

Global Markets Research
Economics - Singapore

Singapore growth nearly stagnated in 2Q

The Singapore economy plunged by 3.3% QOQ in the second quarter of 2019, renewing concerns over a potential technical recession this year. This left the annual growth rate to clock in at a mere 0.1% YOY in 2Q, its slowest rate in a decade. The near stagnation was mainly driven by the current setback in the local manufacturing industry which has been taking the brunt from the slower growth abroad amidst prolonged trade uncertainties. While net exports served as the biggest drag on the overall headline figure, domestic consumption also pulled back especially in the retail sector where consumers were seen scaling back on spending. Looking ahead, outlook for the Singapore economy has weakened further and is expected to skew to the downside, prompting the MTI to slash its 2019 growth forecast to a mere 0.0-1.0%, indicating a potential stagnation in 2019. Challenging external and domestic backdrops, reaffirmed by deteriorating data suggest that MAS will ease policy in October, potentially shifting its current stance of allowing a “modest and gradual appreciation of the Singapore dollar” to a zero appreciation stance.

	2016	2017	2018	3Q18	4Q18	1Q19	2Q19
Real GDP (% YOY)	2.4	3.9	3.2	2.6	1.3	1.1	0.1
Goods Producing Industries	3.2	5.7	5.0	2.5	3.5	0.1	-2.2
Manufacturing	3.7	10.4	7.2	3.5	4.6	-0.3	-3.1
Construction	1.9	-10.2	-3.4	-2.6	-1.2	2.8	2.9
Services Producing Industries	1.4	3.2	3.0	2.8	1.5	1.2	1.1
Wholesale & Retail Trade	1.0	1.9	1.5	2.4	-0.8	-2.5	-3.2
Transport & Storage	1.3	5.2	1.5	1.6	0.5	0.7	2.2
Accommodation & Food	3.8	3.0	2.7	3.4	3.5	2.0	0.9
Information & Comm.	3.6	4.5	6.0	5.1	5.0	5.2	4.1
Finance & Insurance	1.6	5.6	5.9	3.9	3.7	3.2	5.2
Business Services	-0.3	1.8	3.0	3.0	2.6	1.7	0.5
Other Service Industries	3.5	2.9	1.7	1.8	0.3	2.6	2.1

Source: MTI Singapore

GDP fell QOQ, renewing concerns of technical recession; YOY growth almost stagnated.

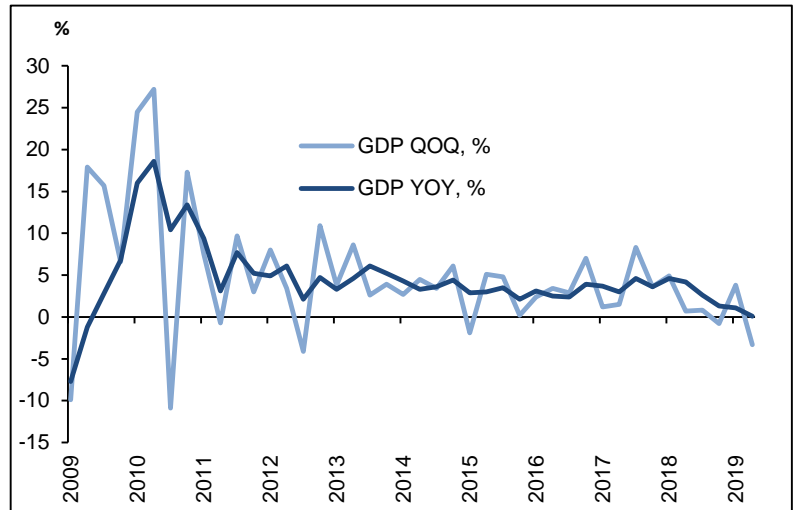
Singapore 2Q real GDP plunged by 3.3% on a quarter-on-quarter seasonally adjusted annualized basis (1Q: +3.8%), nearly reversing the gain made in the first quarter and renewing concerns over a potential technical recession this year. YOY, real GDP growth slowed tremendously to clock in at a mere 0.1% in 2Q19 (1Q: +1.1% YOY), the slowest rate observed in a decade, back then when the economy was still recovering from the global financial crisis (GFC).

