Bigger than expected pullback in 1Q GDP growth

The Singapore economy continued to lose steam for the fourth consecutive quarter, growing 1.2% YOY in 1Q, its slowest in 6½ years, as a decline in manufacturing activities negated sustained growth in services and a rebound in the construction sector. Looking ahead, a more challenging external environment stemming from slower growth prospects in the major economies as well as China is expected to continue exert downside risks to the Singapore economy, aggravated by protracted unresolved trade spat that has since evolved into diplomatic and geopolitical risks. Against this challenging backdrop, outlook for Singapore is thus skewed to the downside in 2019 given its heavy reliance on the trade sector. The Ministry of Trade and Industry has trimmed its 2019 GDP growth forecast from 1.5-3.5% to 1.5-2.5%. We opine full year growth would most likely settle at the lower end of the forecast, hence allowing the Monetary Authority of Singapore (MAS) to leave monetary policy unchanged on a neutral stance in the coming October meeting.

	2016	2017	2018	1Q18	2Q18	3Q18	4Q18	1Q19
Real GDP (% YOY)	**2.4**	**3.9**	**3.2**	**4.6**	**4.2**	**2.6**	**1.3**	**1.2**
Goods Producing Industries	3.2	5.7	5.0	6.6	7.8	2.5	3.5	0.0
Manufacturing	3.7	10.4	7.2	10.0	10.6	3.5	4.6	-0.5
Construction	1.9	-10.2	-3.4	-6.4	-4.3	-2.6	-1.2	2.9
Services Producing Industries	1.4	3.2	3.0	4.4	2.9	2.8	1.5	1.5
Wholesale & Retail Trade	1.0	1.9	1.5	2.9	2.6	2.4	-0.8	-1.8
Transport & Storage	1.3	5.2	1.5	1.8	1.2	1.6	0.5	0.8
Accommodation & Food	3.8	3.0	2.7	0.8	3.5	3.4	3.5	1.8
Information & Comm.	3.6	4.5	6.0	5.5	6.1	5.1	5.0	6.6
Finance & Insurance	1.6	5.6	5.9	10.1	5.8	3.9	3.7	3.2
Business Services	-0.3	1.8	3.0	3.5	2.1	3.0	2.6	2.3
Other Service Industries	3.5	2.9	1.7	3.4	1.1	1.8	0.3	2.2

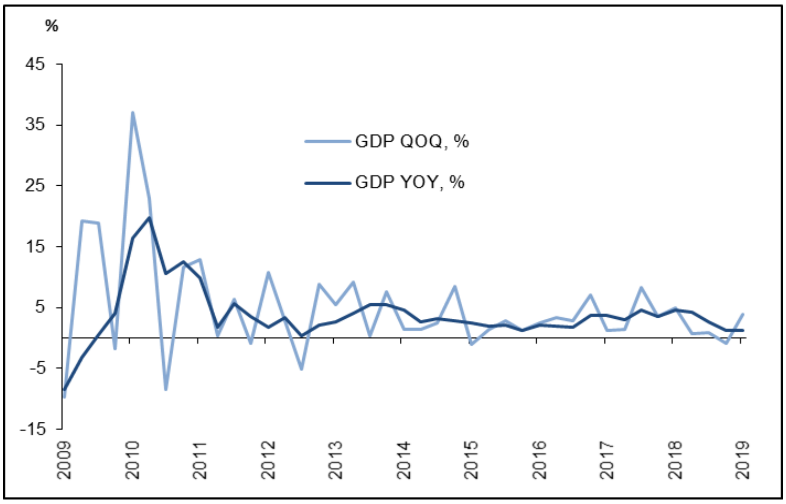
Source: MTI Singapore

Further moderation in 1Q GDP growth to 1.2% YOY signaled a weaker than expected start to 2019

Growth in the Singapore economy tapered off more than expected to 1.2% YOY in 1Q19, lower than the advance estimate of 1.3% YOY and slowing somewhat from the revised growth observed in 4Q18. Growth was revised from +1.9% to +1.3% YOY in 4Q18. **The expansion in 1Q was the slowest in 6½ years, dragged by a contraction in manufacturing activities, taking the hit from a slowing global economy and uncertainties from ongoing trade war**, given that it is a highly open economy. On a quarter-on-quarter seasonally adjusted annualized basis, real GDP growth rebounded commendably to 3.8% QOQ in 1Q19, soothing concerns of a technical recession after the 0.8% OQQ decline in 4Q18.

