2Q20 GDP growth was revised to -13.2% yoy (-41.0% qoq saar)

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Highlights:

S'pore's 2Q20 GDP growth was revised lower to -13.2% yoy (-42.9% qoq saar), down from the initial flash estimates of -12.6% yoy (-41.2% qoq saar), and in line with our expectations for -13.2% yoy (-43.7% qoq saar). Notably, the manufacturing and construction growth prints were downgraded to -0.7% yoy (-31.9% qoq saar) and -59.3% yoy (-42.9% qoq saar) respectively. The former was anticipated due to the worse-than-expected June industrial production data, while the latter was due to manpower disruptions amid measures to curb the spread of Covid-19 at foreign worker dormitories. The services sector actually saw a marginal upward revision to -13.4% yoy (-37.4% qoq saar), with the silver lining coming from the finance & insurance sector which still saw growth of 3.4% yoy (mainly due to insurance and auxiliary activities related to adoption of digital payments) even though this was a halving of its 8.3% yoy growth in 1Q20. The bulk of the services sector, from transportation & storage, accommodation & food services, business services and other services industries saw more significant contractions in 2Q20 due to the Circuit Breaker (CB) period.

The S'pore government also narrowed its full-year 2020 GDP growth forecast range to -5% to -7% yoy, versus a wider forecast range of -4% to -7% previously, but with the official rhetoric remains very cautious. The narrowing of the official growth forecast came with the caveat that there had a slight weakening in the S'pore economic outlook since May and there continues to be significant uncertainty over the Covid-19 situation and the recovery trajectory of global and domestic economies. In addition, the MTI statement had a fairly long assessment pertaining to the familiar litany of risks such as the Covid-19 resurgence, the potential for financial system stresses and negative feedback due to the global economic downturn, and geopolitical risks and anti-globalisation sentiments which could further disrupt global supply chains. Hence, the shading of the official growth forecast to the lower half of its initial forecast range is a realistic assessment of the current status quo. While China will be first-in-first-out from the Covid-19 pandemic, the recent 2Q20 GDP prints from Asia generally suggest a deeper recession and warranting more policy support in the near-term.

Our 2020 growth forecast remains at -5.5% yoy, given that 1H20 growth currently stands at -6.8% yoy and we expect that the recovery path in 2H20. Given the escalating US-China tensions (with hardliners apparently in the drivers' seat and Trump embarking on his "election first" strategy), coupled with the long tail nature of the Covid-19 pandemic, S'pore's GDP growth may continue to contract, albeit by a milder 7.5% yoy and 1.5% yoy in 3Q and 4Q20 respectively. The drags remain the external demand conditions, especially with major economies like the US, Australia and Hong

Kong combating localised Covid-19 outbreaks, delayed re-openings of international borders particularly for travel, a more pronounced downturn in the construction and marine & offshore engineering sectors, and generally weak domestic demand conditions due to the softening local labour market outlook. While the re-opening of retail stores and restaurant dining-in could see a snapback in pent-up demand post-CB, the momentum going forward will be the key as the services sector is a big local employer. The total unemployment rate had already climbed to 2.9% in 2Q20 with total employment falling by a whopping 131.5k (nearly double the 69.8k addition seen for the whole of 2019), hence the risk is that is more retrenchments and wage cuts are on the way.

Market reactions and policy implications are muted at this juncture: S$NEER was little changed in the wake of the revisions to 2Q20 GDP growth and the full-year official growth forecast, and MAS may continue with their wait-and-see neutral stance for now until the October review. SGS bond yields and SGD IRS have firmed this morning, but are likely to be tracking overnight moves in the UST bond market too. While the bar for further significant fiscal stimulus has been raised after some $100b has been spent in four budgets, nevertheless the $13b that was set aside in the Contingencies Fund should be sufficient to respond to any unforeseeable developments in the near-term. Meanwhile, MAS is already working with banks on how to wean companies and individuals off the debt moratorium relief to avoid a cliff effect, and another $320m was set aside to extend foreign worker levy rebates for the construction, marine shipyard and process sectors. **The next step is to watch for the recommendations from the reconvening of the National Wage Council and the newly formed National Jobs Council** as the protection of jobs and ensuring the security of livelihoods remain a key priority. The Jobs Support Scheme, for example, may be one policy option that could be considered for a calibrated extension**.**

