November 21, 2019

HongLeong Bank

Global Markets Research
Economics - Singapore

3Q GDP surprised on the upside

The latest GDP report delivered a pleasant surprise as the Singapore economy registered a 0.5% YOY growth in 3Q, topping both initial and consensus estimates, supported by a smaller contraction in manufacturing and a steady growth in construction. QOQ, GDP rebounded from 2Q's contraction to record a 2.1% gain, a solid recovery that staved off previous worries of a potential technical recession. Looking ahead, outlook for the Singapore economy has brightened a little but downside risks remain as domestic demand remains weak while the external environment appears challenging. MTI has narrowed its 2019 growth forecast from 0.0-1.0% to 0.5%-1.0% and expected 2020 growth to range somewhere between 0.5-2.5%.

	2016	2017	2018	4Q18	1Q19	2Q19	3Q19
Real GDP (% YOY)	**2.4**	**3.9**	**3.1**	**1.3**	**1.1**	**0.2**	**0.5**
Goods Producing Industries	3.2	5.7	5.0	3.5	0.1	-2.4	-0.9
Manufacturing	3.7	10.4	7.0	4.6	-0.4	-3.3	-1.7
Construction	1.9	-10.2	-3.7	-1.2	2.7	2.8	2.9
Services Producing Industries	1.4	3.2	2.9	1.5	1.2	1.2	0.9
Wholesale & Retail Trade	1.0	1.9	1.7	-0.8	-2.5	-3.5	-3.3
Transport & Storage	1.3	5.2	1.3	0.5	1.0	2.4	0.0
Accommodation & Food	3.8	3.0	2.8	3.5	2.2	1.2	2.0
Information & Comm.	3.6	4.5	5.4	5.0	5.0	4.1	3.4
Finance & Insurance	1.6	5.6	5.8	3.7	3.2	5.1	4.3
Business Services	-0.3	1.8	2.8	2.6	1.5	0.8	0.9
Other Service Industries	3.5	2.9	1.6	0.3	2.6	2.7	2.8

Source: MTI Singapore

GDP growth topped initial estimate and consensus forecast

Singapore real GDP growth clocked in at 0.5% YOY in the third quarter of 2019 (2Q: +0.2% revised), markedly higher than the preliminary estimate of 0.1% YOY and slightly better than consensus forecast of 0.4% YOY. On a quarter-on-quarter seasonally adjusted annualized basis, real GDP rebounded strongly to increase 2.1% (2Q: -2.7%), a solid recovery from the 2.7% QOQ contraction in 2Q and completely stave off earlier worries of a potential technical recession.

Smaller contraction in manufacturing and a steady construction sector growth

Compared to the previous quarter, the better-than-expected print was driven by the rebound in the manufacturing sector (+7.6% QOQ vs -4.2% QOQ) following two back-to-back quarterly contractions, a little-changed construction output (-0.1% QOQ vs -5.5% QOQ) as well a minor rebound in services sector (+0.4% QOQ vs -1.4% QOQ).

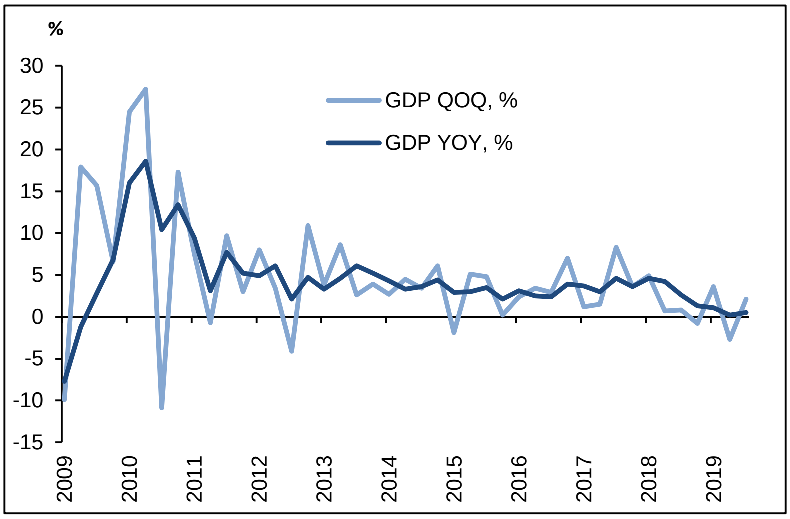
Looking at YOY comparison, the manufacturing sector experienced a much smaller contraction (-1.7% YOY vs -3.3% YOY) in 3Q, supported by growth in all other clusters especially in biomedical manufacturing that helped offset the continuous decline in electronics clusters. Semiconductors segment was the main drag on overall electronics output.

