Potential dark clouds for the Singapore economy

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Highlights

- The Wuhan coronavirus poses an emerging dark cloud to China's growth stabilization and the modest 2020 growth recovery prognosis for the regional economies including Singapore.
- It is still early days yet for estimating the economic impact of the coronavirus outbreak, but Singapore's 2020 growth forecast of 1-2% yoy could see downside risk if the duration and severity of the outbreak worsens further.
- Using the SARS experience in 2003 as a reference, we estimate that Singapore's GDP growth could potentially be shaved off by up to 0.5-1% point from the baseline if the current epidemic lasts more than 3-6 months and constrains business and consumer confidence, restricts travel (air, land and sea included), and impacts productivity (with workers under voluntary/involuntary quarantine), albeit this is not our basecase scenario at this juncture.
- As the current situation regarding the 2019-nCoV has not appeared as severe as SARS, it is not apparent if an immediate and significant relief package is required and will be unveiled at the upcoming budget 2020 on 18 February, albeit we would not rule out some tourism-related assistance initiatives.
- The MAS monetary policy decision in April 2020 is also unlikely to be swayed for now, but the incoming economic data prints will continue to be important. As it stands now, the SGD NEER has come down very quickly this week, from +1.80% above parity to the current +1.00% above parity. Perhaps MAS may prefer to keep its powder dry at this juncture.

Coronavirus threatens to derail global economic recovery.

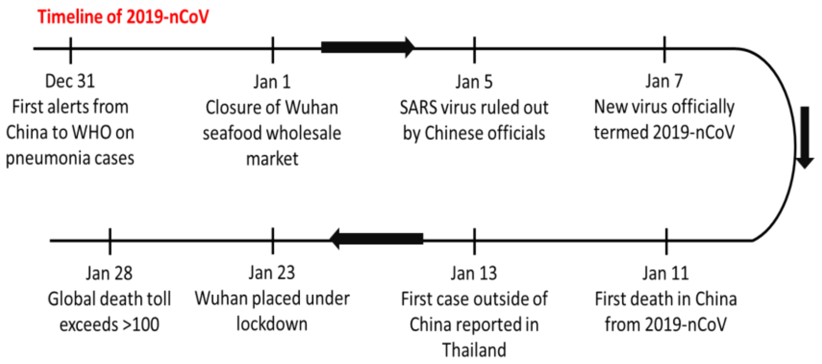
The earlier green shoots theme suggested that global and regional manufacturing PMIs were stabilizing and resurfacing above the 50 handle which separated contraction from expansion territory. Economic growth had likely bottomed in mid-to late 2019, and the growth prognosis was for a modest improvement into 2020, predicated on a de-escalation of US-China trade tensions, and a managed slowdown in China's economy. However, the emergence of the novel coronavirus in Wuhan, China which quickly spread to other provinces and also overseas including South Korea, Japan, US, Europe and Singapore posed an emerging dark cloud that could threaten the nascent economic stabilization story in January 2020. Essentially, the rapidly increasing number of confirmed cases and deaths related to the coronavirus, as well as the related uncertainties on the duration and severity of the outbreak could dent both business and economic confidence in the near-term. Hence, the potential cost of such an epidemic to the global and regional economies cannot be discounted at this juncture.

SARS as a reference for Coronavirus' economic impact.

If history is a guide, the SARS outbreak in 2003 may provide a reference point on what to expect, albeit with key differences. One key difference is that the SARS virus appears more lethal than the 2019-nCoV in terms of the fatality rate. Data from the WHO shows a total mortality rate of 9.6%. For countries with more than 50 cases, the highest mortality rate was found in Canada (17.1%) and Hong Kong (17%). In contrast, the mortality rate for the coronavirus appears to be lower at 2-3% for now.