On the trade front, Enterprise S'pore also revised up its full-year 2020 total trade and NODX growth forecast to -8% to -10% yoy and 3% to 5% respectively, versus its earlier projections for -9% to -12% and -1% to -4% respectively. The forecast revision was attributed to better-than-expected performances for specific products (namely non-monetary gold, pharmaceuticals & electronics). Enterprise Singapore also noted that while the global economic outlook remains uncertain, global trade is unlikely to hit the worst-case scenario of -32% yoy earlier tipped by the WTO. NODX has expanded by 6.5% in 2Q20, due to a low base a year ago, which is an improvement from the 5.4% seen in 1Q20. Both electronics and non-electronics NODX had grown by 10.6% (due to ICs, disk media products and telecom equipment) and 5.4% yoy (led by non-monetary gold, pharmaceuticals and specialised machinery) respectively in 2Q20. Even oil prices had picked up and is expected to provide some support for S'pore's oil trade and in turn total trade in 2020. However, services exports fell by a worse 20.3% yoy in 2Q20 (1Q20: -3.0%) due to a collapse in travel receipts (-86.5%), transport services exports (-23.5%) and receipts from maintenance and repair services (-66.8%). Our 2020 NODX growth forecast is 3% yoy.

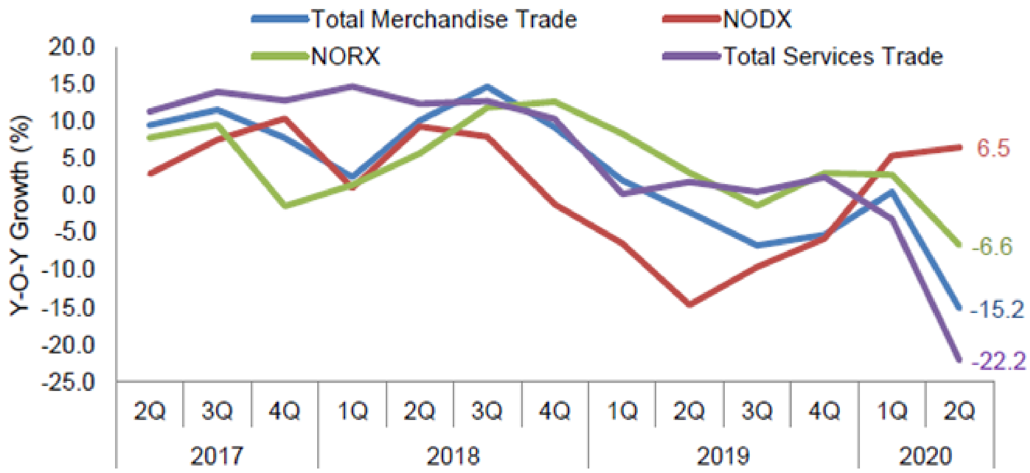
SECTORAL GROWTH RATES

	2Q19	3Q19	4Q19	2019	1Q20	2Q20
	Year-on-Year % Change					
Total	0.2	0.7	1.0	0.7	-0.3	-13.2
Goods Producing Industries	-1.9	-0.1	-1.3	-0.8	6.2	-9.2
Manufacturing	-2.7	-0.7	-2.3	-1.4	7.9	-0.7
Construction	2.3	3.1	4.3	2.8	-1.2	-59.3
Services Producing Industries	1.1	0.8	1.5	1.1	-2.3	-13.4
Wholesale & Retail Trade	-3.6	-3.5	-1.9	-2.9	-5.6	-8.2
Transportation & Storage	2.1	0.0	0.8	0.8	-7.7	-39.2
Accommodation & Food Services	1.2	1.9	2.5	1.9	-23.8	-41.4
Information & Communications	3.4	4.4	4.5	4.3	2.6	-0.5
Finance & Insurance	5.1	4.1	4.0	4.1	8.3	3.4
Business Services	1.0	1.1	1.7	1.4	-3.4	-20.2
