are emerging*

Advance GDP estimates for 3Q19 announced this morning reported a weaker than expected growth of 0.1% YoY, and unchanged from the previous quarter. However, the silver lining is that the economy has averted a technical recession, with a benign expansion of 0.6% QoQ saar in the quarter. This is in line with our long-held expectation and a rebound from a sharp decline of 2.7% previously.

The Monetary Authority of Singapore is expecting full year GDP growth to come in around the mid-point of the current official forecast range of 0-1.0%. In response to the

GDP growth by sectors

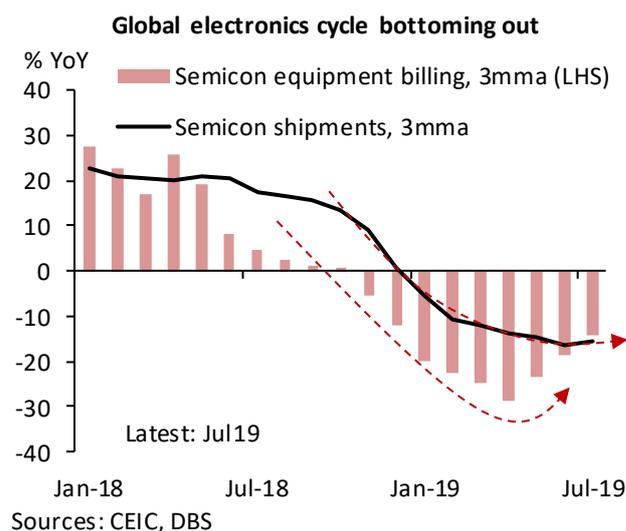
	3Q18	4Q18	2018	1Q19	2Q19	3Q19*
% YoY						
Overall GDP	2.6	1.3	3.1	1.1	0.1	0.1
Manufacturing	3.5	4.6	7.0	-0.4	-3.3	-3.5
Construction	-2.6	-1.2	-3.7	2.7	2.8	2.7
Services	2.8	1.5	2.9	1.2	1.1	0.9
% QoQ saar						
Overall GDP	0.8	-0.8	3.1	3.5	-2.7	0.6
Manufacturing	1.1	-3.4	7.0	-6.5	-4.2	-0.4
Construction	0.2	5.3	-3.7	13.3	-5.3	-1.1
Services	1.7	0.4	2.9	4.0	-1.4	0.7

* advance estimates

latest set of figures, **we are recalibrating our full year GDP growth forecast to 0.6%, down 0.1%-pt** from the previous estimate, despite a likely marginal upward revision to the latest set of figures, as well as some improvement in growth performance in 4Q19.

Bottoming out in manufacturing

On the surface, the manufacturing sector appears to be in doldrums. Headline growth reported a contraction of 3.5% YoY. However, that is partly a result of the high base in the same period last year. Sequentially, the sector has recovered to register a marginal decline of

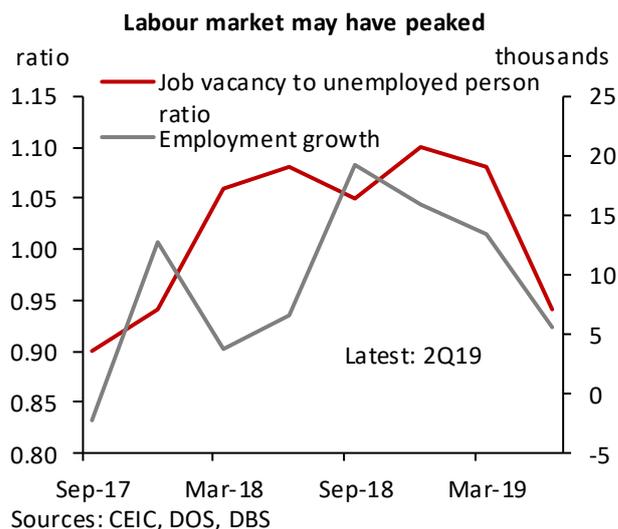


0.4% QoQ saar, a marked improvement from -4.2% previously. This is in line with our view that the manufacturing sector could be bottoming out. We reckon that **the worst of the manufacturing growth cycle could be over**, but caution that growth in this sector will remain lacklustre amid weak global demand and uncertainties around the ongoing trade talk between the US and China.

Electronics indicators such as the growth in semiconductor equipment billings and semiconductor shipments are suggesting a turnaround for the industry. Key market indicators i.e. China PMI has also started to improve. While the outlook for the manufacturing sector could continue to remain challenging, and the US-China trade talks could swing either way, at least some of the high frequency data is beginning to show some signs of stabilization.