SARS cases	**Total Cases**	**Number of Deaths**	**Imported Cases**
Australia	6	0	6
Canada	251	43	5
China	5327	349	-
Hong Kong	1755	299	-
Taiwan	346	37	21
Indonesia	2	0	2
Malaysia	5	2	5
Philippines	14	2	7
South Korea	3	0	3
Singapore	**238**	**33**	**8**
Thailand	9	2	9
UK	4	0	4
US	27	0	27
Vietnam	63	5	1
Others	46	2	65
Total	**8096**	**774**	**163**

Source: WHO, OCBC Bank



Source: Various news outlets, OCBC Bank

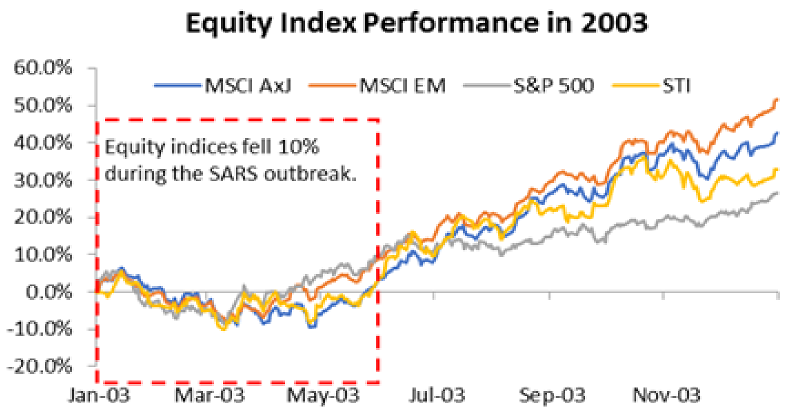
There are some stark differences between the coronavirus and SARS. Only time will eventually tell if the coronavirus proves to be deadlier than SARS. At present, however, it appears that the coronavirus has a lower fatality rate (3%) than SARS (10%) and the deaths are concentrated in elderly people with pre-existing chronic conditions. Secondly, the Chinese government is more proactive and transparent in its handling of this virus outbreak episode, such as quarantining the entire city of Wuhan and its regular reporting of new cases. Thirdly, with the benefit of experience and hindsight from SARS, regional governments are better prepared to deal with this virus outbreak. Hopefully, this could imply that economic impact of the 2019-nCoV may be less than the SARS outbreak in 2003.

Number of Cases		
Country	**2019-nCoV***	**2003 SARS**
China	7711	5327
Thailand	14	9
Hong Kong	8	1755
Macau	7	1
Singapore	10	238
Taiwan	8	346
Japan	11	0
Australia	6	6
US	5	27
Germany	4	9
Malaysia	7	5
South Korea	4	3
France	5	7
Canada	3	251
Vietnam	2	63
Others	5	49
Total	**7810**	**8096**

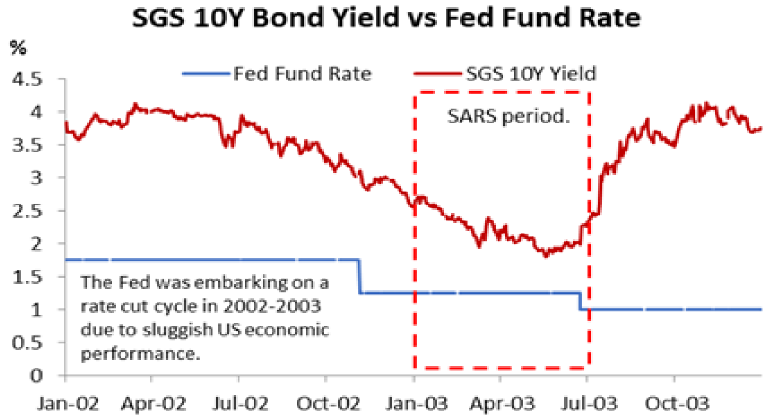
** as of 29 Jan 2020*

Reactions to SARS and Wuhan coronavirus in global financial markets.

Equities in both the Asian markets and developed markets were not spared from the selloff brought about by the SARS outbreak. In 2003, on a year to-date basis the MSCI Asia-ex Japan recorded a decline of as much as 9.6% in April, while the S&P 500 index fared little better and posted a ytd decline of 9% at its lowest. The STI fell as much as 10.1% in March 2003. All three indices, however, recovered strongly to end 2003 with double-digit annual gains. In the currency space, the SGD and TWD fell against the USD during the SARS outbreak, with the SGD faring worse with ytd declines of almost 3% at its trough. SGS 10Y yields fell from 2.55% at the start of 2003 to as low as 1.88% in June, probably as a result of the rate cut cycle in the US and regional safe haven demand from the SARS outbreak. Similar to equities, both the SGD and SGS yields recovered in 2H 2003 to record annual gains.



Note: Asian currencies such as the RMB, HKD and MYR were still pegged to the USD in 2003.