Manufacturing downturn key reason behind weak headline number

The near stagnation in 2Q was mainly driven by the continuous slump in manufacturing activities, concurrent with the synchronized global manufacturing downturn as the sector took the brunt from a slowing global economy and prolonged trade war uncertainties. The construction and services sectors managed to provide the much needed support to the trade-reliant economy.

The manufacturing sector fell for the second quarter by 3.1% YOY in 2Q (1Q: -0.3%), sharper than the contraction in the previous quarter, weighed down by declines in output of electronics, transport engineering and precision engineering clusters. This however, was failed to be offset by the increases in biomedical manufacturing and general manufacturing production. The QOQ contraction in

manufacturing softened to 3.4% QOQ (1Q: -6.4%) implying that momentum remains weak.



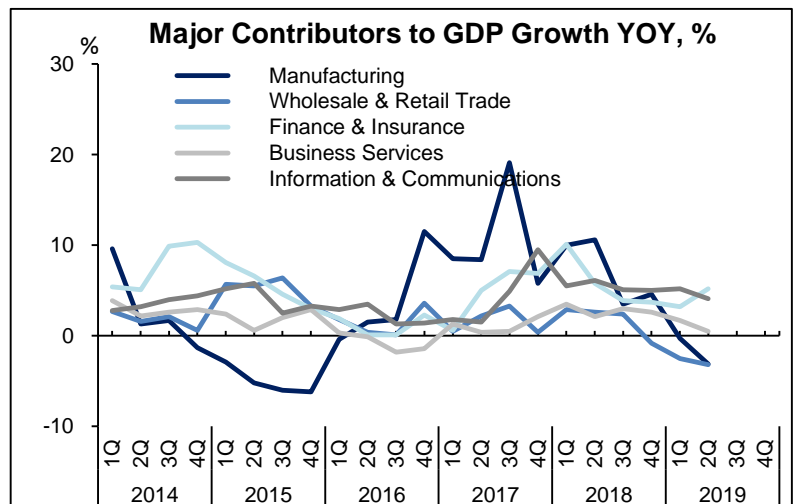
Source: MTI Singapore

...offsetting growth in construction and services

The construction sector meanwhile extended further expansion, growing by 2.9% YOY in 2Q (1Q: +2.8%), supported by public construction works. On a quarterly basis, the sector shrank by 5.5%, retracing parts of the 13.7% QOQ growth in the previous quarter.

Growth in the services sector pulled back slightly to 1.1% YOY in 2Q (1Q: +1.2%), as the faster gains in transportations & storage (+2.2% vs +0.7%) and finance & insurance (+5.2% vs +3.2%) were offset by a decline in wholesale & retail trade (-3.2% vs -2.5%) and a broader slowdown in other sectors namely accommodation & food services (+0.9% vs +2.0%), information & communications (+4.1% vs +5.2%), business services (+0.5% vs +1.7%) and other industries (+2.1% vs +2.6%).

Notably, the larger contraction in wholesale & retail trade was led by the weak performance of wholesale trade segment, in line with the fall in non-oil domestic exports (NODX). Retail trade fell as sales of both vehicles and non-motor vehicles slipped in the second quarter, highlighting the lack of consumer demand.



