Grimmer 2020 growth outlook but stronger 2021 recovery?

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Highlights:

No surprises here: the 2020 GDP growth forecast has been shaded down slightly from -5.8% yoy to -6.0% yoy in the latest MAS Survey of Professional Forecasters (SPF). This coincided with the mid-point of the S'pore government's recent narrowing of its official 2020 GDP growth forecast from -7% to -4% yoy to -7% to -5% yoy. Our house view remains around -5.5% yoy, even though our 3Q20 GDP growth forecast of -7.1% yoy, with the 4Q20 contraction tipped at a less severe 5.5% yoy. Note private consumption is now tipped to contract by 11.8% this year according to SPF, slightly more upbeat than our house forecast of -12.9% due to the softening labour market conditions, whereas non-oil domestic exports will grow by a more optimistic 4.5% yoy (our forecast: +4.0% yoy) compared to flat growth projected just three months ago. The latter could be a reflection of brighter electronics exports outlook amid the 5G thrust as well as market hopes that US-China tensions will not deteriorate significantly from here ahead of the 3 November US presidential elections.

However, this should not detract from the brighter 2020 growth prognosis where SPF respondents tip a 4.0-5.9% range as the most probable, with median at 5.5% yoy. There is still a significant degree of uncertainty attached to the 2021 outcome, as cautioned by many policymakers including the FOMC. Even assuming 5.5% growth in 2021, S'pore's GDP level will not return to 2019 pre-Covid levels yet. Our 2021 GDP growth forecast is a more conservative 4% yoy (with the topside potentially at 6% yoy), depending on the speed and geographical availability of Covid-19 vaccine deployment which could in turn buoy the external economic environment.

At the sectoral level, the 2020 growth forecast upgrades were mostly in finance & insurance (from 3.1% yoy in June to 4.9% currently) and wholesale & retail trade (from -12.8% in June to -6.4% yoy currently), whereas construction (at -23.0% yoy versus -11.4% three months ago) and accommodation & food services (at -29.1% yoy versus -26.0% three months ago) are seen as faring worse, whilst manufacturing is flattish (at 2.3% versus 2.2% previously). The rationale for these forecast revisions can be attributed to the strong risk-on sentiments stemming from the re-opening of global/domestic economies since June, the dovish commitments by major central banks to keep monetary policy accommodative for longer, and the yield-seeking investor behaviour due to the very low interest rate environment, which has aided activities in the finance & insurance segment. In addition, pent-up domestic demand since the S'pore economy moved into Phase 2 post-Circuit Breaker has buoyed retail sales (note the 27.4% mom sa surge in July even though it is still 8.5% lower than a year ago).

In contrast, confidence in the construction and accommodation & food services sectors are being weighed down by the re-emergence of Covid-19 cases in the foreign worker dormitories, the manpower shortages due to Malaysia's extension of its MCO till end of 2020, as well as the slow progress on lifting of international travel restrictions given the resurgence of Covid-19 infections that has contributed to greater caution about the re-opening in selected economies like Australia, Hong Kong, Japan etc.

The SPF median 2020 headline and core inflation forecasts were at -0.4% and -0.3% yoy respectively, smack in line with our house forecasts. Ditto for the 3-month SIBOR forecast of 0.4% by end-2020, although our 2020 bank loans growth forecast of 0.2% yoy is a tad more cautious than the SPF median forecast for 1.0% yoy. The implications for MAS' monetary policy review in mid-October is muted as it is within the official inflation forecast range and official rhetoric suggest little impetus at this juncture to ease or tighten the S$NEER policy stance, even though the 2021 headline and core inflation forecasts are both eyed at 0.7% yoy according to the SPF. Our 2021 house forecasts for both headline and core CPI are actually higher at 1.2% yoy due to greater normalisation of economic conditions and assuming Covid-19 deployment bolstering private consumption and in turn end-consumer prices.

Key risks to the S'pore economy remain very familiar, namely Covid-19 escalation which was cited by a smaller 90% of SPF respondents, with 75% seeing it as the top risk factor. This was followed by escalating US-China tensions (60%) and external slowdown (25%) respectively. The containment of Covid-19, such as a successful vaccine deployment, was cited by 75% (with 60% labelling it as the top upside risk factor), followed by a manufacturing upturn (40%) and easing of US-China tensions (30%). Similarly, the key risks to financial and lending market conditions are the tightening of global financial conditions (cited by 76.9% of SPF respondents), followed by escalation of Covid-19 (38.5%) and escalation of US-China tensions (38.5%).

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