

Global Markets Research
Economics - Singapore

Singapore 4Q GDP slowed on cautious consumer spending

Singapore economic growth eased further in the final quarter of 2018, off the elevated levels seen in 1H18. The services sector served as the main drag on the slower 4Q print as the retail sector contracted amidst cautious consumer spending. Looking ahead, given an ever challenging external backdrop as well as weaker domestic conditions, growth outlook for the city-state is skewed to the downside. We expect MAS to leave its monetary policy unchanged in its next MPC meeting in April 2019.

| | 2016 | 2017 | 2018 | 1Q18 | 2Q18 | 3Q18 | 4Q18 |
|-------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Real GDP (% YOY) | 2.4 | 3.9 | 3.2 | 4.7 | 4.2 | 2.4 | 1.9 |
| Goods Producing Industries | 3.2 | 5.7 | 5.0 | 6.4 | 7.6 | 2.3 | 3.8 |
| Manufacturing | 3.7 | 10.4 | 7.2 | 10.1 | 10.6 | 3.5 | 5.1 |
| Construction | 1.9 | -10.2 | -3.4 | -6.0 | -4.2 | -2.3 | -1.0 |
| Services Producing Industries | 1.4 | 3.2 | 3.0 | 4.4 | 3.0 | 2.7 | 1.8 |
| Wholesale & Retail Trade | 1.0 | 1.9 | 1.5 | 2.8 | 2.4 | 1.8 | -0.6 |
| Transport & Storage | 1.3 | 5.2 | 1.5 | 2.6 | 1.1 | 1.9 | 0.5 |
| Accommodation & Food | 3.8 | 3.0 | 2.7 | 0.9 | 3.1 | 4.0 | 2.9 |
| Information & Comm. | 3.6 | 4.5 | 6.0 | 6.1 | 6.4 | 5.4 | 6.1 |
| Finance & Insurance | 1.6 | 5.6 | 5.9 | 9.5 | 6.4 | 3.9 | 4.1 |
| Business Services | -0.3 | 1.8 | 3.0 | 3.4 | 2.6 | 3.3 | 2.8 |
| Other Service Industries | 3.5 | 2.9 | 1.7 | 3.8 | 0.5 | 0.9 | 1.6 |

Source: MTI Singapore

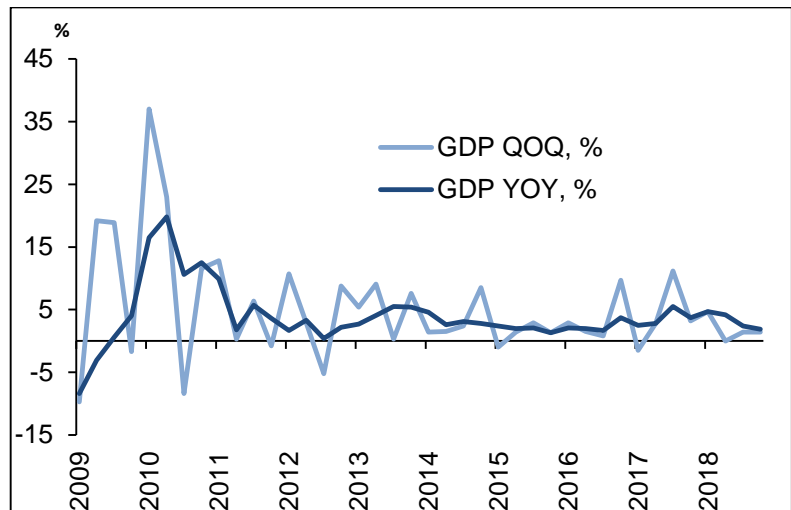
Weaker 2H weighed down on overall 2018 growth.

Singapore economic growth continued to moderate in late 2018 as GDP grew 1.9% YOY in 4Q18 (3Q: +2.4% revised), a downward revision from the initial reading of 2.2% YOY and below consensus estimate of 2.1% YOY. Growth rate for 3Q18 meanwhile was revised higher to 2.4% YOY compared to the previous mark of 2.2% YOY. On a quarter-on-quarter seasonally adjusted annualized basis, real GDP growth also steadied at 1.4% QOQ in the final quarter from the revised decrease in 3Q18.

