# MAS Survey of Professional Forecasters (SPF) throws up some glimmers of hope amid the gloomy economic data

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**Highlights**

**Downgrade of full-year 2020 GDP growth forecast to -5.8% yoy,** from +0.6% three months ago. This is unsurprising, as the government has also cut its official growth forecast to -4% to -7%, and is in line with our house view of around -6%. The deterioration are largely captured in sectors like construction (now seen at contracting 11.4%), wholesale & retail trade (-12.8%) and accommodation & food services (-26.0%) to reflect the slump in activities during the Circuit Breaker period in particular. Private consumption is expected to fall 5.2% yoy compared to +1.9% three months ago, whilst NODX is likely to see flat growth this year. I'm slightly less bearish on 2020 NODX growth forecast which stands at namely because year-to-date NODX growth is already 6.8% yoy and the stabilisation of the global and regional PMIs bode well for trade notwithstanding the ongoing US-China tensions.

**However, there are two silver linings. First, manufacturing growth is now seen as positive at 2.2% for 2020**, versus -0.3% three months ago. This is mainly taking the cue from the better than expected March and April industrial production data, especially the silver lining in pharmaceuticals due to the global Covid-19 induced shortages. With more economies re-opening for business, global manufacturing PMIs have bottomed in April and are slowly improving, hence the coming months may see further resumption of industrial activity. Our house forecast for 2020 manufacturing growth is more upbeat at +5.4% yoy with the biomedical cluster outperforming.

**Second, the 2020 growth for the finance & insurance sector also was upgraded to 3.1% (our house forecast: 2.7%)**, up from 2.6% three months ago, as risk sentiments and risk-taking activities have picked up significantly since March when our FX sentiments index and stress indicators peaked. Since then, the frontloading of both fiscal and monetary policy stimulus globally and also domestically contributed to putting a floor to the downside risks. Notably, the US Federal Reserve has committed to keeping its low interest rate policy through 2022, while others like the ECB have continued to expand their bond-purchase programs. With market players now turning their attention to major economies re-opening, the concern about exacerbated risk aversion and capital outflows have eased, albeit there are lingering worries about a second wave of Covid-19 infections.

**Disinflation is normal in a recession**, **but as long as no deflationary pressures extending into 2021, MAS is unlikely to be overly concerned**. Both headline and core inflation are tipped at -0.5% for 2020 (similar to our house view for -0.4% and -0.5% respectively), but is expected to rebound to 0.7% and 0.6% in 2021. This is likely on the back of higher energy prices as well as assuming a recovery of the global economy and private demand next year. As such, MAS may continue to wait and see in the run up to the October policy review, especially with the S$NEER well-behaved around its parity band for now. The 3-month SIBOR is also seen ending 2020 at 0.45% which is in line with our house forecast.

**Watch the tear between financial market expectations and macroeconomic fundamentals**: The unemployment rate is set to rise to 3.6% by end-2020, just a tad above our house view of 3-3.5%. However, while a majority of those surveyed see downside risks to corporate profitability and private residential prices, they are mostly neutral on SGD corporate bond spreads and more importantly see a rebound taking place in 2021. The improvement in the financial and lending market conditions will critically depend on global financial conditions, but most central banks still lend towards the cautious and dovish end of the spectrum for now.

**A battle of risk factors for Singapore as well**: Whether the Covid-19 situation is contained or escalates again, will drive the speed of the re-opening of the Singapore economic engines, and in turn also potentially determine the external economic environment and headwinds like the US-China trade tensions. While there is perceived headroom for additional fiscal stimulus for the Singapore economy, nevertheless, the extent of deterioration of the domestic labour market is something to watch as it depends on the speed of the government's SGUnited initiative to create and roll out 100k jobs and traineeships to buffer the downside risk of job layoffs and wage cuts which could dampen consumption and weigh on local consumer confidence. We see total and resident unemployment as likely to climb higher to 3-3.5% and 4.0%-4.5% respectively by end-2020. Last but not least, note the range between the min and max for the street's forecast range is still very wide, suggesting there are still very disparate views about 2020 economic outcomes even though half the year is over (see table A.3).

**Table 1**
**Median Forecasts of Macroeconomic Indicators for 2020**

| Key Macroeconomic Indicators Year-on-Year % Change | March Survey | Current Survey |
|---|---|---|
| GDP | 0.6 | -5.8 |
| Manufacturing | -0.3 | 2.2 |
| Finance & Insurance | 2.6 | 3.1 |
| Construction | 2.4 | -11.4 |
| Wholesale & Retail Trade | -0.7 | -12.8 |
| Accommodation & Food services | -1.6 | -26.0 |
| Private Consumption | 1.9 | -5.2 |
| Non-oil Domestic Exports | 0.2 | 0.0 |

