

Global Markets Research
Economics - Singapore

Singapore GDP growth eased considerably to 2.2% YOY in 3Q18

The Singapore economy grew at a much slower pace in the third quarter of 2018, easing from the higher levels seen in the first two quarters driven by softer expansion in both manufacturing and services sectors. Looking ahead, against a rather challenging external backdrop and softer domestic conditions, we expect growth in the city-state to remain soft towards the end of 2018 and heading into 2019. After two subsequent rounds of tightening this year and given generally softer economic backdrop, we expect MAS to leave its monetary policy unchanged in its next MPC meeting in April 2019.

	2015	2016	2017	1Q18	2Q18	3Q18
Real GDP (% YOY)	1.9	2.4	3.6	4.6	4.1	2.2
Goods Producing Industries	-3.1	3.2	5.7	7.1	7.5	2.3
Manufacturing	-5.1	3.7	10.1	10.8	10.7	3.5
Construction	3.9	1.9	-8.4	-5.1	-4.2	-2.3
Services Producing Industries	3.2	1.4	2.8	4.0	2.8	2.4
Wholesale & Retail Trade	3.7	1.0	2.3	2.6	1.5	0.5
Transport & Storage	1.6	1.3	2.3	2.7	1.2	2.1
Accommodation & Food	0.7	3.8	4.8	2.0	3.9	4.0
Information & Comm.	-0.6	3.6	1.2	5.5	5.8	4.7
Finance & Insurance	5.7	1.6	4.8	9.4	6.8	5.6
Business Services	3.9	-0.3	0.6	2.6	2.3	2.4
Other Service Industries	1.2	3.5	2.6	2.2	0.5	1.2

Source: MTI Singapore

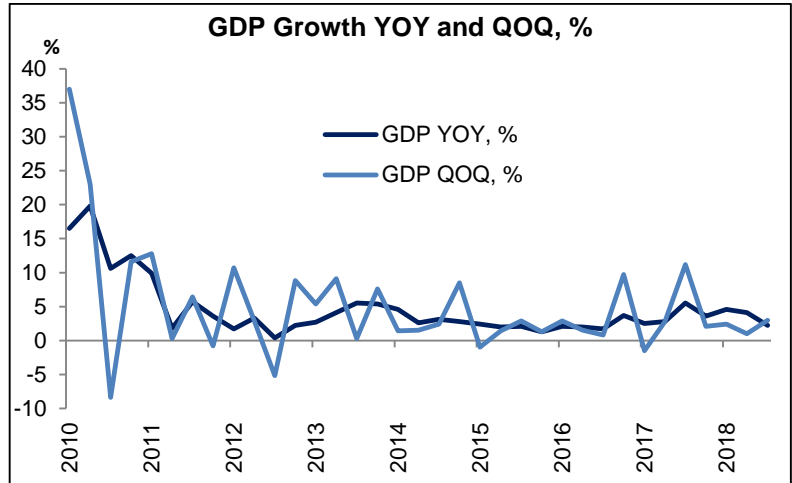
Growth eased further to 2.2% YOY in 3Q18

Growth in the Singapore economy eased substantially to 2.2% YOY in the third quarter of 2018 (2Q: +4.1%), a downward revision from the initial reading of 2.6% YOY and below consensus estimate of 2.4% YOY. On a quarter-on-quarter seasonally adjusted annualized basis, real GDP growth however inched up to 3.0% QOQ (2Q: +1.0% revised).

Both goods and services producing industries experienced slower expansion with more pronounced deceleration observed in the goods sector. The goods industry eased sharply to a mere 2.3% YOY (2Q: +7.5%), the services industry also underwent a slowdown in growth albeit at a relatively moderate pace of 2.4% YOY (2Q: +2.8%)

Within the goods sector, manufacturing sector failed to sustain the momentum seen in 2017 and the first two quarters of 2018, clocking in at a much slower growth rate of 3.5% YOY (2Q: +10.7%) while constructions extended further decline despite at a slower rate of 2.3% (2Q: -4.2%). Weakness in both public and private sector construction activities persisted due to the authorities' introduction of cooling measures to curb speculations in the housing sector.

Within the services sector, the faster growth in transportation & storage was offset by the weaker showings of wholesale & retail trade, information & communications as well as finance & insurance.



Source: MTI Singapore

Manufacturing sector lost steam, services sector softened

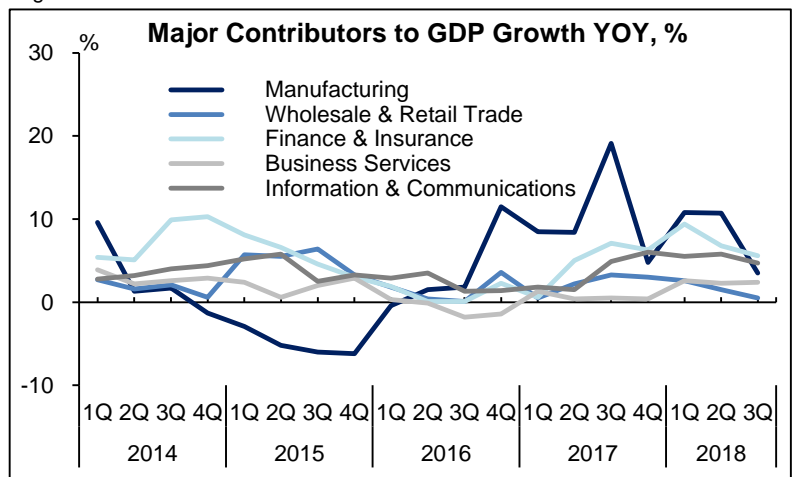
Singapore manufacturing lost steam in the third quarter where all clusters within the industry expanded (but at a slower pace) except for general manufacturing segment which contracted due to output declines in printing and miscellaneous industries.

