

Singapore: Growth Revised Down in 2Q

- **Downside revision was due to subdued economic activity levels in June**
- **This was despite the partial lifting of circuit breaker measures, highlighting a slow recovery ahead**
- **We revise down our 2020 GDP forecast, and now expect a delayed return to normal activity levels**

Summary

We revise down Singapore GDP growth forecast to -5.9% in 2020, from -4.8% previously. This is on the back of a still-challenging outlook for 2H-2020. The government has narrowed its 2020 GDP forecast to -5 to -7%, from -4 to -7%. In 2021, we expect a gradual recovery, and a return to pre-crisis economic activity levels only in 3Q-2021.

This is on the back of sluggish domestic demand and external demand. Private consumption and net exports subtracted 10.7ppt and 1ppt to GDP growth respectively. We expect cautious consumer spending in the quarters ahead from a challenging outlook in the labour market. At the same time, most major trade partners still face Covid-19 challenges, with some economies reinstating lockdown measures in 3Q. Trade growth was down 25% YOY in 2Q-2020 and will take time to rebound back.

For now, we do not expect more monetary policy measures, and maintain our USD/SGD forecast of 1.37 in 4Q-2020 and 1.36 in 2Q-2021. We also do not rule out for fiscal measures, if the situation deteriorates.

Economy Stayed in the Doldrums in June

If anything, the final GDP print showed us that the economy did not improve significantly after Singapore partly lifted circuit measures on 2 June (phase 1) and 19 June (phase 2). GDP growth was revised down from -12.6% YOY to -13.2%, after taking into account the performances in June. All major sectors (manufacturing, services, construction) saw downward revisions from advance estimates.

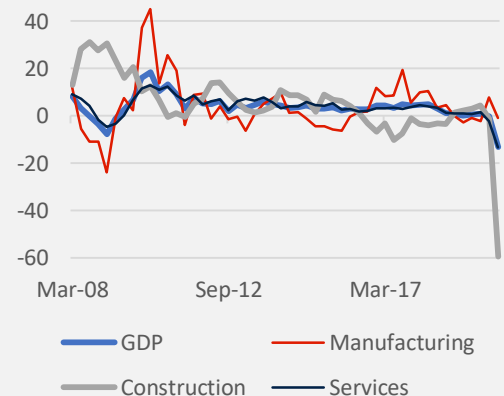
While the downward revision in manufacturing was expected (due to high base effects and flatter biomedical production in June), construction and services surprisingly did not benefit from decreased circuit breaker measures in June.

Divergent Services Sectors' Performances

Accommodation/food services (-41.4% YOY), transport/storage (-39.2%), and business services (this includes real estate and professional services, -20.2%) were the most affected by the current Covid-19 situation. Some industries, such as air travel and tourism, are unlikely to improve in 2020.

Finance and insurance (3.4% YOY), and information and communications (-0.5%) stayed more resilient, although the latter disappointed. IT and information services demand was healthy but telecommunications dragged overall performance down.

Figure 1: Singapore GDP (% YOY)



Source: CEIC, HL Bank

Figure 2: Key forecasts

	2020	2021
GDP	-5.9%	6.3%
Inflation (avg)	-0.7%	0.6%
Core CPI (avg)	-0.3%	0.5%
Current account^	11.5	14.5
Fiscal acc.^ (FY)	-14.0	1.5
3m SIBOR	0.60%	-
USD/SGD	1.37	-

Note: ^ in % of GDP. Source: HL Bank

Figure 3: Risks to our views

Upside:

- Covid-19 vaccine is mass produced in 2020
- International cooperation improves

Downside:

- Prolonged disruption from COVID-19 virus
- US-China tensions

Source: HL Bank

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