Further moderation in services sector growth

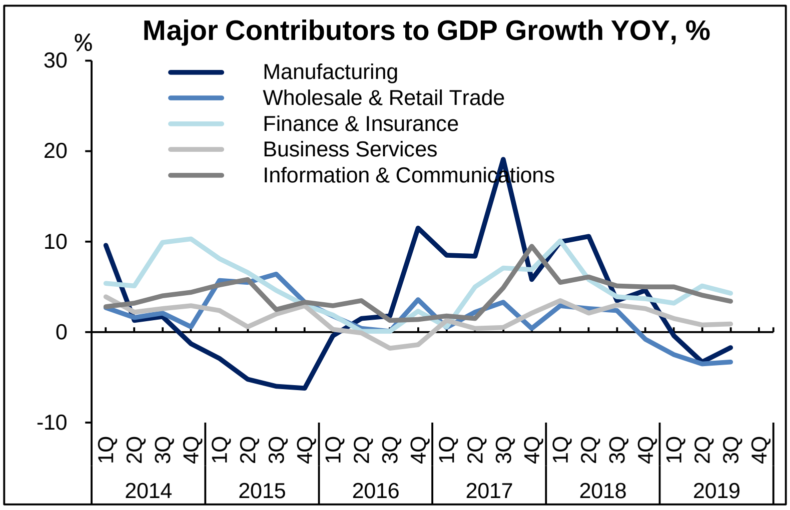
The construction sector expanded by 2.9% YOY (2Q: +2.8%) to extend its ongoing steady state of growth since the first quarter this year, supported by both public and private sector construction works.

The services industry as a whole grew 0.9% YOY (2Q: +1.2%), a further moderation from the already lacklustre expansion seen in the past two quarters. Nearly all key sub-sectors continued to grow save for the wholesale & retail trade which registered a 3.3% YOY contraction (2Q: -3.5%). Within the sector, wholesales trade segment shrank due to a contraction in machinery, equipment & supplies which was in turn weighed down by the weak electronics exports. Retail trade meanwhile continued to be dragged down by the declines in both motor-vehicles and non-motor vehicles retail sales.

Accommodation & food services posted a solid 2.0% YOY growth (2Q: +1.2%), alongside *the other services industries* (+2.8% vs +2.7%) while sub-sectors such as information & communications (+3.4% vs 4.1%), finance & insurance (+4.3% vs +5.1%) as well as business services (+0.9% vs +0.8%) saw lacklustre growth. The transportations & storage sector stagnated (0% vs +2.4**%).**



Source: MTI Singapore



Source: MTI Singapore

Stronger gain in private consumption, rebound in investment helped drive growth.

