SINGAPORE

MTI cuts full year growth forecast to 1-2%

Thursday, 11 August 2016

- **2Q growth was little changed at 2.1% yoy (+0.3% qoq saar).** The key revisions were the downgrade in services growth from 1.7% yoy (previous estimate) to 1.4% yoy for 2Q, mainly dragged down by (a) business services at -0.2% yoy (-3.6% qoq saar) which is the first yoy contraction since 2Q 2003 and largely due to the real estate segment, as well as (b) rapidly slowing momentum in financial services which decelerated to +0.8% yoy (-11.2% qoq saar) which is the slowest growth pace since 3Q12. The big swings in risk appetite contributed to the pullback in both ACU (-5.5%, namely due to credit to East Asia) and DBU non-bank lending activities which were hit by trade-related segments like general commerce and manufacturing. In addition, fees and commissions for banks was dismal amid dampened demand for portfolio management and trade financing.
- **However, MTI trimmed the full year growth forecast from 1-3% to 1-2%**, citing additional risks post-Brexit and a weaker global growth outlook (see extended write-up in the press release). MTI also mentioned the possibility that China's debt defaults could spike as the economy continues to restructure, leading to a tightening of financial services and a sharper growth slowdown. Moreover the caveat was that this narrowed forecast was "barring the full materialisation of downside risks". MTI tips that the manufacturing improvement may not be sustained given sluggish global demand and expects construction growth to also weaken in the coming quarters amid a more pessimistic business outlook, albeit there may be support from tourism-related sectors given healthy visitor arrivals, and other services industries like ICT could still be supported by the education, and health & social services demand.
- **We maintain our 2016 GDP growth forecast at 1.8% yoy for now** as we think the 2H slowdown could be limited to around 1.5% yoy from 1H's 2.1% yoy, even though there may be some downside risks for 3Q growth given the brunt of the Brexit referendum could be felt in the financial markets and business/consumer confidence. The 1-2% official growth forecast revision is slightly more bearish than what we anticipated given 1H growth is already 2.1% yoy and 2H growth would have to potentially slip to zero for the full year to hit the lower 1% floor of the revised official forecast range.

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