Source: MTI Singapore

Net exports served as biggest drag

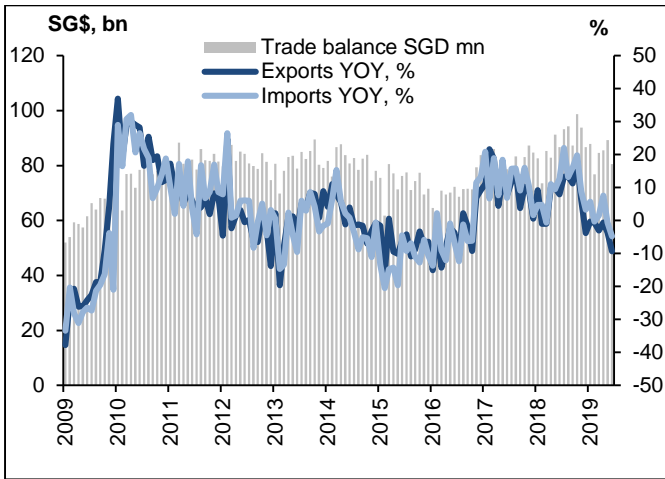
From the expenditure perspective, net exports was the biggest drag on overall headline print, recording a hefty 6.0% YOY decline in the second quarter (1Q: -0.8%). Exports fell by 1.4% YOY (1Q: -2.2%) whereas imports slipped by 0.5% YOY (1Q: -2.4%). On the domestic front, private consumption unsurprisingly grew at a slower pace of 3.4% YOY in the second quarter (1Q: +5.4%) while government consumption expenditure gained a tad stronger by 3.1% YOY (1Q: +3.0%). Investment continued to fall for the sixth consecutive quarter by 0.3% YOY (1Q: -0.2%).

Outlook weakened further, MTI cut growth forecast to a mere 0.0-1.0%; MAS likely to ease policy

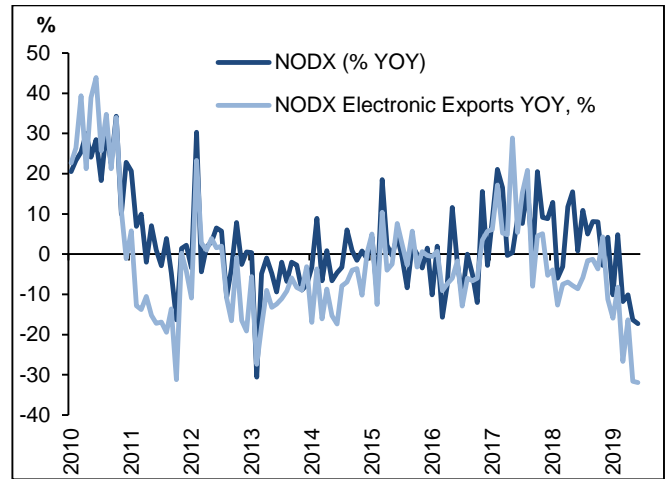
Looking ahead, outlook for the Singapore economy has weakened further and is expected to skew to the downside in the medium term, as domestic consumption stays weak and external trade sector battles lacklustre overseas' demand. On the domestic front, consumer spending is likely to stay subdued judging from the poor performance in the retail sector as consumers scaled back on or refrained from splurging amidst generally weak confidence levels. The external environment is tremendously challenging which in turn drags down local factories activities. Singapore official PMI points to continuous downtrend in the manufacturing industry of which the electronics sector is likely to continue taking the hit from slower global electronics sales. The current setback in the Singapore's manufacturing sector synchronizes with the global manufacturing downturn as prolonged trade war uncertainties alongside slower growth in major economies continued to weigh on demand in general.

Growth in the US is expected to pull back in the second half of 2019 after a surprisingly better first half while Eurozone growth outlook deteriorates as Germany industrial activities stay weak. In Asia, China economic growth is projected to ease further and is supported mainly by government stimulus whereas Japan's private consumption is likely to suffer from an upcoming sales tax hike and slower exports markets. Taking into the account of the above, the Ministry of Trade and Industry (MTI) has thus revised its 2019 growth forecast from 1.5-2.5% to a mere 0.0-1.0%, suggesting that the government is expecting a potential stagnation in 2019. Against a difficult external backdrop and deteriorating data, the Monetary Authority of Singapore (MAS) is expected to ease its policy in its biannual meeting in October, potentially shifting its current stance of allowing a "modest and gradual appreciation of the Singapore dollar" to a zero appreciation stance.