**Table 2**
**Median Forecasts of Other Economic Indicators for 2020**

| Indicators | March Survey | Current Survey |
|---|---|---|
| CPI-All Items (year-on-year % change) | 0.8 | -0.5 |
| MAS Core Inflation (year-on-year % change) | 0.9 | -0.5 |
| Unemployment Rate (end-period, SA %) | 2.4 | 3.6 |
| Exchange Rate (end-period, S$ per US$) | 1.373 | 1.400 |
| 3-month S$ SIBOR (end-period, percent per annum) | 1.50 | 0.45 |
| Bank Loans (end-period, % growth) | 3.0 | 2.8 |

**Table 3**
**Expectations for Key Corporate and Financial Indicators for 2020**
(Proportion of Respondents, %)

| Indicators | March Survey | | | Current Survey | | |
|---|---|---|---|---|---|---|
| | Higher | Stable | Lower | Higher | Stable | Lower |
| Corporate Profitability (year-on-year % change) | 0.0 | 14.3 | 85.7 | 0.0 | 0.0 | 100.0 |
| Private Residential Property Price Index (quarter-on-quarter % change) | 0.0 | 77.8 | 22.2 | 11.1 | 11.1 | 77.8 |
| SGD Corporate Bond Spreads (end-period, basis points per annum) | 50.0 | 50.0 | 0.0 | 20.0 | 60.0 | 20.0 |

**Table 4**
**Expectations for Key Corporate and Financial indicators for 2021**
(Proportion of Respondents, %)

| Indicators | March Survey | | | Current Survey | | |
|---|---|---|---|---|---|---|
| | Higher | Stable | Lower | Higher | Stable | Lower |
| Corporate Profitability (year-on-year % change) | 100.0 | 0.0 | 0.0 | 100.0 | 0.0 | 0.0 |
| Private Residential Property Price Index (quarter-on-quarter % change) | 33.3 | 66.7 | 0.0 | 66.7 | 11.1 | 22.2 |
| SGD Corporate Bond Spreads (end-period, basis points per annum) | 0.0 | 50.0 | 50.0 | 20.0 | 20.0 | 60.0 |

**Table 5**
**Top 3 Drivers of Financial and Lending Market Conditions**
(Proportion of Respondents, %)

| Downside Drivers | March Survey | Current Survey | Upside Drivers | March Survey | Current Survey |
|---|---|---|---|---|---|
| Global Financial Conditions Tightening | 30.0 | 76.9 | Global Financial Conditions Easing | 70.0 | 100.0 |
| Trade Tensions Escalating | 30.0 | 38.5 | Weaker S$NEER | 40.0 | 27.3 |
| COVID-19 Escalation | 30.0 | 30.8 | Fiscal Stimulus | 10.0 | 27.3 |
| | | | Global Economic Recovery | NA | 27.3 |

**Table 6**
**Top 3 Potential Risks to the Singapore Economy**
(Proportion of Respondents, %)

| Downside Risk | March Survey | Current Survey | Cited As Top Risk | Upside Risk | March Survey | Current Survey | Cited As Top Risk |
|---|---|---|---|---|---|---|---|
| COVID-19 Escalation | 100.0 | 94.4 | 72.2 | COVID-19 Containment | 76.5 | 55.6 | 44.4 |
| Trade Tensions Escalate | 35.3 | 38.9 | 11.1 | External Growth | 23.5 | 38.9 | 5.6 |
| Labour Market | 17.6 | 33.3 | 0.0 | Fiscal Stimulus | 29.4 | 33.3 | 16.7 |

**Forecasts of Key Macroeconomic Indicators for 2020**

| Key Macroeconomic Indicators Year-on-Year % Change (unless otherwise stated) | March Survey | Current Survey | | | |
|---|---|---|---|---|---|
| | Median | Median | Mean | Min | Max |
| GDP | 0.6 | -5.8 | -5.8 | -8.5 | -4.0 |
| Manufacturing | -0.3 | 2.2 | 1.3 | -8.5 | 7.4 |
| Finance & Insurance | 2.6 | 3.1 | 2.2 | -8.6 | 9.6 |
| Construction | 2.4 | -11.4 | -15.7 | -32.6 | -2.3 |
| Wholesale & Retail Trade | -0.7 | -12.8 | -12.0 | -25.0 | -3.0 |
| Accommodation & Food services | -1.6 | -26.0 | -27.0 | -45.6 | -6.6 |
| Private Consumption | 1.9 | -5.2 | -6.8 | -19.6 | 1.1 |
| Non-oil Domestic Exports | 0.2 | 0.0 | -1.5 | -14.5 | 6.0 |
| CPI-All Items | 0.8 | -0.5 | -0.6 | -1.4 | 0.1 |
| MAS Core Inflation | 0.9 | -0.5 | -0.5 | -1.0 | -0.1 |
| Unemployment Rate (end-period, SA %) | 2.4 | 3.6 | 3.7 | 3.0 | 4.5 |
| Exchange Rate (end-period, S$ per US$) | 1.373 | 1.400 | 1.227 | -1.420 | 1.440 |
| 3-month S$ SIBOR (end-period, % per annum) | 1.50 | 0.45 | 0.43 | 0.20 | 0.66 |
| Bank Loans (end-period, % growth) | 3.0 | 2.8 | 2.0 | -5.0 | 4.0 |

Source: MAS

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