Source: Bloomberg, OCBC Bank

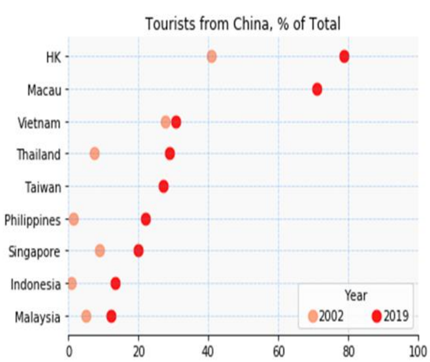
Financial markets have also seen a kneejerk reaction to news of the coronavirus outbreak, but more recent stabilization in US financial markets suggest that financial contagion is still limited at this juncture to mostly within Asia. The fear factor is high as it was an unexpected risk. As such, the macroeconomic environment is likely to remain fragile at least in the first half of this year as the coronavirus embodies an "unknown unknown" and the peak may only come in April or May, according to some estimates.

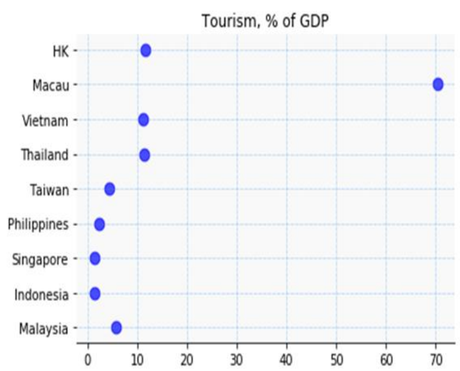
Current measures in Singapore to limit impact from the coronavirus.

That said, the Singapore government has implemented additional measures to contain the spread of the Wuhan coronavirus. These include rejecting work pass applications from Hubei, denying entry to Chinese nationals holding a Hubei passport from entering or transiting in Singapore, placing higher risk travellers from Hubei province who are already in Singapore under quarantine, as well as providing a $100 per day quarantine allowance for affected Singaporeans and PRs. At the ground level, some employers are also taking precautions to minimise physical contact and avoid mass gatherings. For the man on the street, there may be some temporary paring back of discretionary spending especially for retail and F&B, as people avoid crowded places like shopping malls, cinemas and even hotel and restaurants.

Tourism and hospitality sectors to bear brunt of potential economic fallout.

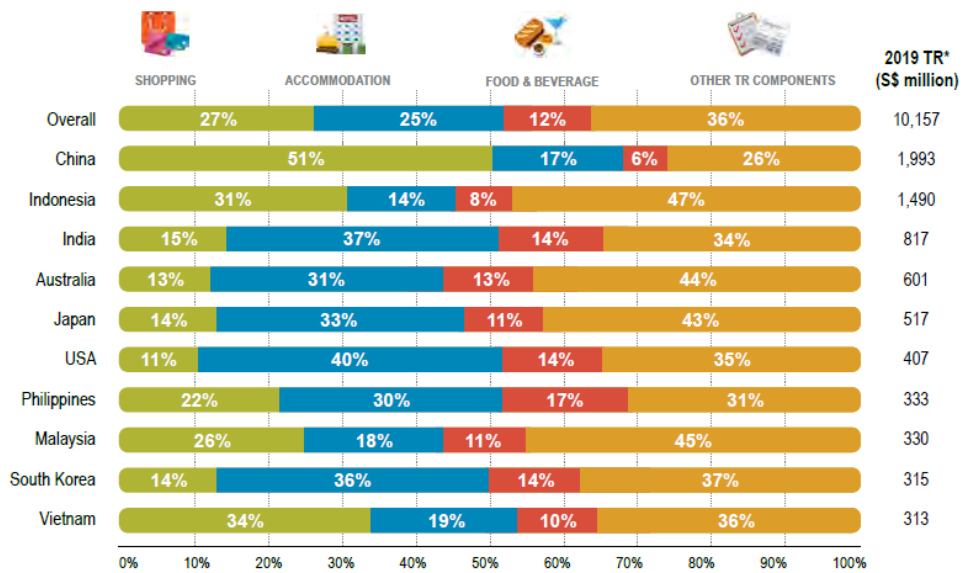
Assuming the fallout from the Wuhan virus will hit the tourism and hospitality sectors first, Singapore as a regional transport and tourist hub will likely feel the spillover effects. In particular, China is currently our top visitor arrival market in the first half of 2019, accounting for 11.8 million visitors and $1,993 million in tourism receipts, amounting to nearly 20% of our total visitor arrivals and total tourism receipts. Therefore, travel bans and visitor disruptions, if prolonged, will likely have a greater impact today compared to back in 2003 during the SARS period. Elsewhere, note Thailand's Finance Ministry, for instance, has already warned that the coronavirus outbreak may last three months and cut 400,000 visitors this year and is already preparing stimulus measures to boost tourism arrivals. This came as Thailand pared its 2019 and 2020 growth forecasts to 2.5% (previously 2.8%) and 2.8% (previously 3.3%) respectively.