As for the services sector, wholesale and retail trade extended its slowing trend growing a minimal 0.5% YOY (1Q: +1.5%) mainly on the back of shrinking retail trade due to weaker motor vehicle sales during this period of time. Wholesale trade was supported by a strong expansion in machinery, equipment & supplies.

Transportation and storage managed to bounce up higher to increase 2.1% YOY (2Q: +1.2%) after experiencing weaker growth in 2Q, where support came from the expansions in both the water and air transport segments. Accommodation & food services sector extended its climb from the preceding quarter to 4.0% YOY (2Q: +3.9%) as a 7.1% increase in visitor arrivals helped drive the accommodation segment.

Softer retail trade, info & communications and finance & insurance were key culprits.

Information & communications moderated to 4.7% YOY (2Q: +5.8%) where growth was largely supported by IT & information services due to healthy demand for IT solutions. Finance & insurance slowed for the third consecutive quarter increasing 5.6% YOY (2Q: +6.8%) led by gains in the insurance and "others" segment where growth in the latter was said to be buoyed by push towards more efficient payment systems and cashless transactions. Business services saw a faster gain of 2.4% YOY (2Q: +2.3%) supported by professional services despite a weaker real estate segment.



Source: MTI Singapore

Private consumption expenditure & net exports weighed down on growth.

At the expenditure level, private consumption eased to 3.4% YOY (2Q: +3.7%) whereas government spending ticked higher by 2.6% YOY (2Q: +2.5%). Investment and net exports both served as a drag on overall growth – investment resumed contraction of 1.4% YOY (2Q: +3.1%) after a rebound in 2Q while net exports recorded a marginal growth of 1.0% YOY (2Q: +7.9%).

Challenging external backdrop and softening domestic conditions

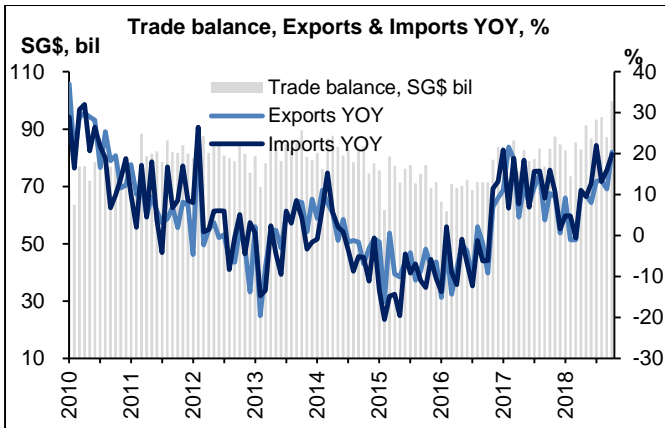
Following two robust quarters, Singapore economy matched general expectations to record slower growth in the third quarter, and we expect growth to remain soft towards the end of the year and heading into 2019 on the back of weaker domestic and external demand. Uncertainty surrounding global trade policy remains as the US-China trade dispute drags on without any immediate sign of settlement. This proves challenging for the city-state which acts as re-exports hub for much of Asia and at the same time, domestic exports could experience a setback given its considerable reliance on demand from mainland China. Outlook for other key trading partners' economies was skewed towards the softer end as well – the robust growth seen in the US in much of 2018 will likely fade in the second half of 2019 as the effect of tax cut wears off, growth in the Eurozone could be dampened further by recent weakness in Germany and we do not foresee any solid pick-up in Japanese economic growth either.

At the domestic front, consumer consumption shows weakening signs – retail sales were mainly weighed down by the lack of demand for motor vehicle sales, currently in a down cycle. Sales excluding motor vehicles were rather lacklustre as well. The manufacturing sector is expected to soften taking cue from the recent lower readings of headline PMI and electronics PMI as the global electronic cycle demand slowly trend down to the end of its cycle. Weaker forward sales guidance by the world's major gadgets and chipmakers will also dampen demand for Singapore E&E output.