Contraction in manufacturing sector the biggest drag…

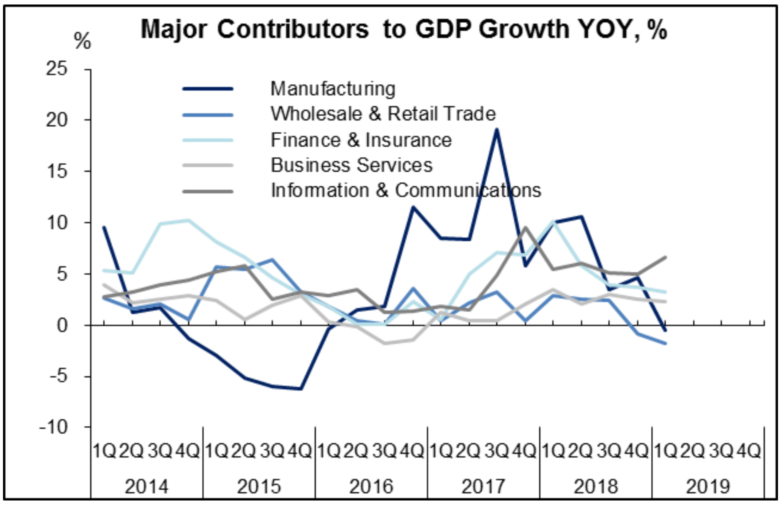
The manufacturing sector exerted the biggest drag on overall growth in 1Q, while construction and services sectors provided the much needed support. **The manufacturing sector fell 0.5% YOY in 1Q (4Q: +4.6%) as a result of the decline in precision engineering and electronics output, in line with weaker demand for semiconductor and its related equipment.** This failed to offset increases in biomedical manufacturing, transport engineering and general manufacturing production. The deeper QOQ contraction (-7.1% vs -3.4%) suggests weakening momentum in the manufacturing sector.



Source: MTI Singapore

…offsetting sustained growth in services and a rebound in construction

On the contrary, **the services sector saw sustained growth of 1.5% YOY in 1Q, underpinned by quicker gains in information and communications** (+6.6% vs +5.0%) on the back of greater demand for IT information services and digital solutions, **as well as transport & storage** (+0.8% vs +0.5%) as higher air passengers overshadowed the decline in sea cargo, which was in line with the slower global demand. Continued albeit slower expansion in finance & insurance sector, business services, accommodation & food services provided added support and cushioned the decline in wholesale & retail trade as a result of slower spending from both the business as well as consumer front. Meanwhile, **the construction sector rebounded with a 2.9% YOY gain (4Q: -1.2%), its first positive gain in eleven quarters.** This was a result of increased construction activities in both public and private construction work.



Source: MTI Singapore

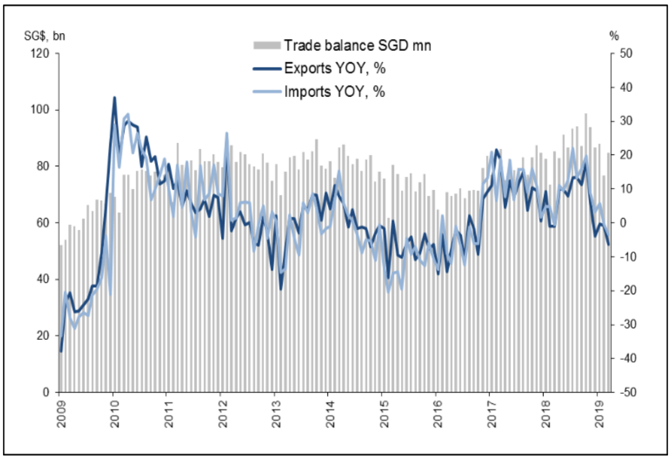
Further weakness in external trade conditions negated improvement in the domestic front

On the demand side, private consumption growth picked up and grew at almost double the pace in 4Q, increasing 4.2% YOY in 1Q (4Q: +2.2%), marking its best gain in five quarters but government spending grew at a more moderate pace of 2.9% YOY (4Q: +3.8%). Gross fixed capital formation extended its decline for the 5^{th} consecutive quarter, albeit falling at a slower pace of 0.4% YOY (4Q: -4.4%), suggesting investment spending remained weak. While the domestic side showed some improvement, net exports grew at a much softer pace of 0.5% YOY in 1Q (4Q: +5.6%) as both exports and imports fell, in line with a much weaker external environment.

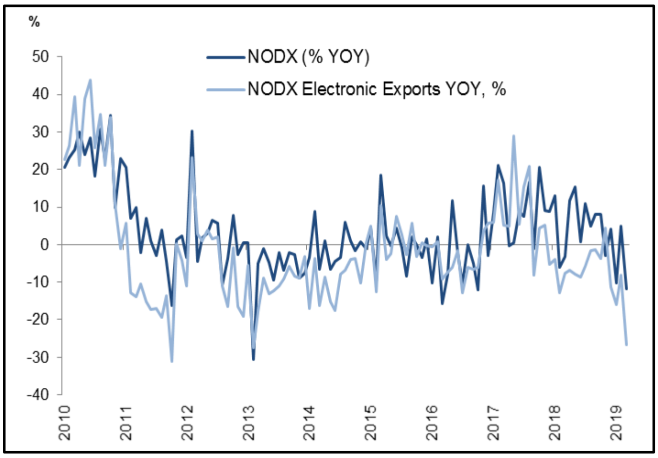
Bleak outlook ahead…prompting MTI to narrow full year growth forecast to 1.5-2.5%