2H18 proved to be a challenging period, as growth decelerated from the elevated levels in the first 6 months of 2018, effectively dragging down the full-year GDP growth to a modest 3.2% YOY in 2018, well below the 2017 growth rate of 3.9% YOY.

The services sector was the key culprit of a much weaker 4Q print, as services growth eased further, growing a mere 1.8% YOY (3Q: +2.7%) while the goods producing industries managed to pick up by a stronger 3.8% YOY (3Q: +2.3%). Within the goods industry, the manufacturing sector staged a moderate rebound of 5.1% YOY (3Q: +3.5%), paled in comparison with the above 10.0% YOY rate seen in 1H18. The construction sector meanwhile continued to contract albeit at a decelerating pace this quarter, reflecting continuous weakness in public sector construction work.

Performance was mixed within the services sector with the contraction of the wholesale and retail trade (-0.6% vs +1.8%) driving down overall growth rate while the weaker upturn in transportation & storage, accommodations & food services and business services also contributed to the lacklustre headline number.



Source: MTI Singapore

Manufacturing rebounded, services weighed down by retail sector

Singapore manufacturing managed to bounce higher in the final quarter after losing steam in the third quarter. Growth was mainly driven by the biomedical manufacturing, transport engineering and electronic clusters. Year-on-year, the sector posted a substantially softer expansion of 7.2% in 2018, versus the 10.4% YOY increase in 2017.

Within the services sector, wholesale & retail trade contracted by 0.6% YOY (3Q: +1.8%) in totality, dragged down by the sluggish performance of both the wholesale and retail trade segments. Wholesale trade dropped due to the declines in the machinery, equipment & supplies as well as the “others” sub-segments. Retail segment meanwhile was pulled down by the weak motor vehicle sales as demand for vehicles remained in a down cycle. Services growth as a whole moderated to 3.0% YOY in 2018, a tad softer than the 3.2% YOY in 2017.

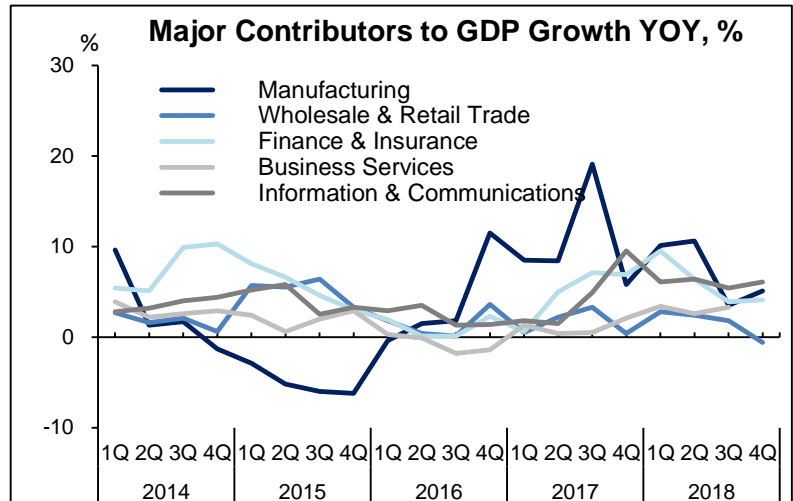
Transportation and storage grew a mere 0.5% YOY (3Q: +1.9%) with growth largely driven by the air transport segment as number of air passengers increased in 4Q. Growth in the accommodation & food services sector also pulled back to 2.9% YOY (3Q: +4.0%), supported by the accommodation segment on the back of a 2.5% increase in international visitors. Growth in food service was underpinned by increased sales volumes across all sub-segments such as restaurants, fast food outlets and food caterers.

Information & communications quickened to 6.1% YOY (3Q: +5.4%), held by the IT & information services segment which continued to benefit from strong demand for IT solutions. Finance & insurance also picked up by slightly faster pace of 4.1% YOY (3Q: +3.9%) on the back of sustained expansions in the insurance and “others” segments which was in turn driven mainly resilient demand for insurance services and new economy activities such as digital payments. Last but not least, business services slowed to increase 2.8% YOY (3Q: +3.3%) supported by professional services and “others” segments with the real estate segment continuing to contract in the final quarter.