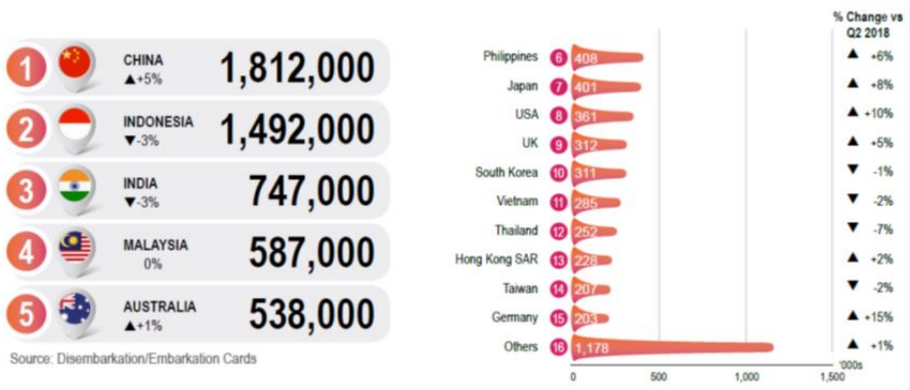
Source: CEIC, Bloomberg

Tourism receipts for Singapore's top 10 markets by major components in 1H 2019



Source: STB. Expenditure is estimated from Overseas Visitor Survey, but excludes Sightseeing, Entertainment & Gaming.

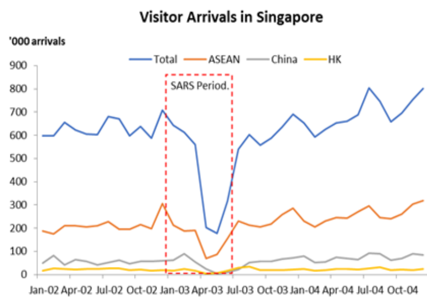
Singapore's top 15 visitor arrivals by market in 1H 2019

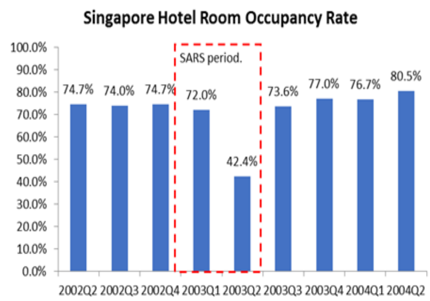


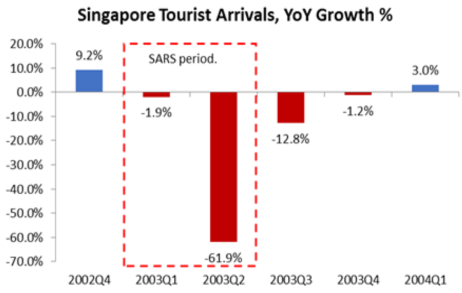
Source: STB

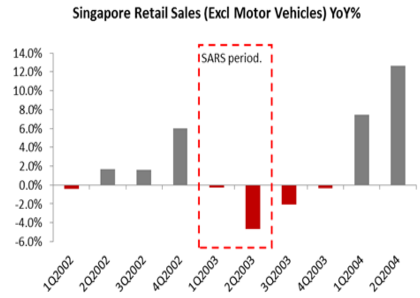
Back in 2003, the tourism sector in Singapore had taken the largest brunt of the SARS outbreak. Total arrivals in Q2 and Q3 2003 fell 62% and 13% yoy as tourists shunned SARS affected countries. In Q2 2003, total ASEAN arrivals fell 50% while Chinese arrivals declined 78%. Hotel occupancy rates fell to a record low of 42.4% in Q3 2003. The impact from the SARS crisis in terms of the peak-to-trough contraction in visitor arrivals was the deepest at 62% but was also relatively short-lived at 1 quarter and recovered to pre-crisis level in 4 quarters. The picture for revenue per available room (revpar) and average room rates (ARR) was similar during the SARS period. In contrast, the ZIKA outbreak in 2016 saw a much milder economic impact on tourist arrivals.