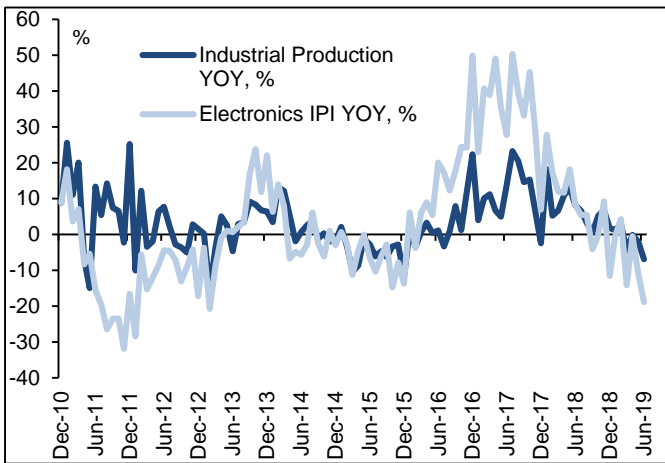
Singapore Overview:



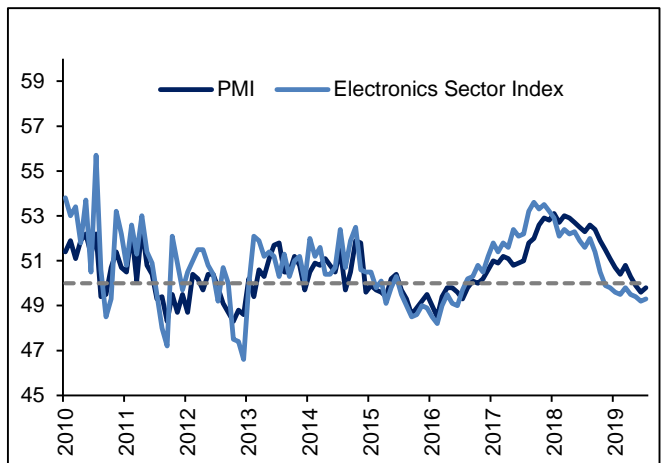
Source: MTI Singapore, Bloomberg



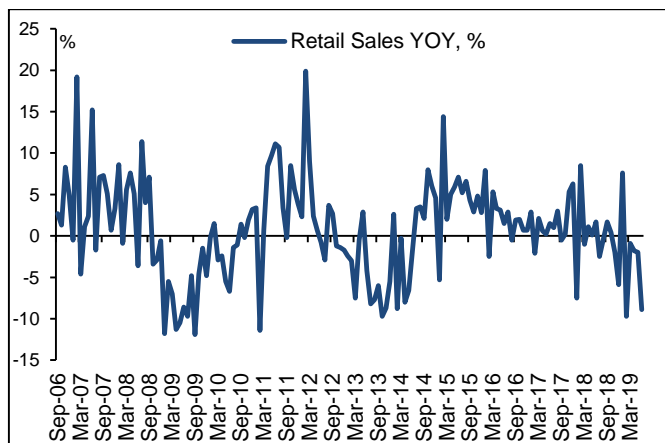
Source: MTI Singapore, Bloomberg



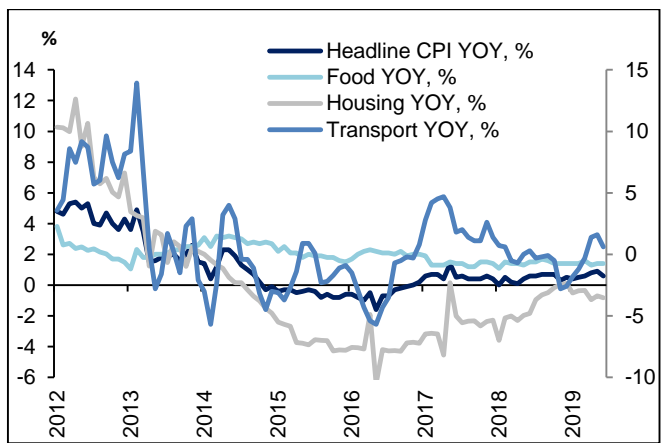
Source: MTI Singapore, Bloomberg



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