Broad-based slowdown across expenditures – private consumption and trade sector weakened.

At the expenditure level, private consumption picked up only a little in 4Q, inching up by 1.1% YOY (3Q: +2.7%), government spending gained a mere 0.7% YOY (3Q: +2.3%) while contraction in investment decelerated to 3.1% YOY (3Q: -7.0%). Net exports rebounded to increase 11.3% YOY (3Q: +5.9%) mainly because of the weaker imports growth compared to that of exports. The trade sector has weakened

generally in the final quarterly with both exports and imports registering lower growth.



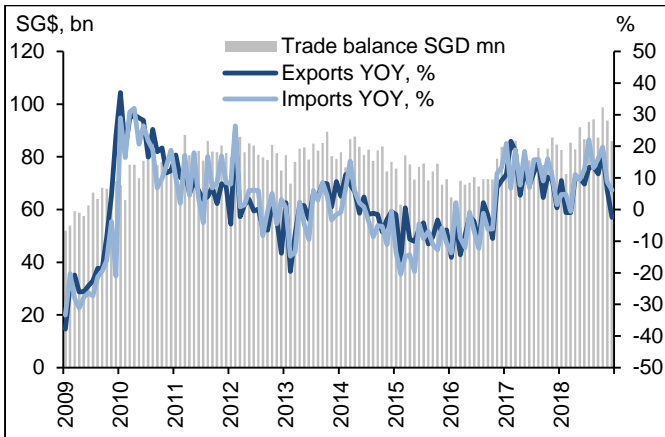
Source: MTI Singapore

2019 growth projection maintained at 1.5-3.5%, but likely below forecast midpoint.

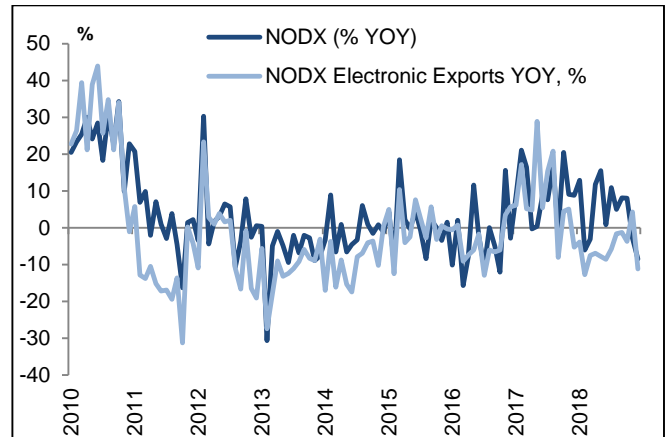
Singapore economy slowed in the second half of 2018 following several robust quarters, as it struggles to find support amidst softer domestic and global environment. Much is at stake for the trade reliance city-state as indicators continued to point to a synchronized slowdown in its key trading partners. Signs of slower growth began to emerge in the US as the economy matures towards the late stage of current growth cycle and at the same time the effect of fiscal stimulus (introduced in early 2018) started to wane. Growth in the Eurozone was muted in 2H18 driven especially by weakness in the manufacturing industry. Uncertainties as to how Brexit will affect the UK economy is still very much at play. The recovery in Japan meanwhile was a correction from the disaster-ridden 3Q and could potentially slow further after the tax-hike in October 2019. Key economic indicators in China continued to point to softer outlook for the world's second largest economy especially when the manufacturing industry is operating under huge pressure. Weaker forward guidance by smartphone makers suggests waning demand for electronic gadgets globally, which would in turn dampen demand for Singapore's E&E products. Rising trade protectionism is ever a relevant issue as the year-long US-China trade dispute remains unresolved.

Earlier signs of weaker domestic demand meanwhile have materialized, translated into the marked decline in retail sales (-6.0% YOY) in December, traditionally a solid month for year-end festive shopping. 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 maintained 2019 GDP growth forecast at 1.5-3.5% YOY with growth expected to come in slightly below the midpoint of the forecast range. The Monetary Authority of Singapore (MAS) will most likely leave monetary policy unchanged in the coming April meeting.