Although measures taken to combat the Wuhan virus today are much more proactive than SARS, it must be noted that Chinese tourist arrivals today is much higher than it was in 2003. As mentioned, the role of China's economy in the region is much more important than it was 17 years ago. Any drag in containing the virus outbreak in China will have a much larger economic impact to Singapore and the region compared to the SARS period.

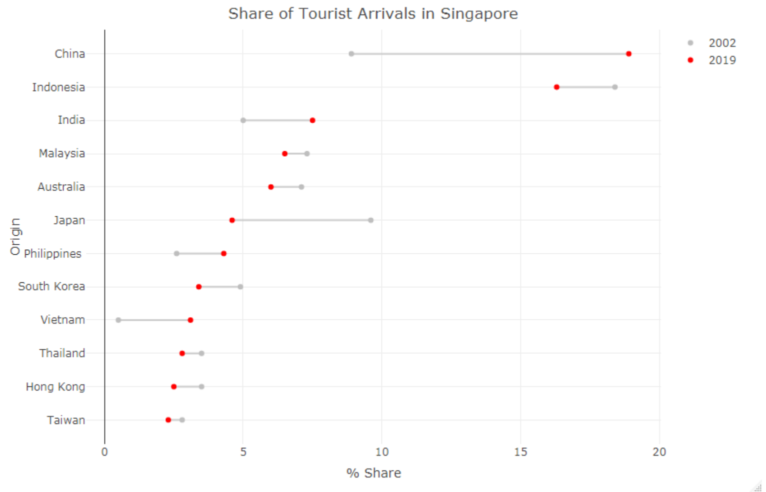








Source: CEIC, STB, URA, OCBC Bank



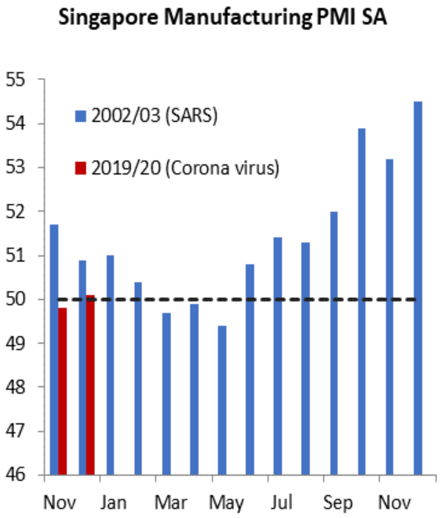
Source: CEIC, STB, OCBC Bank

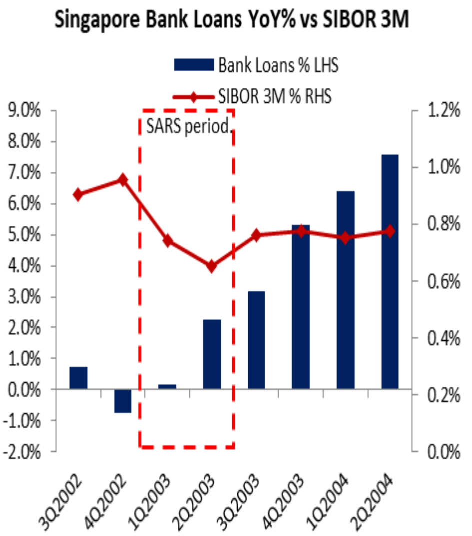
Prolonged quarantine may impact business confidence and productivity.

The other concern is whether the quarantine period, whether mandatory or self-imposed, may start to impact business confidence and productivity. The nascent recovery of the regional manufacturing Purchasing Manager Index (PMI) to the 50 handle that denotes expansion territory only came very recently in November 2019 for China and December 2019 for Singapore. As the virus spread in China, there have been flight cancellations and disruptions and companies like McDonald's Corp, Yum China Holdings (KFC and Pizza), Starbucks, Toyota Motor Corp, Carnival Corp, Royal Caribbean Cruises, and even Disneyland have either shut or suspended some operations in Wuhan, Hubei province or other parts of China. In addition, Apple CEO Tim Cook has also said it is working with its suppliers to mitigate any production loss. It will be key to watch when the factory operations restart after the Chinese New Year festive holidays, if workers returning to work from China will be affected.