Looking ahead, a more challenging external environment stemming from slower growth prospects in the major economies as well as China is expected to continue exert downside risks to the Singapore economy, aggravated by protracted unresolved trade spat that has since evolved into diplomatic and geopolitical risks. As a result, the manufacturing sector is expected to take the brunt of these external headwinds, which will indirectly impact the domestic sectors. On a less negative note, the construction sector is expected to see sustained turnaround judging from higher number of contracts awarded, while continued growth in the ICT and healthcare sectors are expected to provide the much needed support. Against this challenging backdrop, outlook for Singapore is thus skewed to the downside in 2019 given its heavy reliance on the trade sector. The Ministry of Trade and Industry has trimmed its 2019 GDP growth forecast from 1.5-3.5% to 1.5-2.5%. We opine full year growth would most likely settle at the lower end of the forecast, hence allowing the Monetary Authority of Singapore (MAS) to leave monetary policy unchanged on a neutral stance in the coming October meeting.

Singapore Overview:



Source: MTI Singapore, Bloomberg



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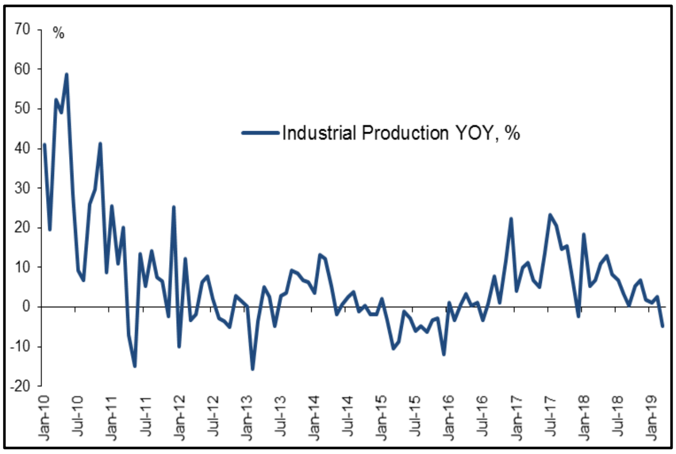

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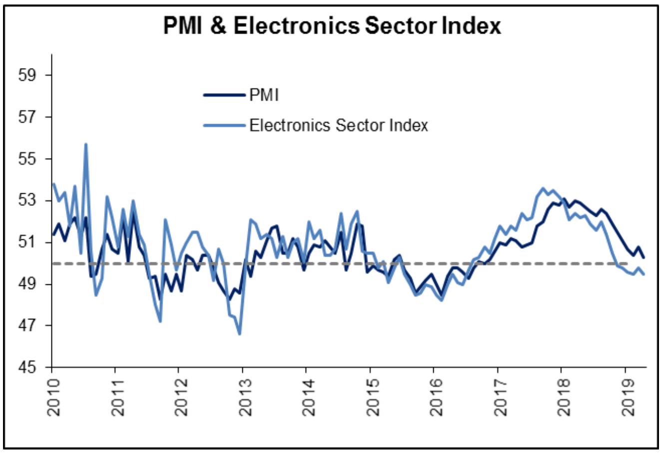

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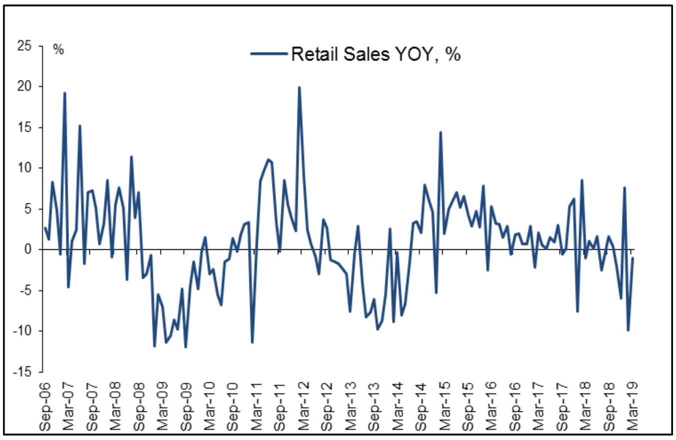

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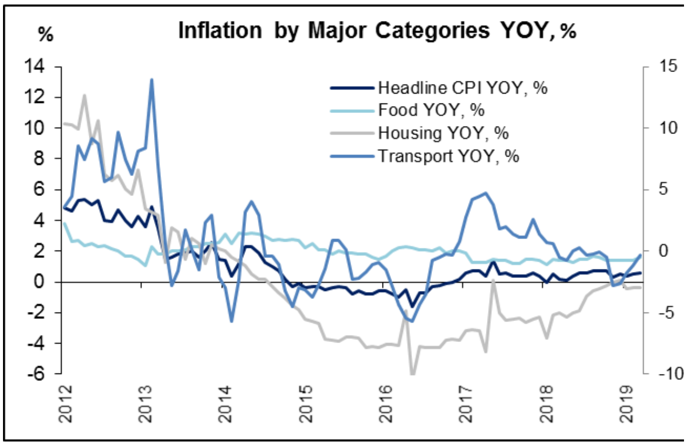

Source: MTI Singapore, Bloomberg

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