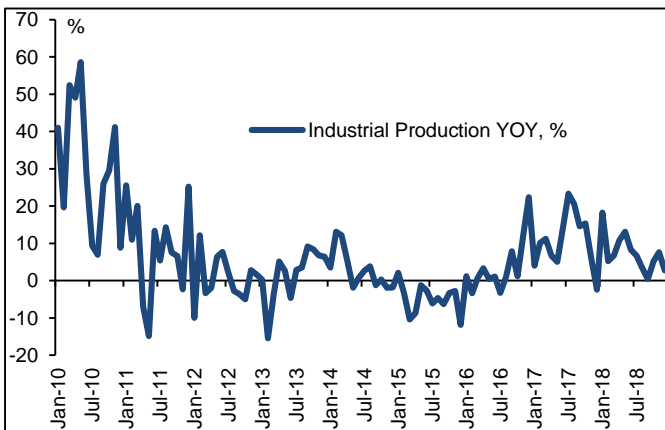
Singapore Overview:



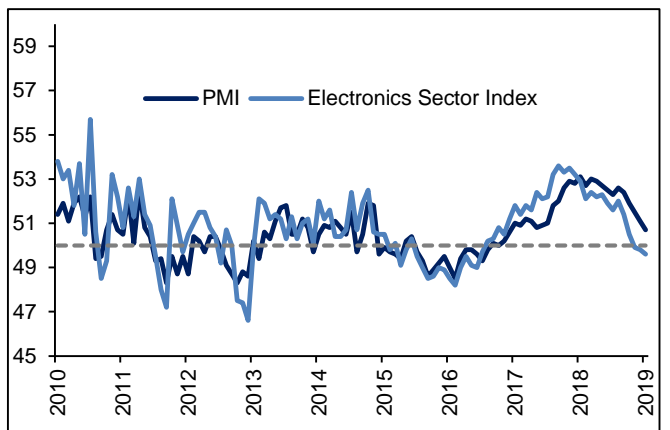
Source: MTI Singapore, Bloomberg



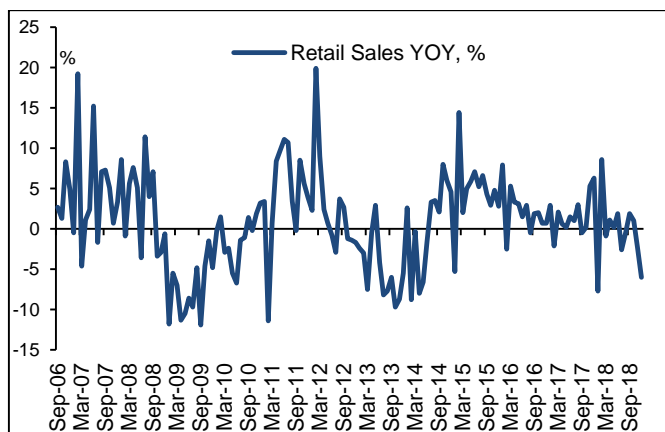
Source: MTI Singapore, Bloomberg



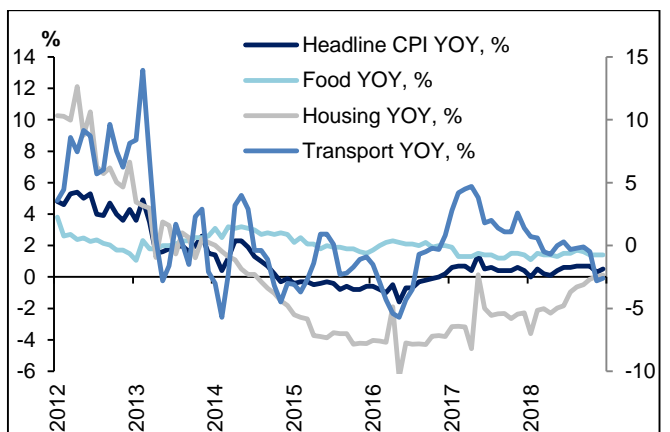
Source: MTI Singapore, Bloomberg



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