Other Services Industries	2.4	2.4	3.3	2.6	-3.7	-17.8
	Annualised Quarter-on-Quarter Growth % (SA)					
Total	-0.8	2.2	0.6	0.7	-3.1	-42.9
Goods Producing Industries	-2.9	3.9	-3.7	-0.8	31.2	-48.1
Manufacturing	-4.1	4.8	-5.9	-1.4	44.2	-31.7
Construction	-0.3	3.5	5.3	2.8	-12.3	-97.1
Services Producing Industries	1.2	1.1	2.2	1.1	-13.0	-37.4
Wholesale & Retail Trade	-2.0	-1.3	-0.6	-2.9	-17.4	-12.5
Transportation & Storage	3.0	-3.1	2.0	0.8	-28.6	-80.7
Accommodation & Food Services	2.8	5.1	4.3	1.9	-70.0	-64.1
Information & Communications	2.8	10.8	8.9	4.3	-9.9	-9.0
Finance & Insurance	13.8	-1.9	3.8	4.1	18.6	-5.3
Business Services	-1.2	1.2	2.2	1.4	-15.4	-53.5
Other Services Industries	-1.2	2.9	3.1	2.6	-18.1	-47.5

	2Q19	3Q19	4Q19	2019	1Q20	2Q20
Retail Sales Index* (yoy, %)	-4.6	-3.0	-5.0	-3.4	-9.9	-41.0
Value Added Per Worker^ (yoy, %)	-1.3	-1.0	-0.7	-0.9	-1.6	-11.6
Value Added Per Actual Hour Worked^ (yoy, %)	-3.1	-2.0	-2.2	-1.9	-3.3	2.0
Unemployment Rate, SA (%)	2.2	2.3	2.3	2.3	2.4	2.9
Changes in Employment ('000)	6.8	27.6	21.5	69.8	-25.2	-131.5
Overall Unit Labour Cost (yoy, %)	3.3	3.6	2.1	2.8	1.2	-18.6
Unit Business Cost of Manufacturing (yoy, %)	-0.1	-4.6	-3.4	-3.0	-12.9	-22.1
Consumer Price Index (yoy, %)	0.8	0.4	0.6	0.6	0.4	-0.7
Fixed Asset Investments ($ bil)	4.3	0.2	6.9	15.2	12.4	1.9
Total Merchandise Trade (yoy, %)	-2.2	-6.7	-5.3	-3.2	0.5	-15.2
Merchandise Exports	-4.6	-7.3	-4.3	-4.2	-1.4	-13.8
Domestic Exports	-10.6	-13.1	-11.5	-10.5	-6.4	-21.1
Oil	-2.9	-19.7	-21.5	-12.9	-28.9	-67.7
Non-Oil	-14.7	-9.6	-5.7	-9.2	5.4	6.5
Re-exports	2.0	-1.7	2.8	2.3	3.2	-6.8
Merchandise Imports	0.5	-5.9	-6.3	-2.1	2.6	-16.6
Total Services Trade (yoy, %)	1.9	0.6	2.5	1.3	-3.2	-22.2
Exports of Services	1.9	1.9	4.5	2.2	-3.0	-20.3
Imports of Services	1.9	-0.8	0.6	0.4	-3.3	-24.1

* In Chained Volume Terms. ^ Based on GDP at market prices in chained (2015) dollars

Source: MTI



Source: Enterprise S'pore

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