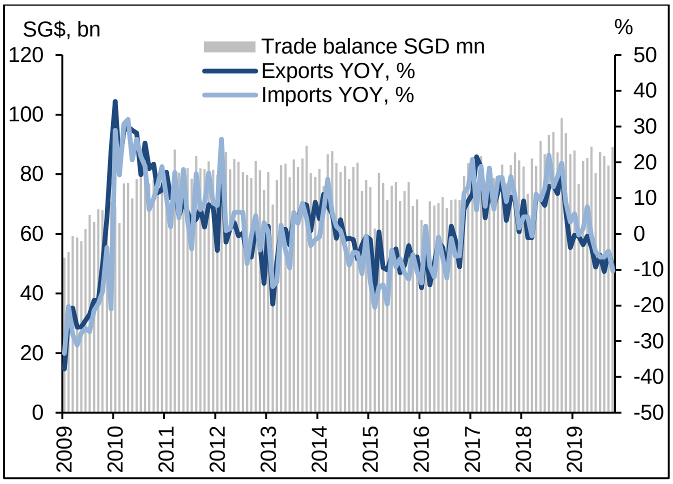
From the expenditure perspective, private consumption expenditure rose 4.8% YOY (2Q: +3.2%), alongside a rebound in investment (+2.7% vs -0.5%) and a smaller contraction in net exports (-1.9% vs -3.3%). Government spending moderated to increase 1.6% YOY (2Q: +2.2%).

The latest GDP report was a pleasant surprise that offered tentative signs that the Singapore economy may be holding up for now after being under pressure for the first half of year. We do not foresee any robust growth in the few coming quarters given that domestic demand remain weak and the external environment remains too challenging for the trade-reliant city state. Demand is still relatively subdued judging from falling retail sales while PMI continued to reflect weak manufacturing condition. Nonetheless, the projected recovery in the global electronics cycle in 2020 suggests optimistic outlook for the electronics industry which would in turn drive the overall manufacturing sector.

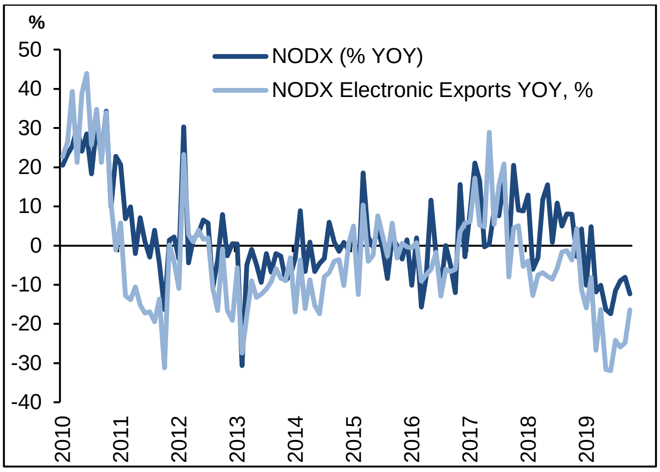
MTI see 0.5-2.5% growth in 2020

On the external front, global growth outlook remains skewed to the downside, plagued by uncertainties surrounding US-China trade policies and lingering concerns over Brexit and Hong Kong social unrests. We expect the US economy to continue supported by still-solid but moderating growth in consumer spending and gradual recovery of the housing market in a low interest rates environment. The manufacturing sector posts a downside risk. The Eurozone economy is likely to remain weak as German data continued to underperform. China data unsurprisingly weakened further despite the authority's ongoing effort to prop up the economy via stimulus. Japan's consumers are adjusting to the new sales tax hike that took effect in October. Taking into account of the generally still weak picture of the global economy and a likely improving domestic condition supported by MAS recent policy easing, we expect the Singapore economy to continue stabilizing in 4Q and experiencing only a moderate pickup in 2020. The Ministry of Trade and Industry (MTI) has thus narrowed its 2019 growth forecast from 0.0-1.0% to 0.5%-1.0% and expected 2020 growth to range somewhere between 0.5-2.5%.