Services holding up

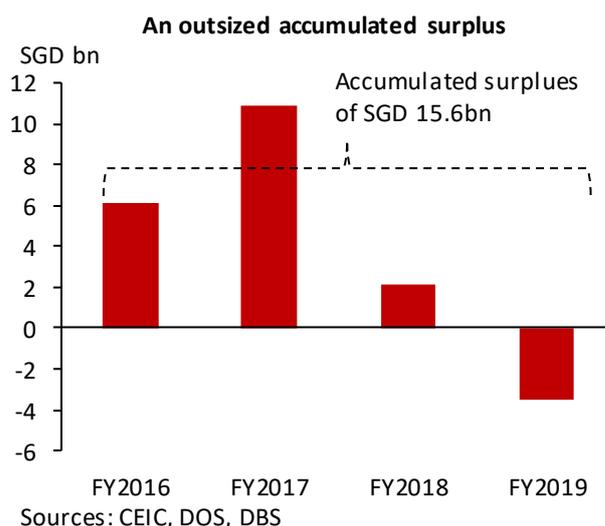
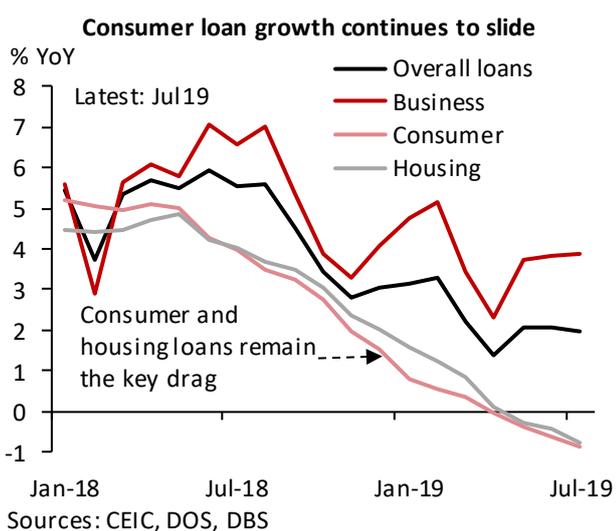
Amid some improvement in construction data, the biggest focus is on the services sector (two-thirds of GDP and employment). The latest set of figures suggest that the sector is holding up despite the disappointment in the second



quarter. The sector is now expected to post a benign expansion of 0.9% YoY. Growth on the margin has picked up to 0.7% QoQ saar, from -1.4% previously.

Indeed, there have been mixed signals on services growth. Business loan growth appears to have bottomed but consumer loan growth continues to slide. The main worry is the spill-over effects on the labour market. Job vacancy to unemployed person ratio has dipped below one while employment growth eased to a three-year low.

Policymakers are certainly keeping close watch on this. **Beyond the present monetary easing by the MAS (see section below), expect a**



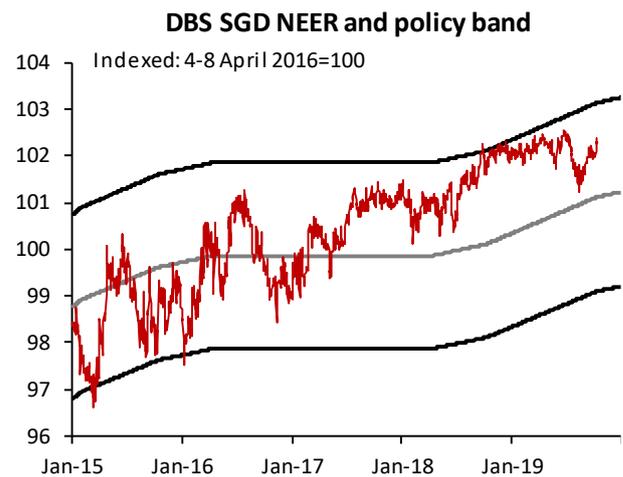
robust fiscal response in the upcoming budget early next year. An outsized accumulated surplus of about SGD 15.6bn implies ample room for aggressive fiscal support for the economy. We expect a highly expansionary fiscal policy early next year.