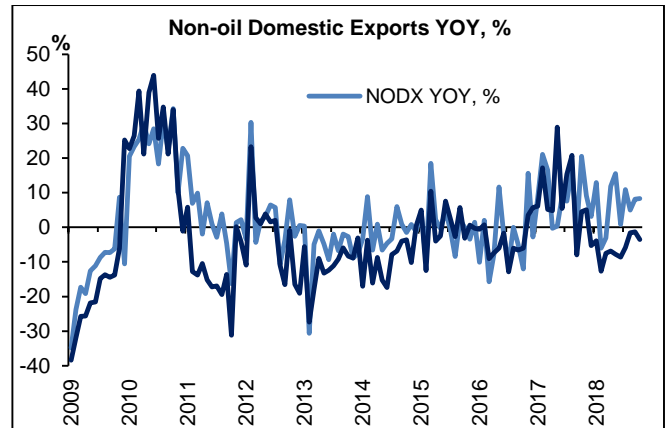
2018 growth projection narrowed to 3.0- 3.5%, MAS to leave monetary policy unchanged

Against this rather challenging backdrop, we reiterate our view that growth is likely to remain softer towards the end of the year and heading into 2019. The Ministry of Trade and Industry has narrowed its 2018 GDP forecast from 2.5-3.5% YOY to 3.0-3.5% YOY while the economy is projected to grow by 1.5-3.5% in 2019, building a strong case for MAS to leave monetary policy unchanged in April next year.

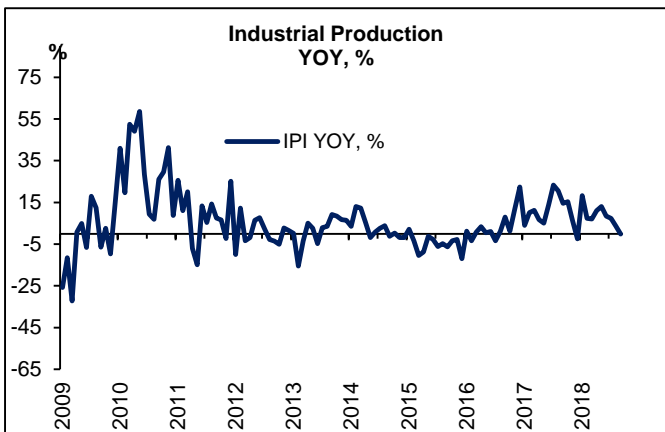
Singapore Overview:



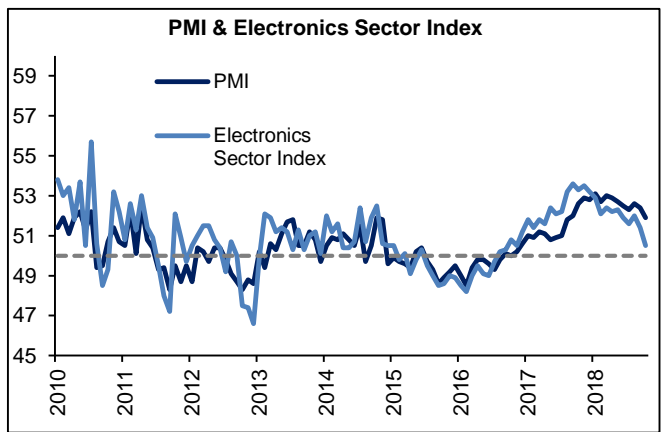
Source: MTI Singapore, Bloomberg



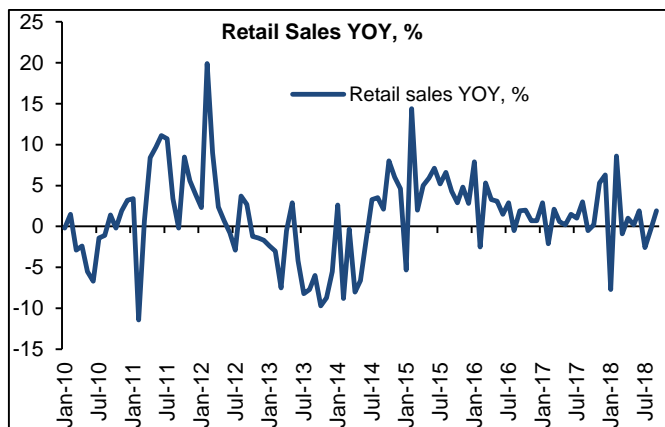
Source: MTI Singapore, Bloomberg



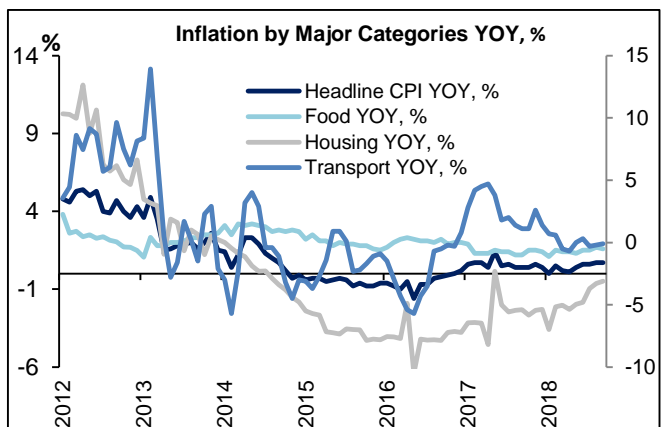
Source: MTI Singapore, Bloomberg



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