Singapore Overview:



Source: MTI Singapore, Bloomberg



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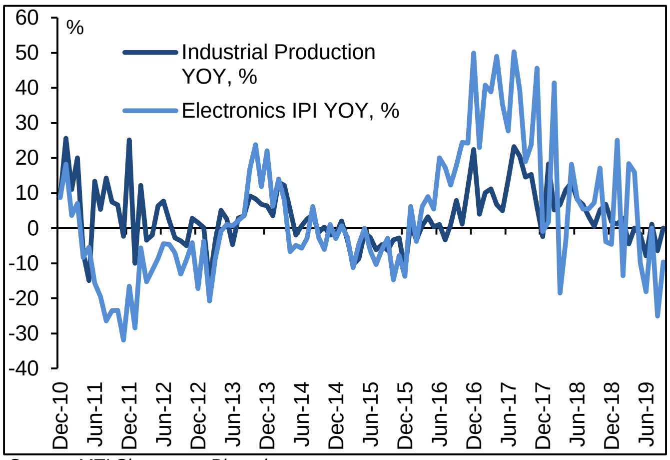

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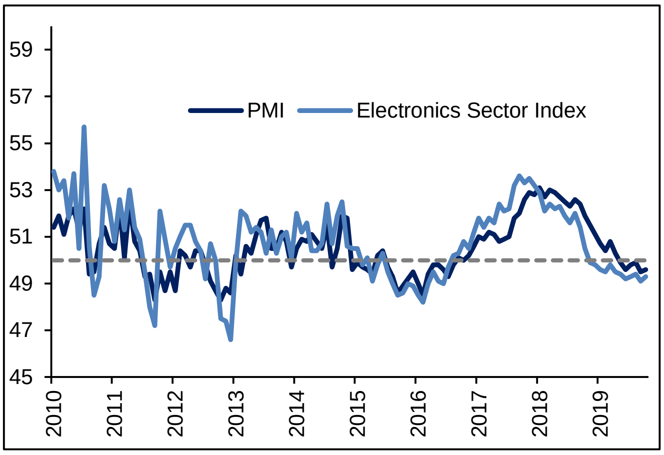

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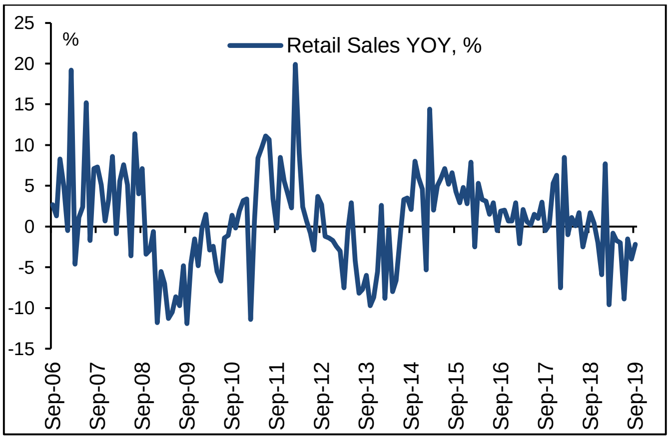

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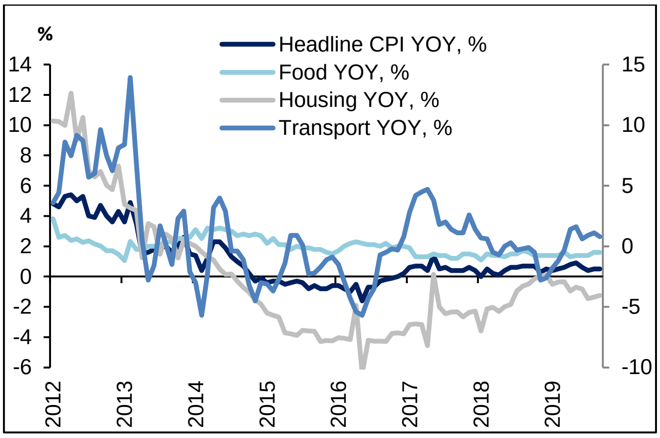

Source: MTI Singapore, Bloomberg

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