Outlook to remain challenging

External headwinds will remain strong. A positive resolution in the trade talk is far from conclusive. Brexit and weakness in the fundamentals in Eurozone should be closely watched. Slowdown in China is real, and more policy support is certainly required. Across Asia, central banks have begun to ease monetary policies. What would be required to turn the receding global economic tide would be a robust and synchronized fiscal boost across the region. Policymakers are beginning to roll out expansionary fiscal policies. Indeed, we expect the Singapore authorities to do so likewise in the upcoming budget next year. Though the economy has averted the fate of a technical recession, a robust policy response would still be required to lift the boat amid the choppy outlook. **Growth may have bottomed but the improvement ahead could be weak.** Considering the above, **we expect GDP growth in 2020 to improve to 1.4%, up from a revised 0.6% this year.**

MAS eases SGD NEER policy slope

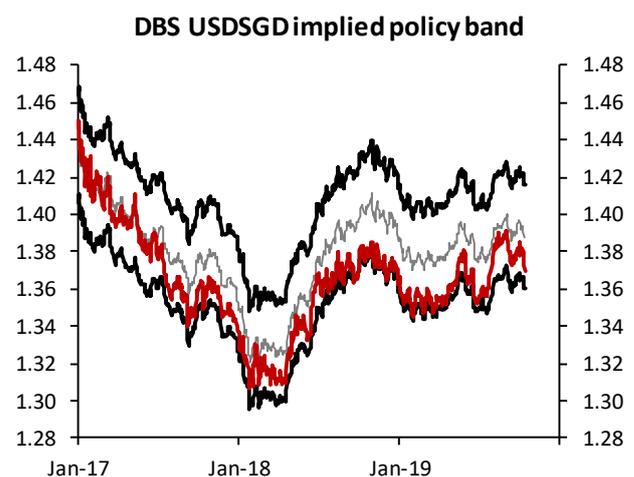
The decisions at the SGD policy review were broadly in line with expectations. As expected, the Monetary Authority of Singapore has slightly flattened the slope of the SGD nominal effective exchange rate (NEER) policy band and kept its width and centre unchanged. According to our model, the band should start appreciating at a pace of 0.5%/year vs 1%



Source: DBS Research

previously. **The central bank has kept the door for another easing should the already weak growth and inflation outlook deteriorate significantly.**

In our view, the **SGD NEER is still considered strong in the upper half of its policy band.** In USDSGD terms, the downside is constrained by the band’s limit at 1.36 and should be closer to the mid-point around 1.39. The recent fall in USDSGD to 1.37 from 1.3850 this month was attributed to the temporary rollback in trade war and Brexit fears. A reality check is likely to set in after the burst of excessive optimism last Thursday-Friday. **Our forecast remains for USDSGD to rise above 1.40 by end-2019.**



Source: DBS Research

Group Research

Economics & Macro Strategy

Taimur Baig, Ph.D.

Chief Economist - G3 & Asia

+65 6878-9548 taimurbaig@dbs.com

Chang Wei Liang

Strategist

+65 6878-2072 weiliangchang@dbs.com

Ma Tieying, CFA

Economist - Japan, South Korea, & Taiwan

+65 6878-2408 matieying@dbs.com

Nathan Chow

Strategist - China & Hong Kong

+852 3668-5693 nathanchow@dbs.com

Radhika Rao

Economist – Eurozone, India, & Thailand

+65 6878-5282 radhikarao@dbs.com

Masyita Crystallin, Ph.D.

Economist – Indonesia & Philippines

+62 21-2988-4003 masyita@dbs.com

Irvin Seah

Economist - Singapore, Malaysia, & Vietnam

+65 6878-6727 irvinseah@dbs.com

Joanne Goh

Regional equity strategist

+65 6878-5233 joannegohsc@dbs.com

Samuel Tse

Economist - China & Hong Kong

+852 3668-5694 samueltse@dbs.com

Eugene Leow

Rates Strategist - G3 & Asia

+65 6878-2842 eugeneleow@dbs.com

Duncan Tan

FX and Rates Strategist - Asean

+65 6878-2140 duncantan@dbs.com

Chris Leung

Economist - China & Hong Kong

+852 3668-5694 chrisleung@dbs.com

Philip Wee

FX Strategist - G3 & Asia

+65 6878-4033 philipwee@dbs.com

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

Disclaimer:

The information herein is published by DBS Bank Ltd and PT Bank DBS Indonesia (collectively, the "DBS Group"). It is based on information obtained from sources believed to be reliable, but the Group does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation & the particular needs of any specific addressee. The information herein is published for the information of addressees only & is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Group, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof even if the Group or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Group & its associates, their directors, officers and/or employees may have positions or other interests in, & may effect transactions in securities mentioned herein & may also perform or seek to perform broking, investment banking & other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Sources for all charts & tables are CEIC & Bloomberg unless otherwise specified.

DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800308E.
PT Bank DBS Indonesia, DBS Bank Tower, 33rd floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000.
Company Registration No. 09.03.1.64.96422.