For Singapore's banking sector, the bank loans growth had decelerated rapidly since late 2001 and slipped into contraction territory by October

2002, but subsequently staged a rapid rebound to end 2003 at 7.6% yoy growth in December. In the current business cycle, bank loans growth appeared to have bottomed at 1.4% yoy in April 2019 and had picked up to 3.1% yoy in November 2019. Should domestic demand conditions stay muted in 1Q 2020 and extend into 2Q 2020, then business confidence could be dented and this could subsequently show up in tepid bank loans growth down the road too.





Source: SIPMM, MAS, CEIC, OCBC Bank

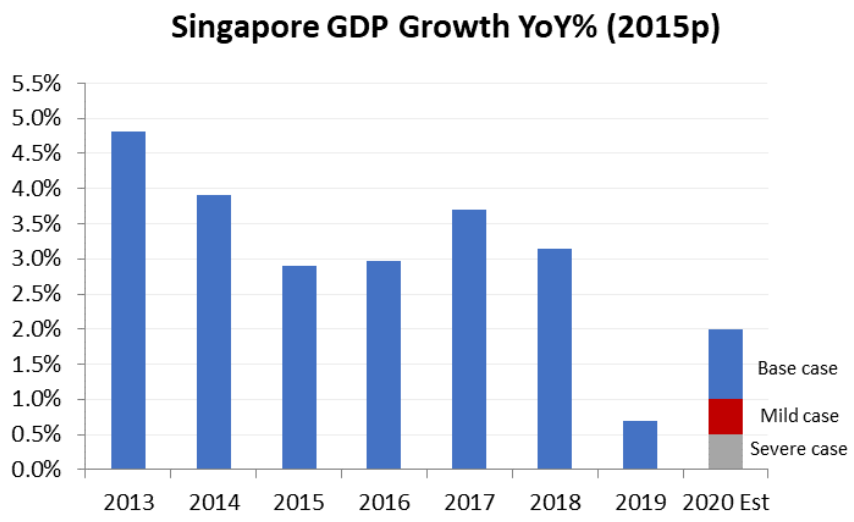
Our quick back of the envelope estimates based on a mild and severe scenario.

As a precautionary move, it may be prudent to widen our 1-2% 2020 GDP growth forecast for the Singapore economy to 0-2% to accommodate any potential downside risks from the coronavirus. Back in April 2003, the Singapore government had downgraded its growth forecast from 2-5% yoy to 0.5-2.5% yoy. Full year GDP growth in 2003 eventually ended at 2.9% (in 2000 prices) due to a sharp rebound in 2H 2003. Hence, the key uncertainty is how protracted and severe this outbreak will be. There could be two possible scenarios. In a mild scenario, we assume the coronavirus follows the same path as SARS ie. the coronavirus will peak within the next three-six months, following which the economy then plays catch up to its back orders in 2H 2020, so the overall impact on growth will be relatively short-lived. In 2003, Singapore's GDP growth essentially hit an air pocket and contracted 2.4% yoy in 2Q as manufacturing slumped 7.2% whilst the services sector also contracted 0.6% due to the drags from the hotels &

restaurants (-27.6%), transport & communications (-9.1%) and business services (-3.0%) industries which were the worst hit. However, the recovery was also V-shaped which ensured that any delayed expenditure played catch up.

In a more severe scenario where the transmission and mortality rates continue to escalate unabated, especially if the coronavirus mutates, and there are second-order spillover impact into business and consumer sentiments which in turn affect hiring intentions and discretionary spending, then we could potentially see a greater downside risk to the benign scenario. While this is not our baseline scenario, note the current growth base is already relatively low due to a lacklustre 2019 environment fraught with the US-China trade war and other geopolitical uncertainties. Hence, it may not take much to tip the balance back into a L-shape type of recovery trajectory if there is an accelerated transmission of the coronavirus and a consequential stalling of various economic activities due to an unbridled fear factor. Under this scenario, we could potentially see manufacturing growth continue to contract 1.5% in 2020, with the services growth also taking a leg down flat growth.

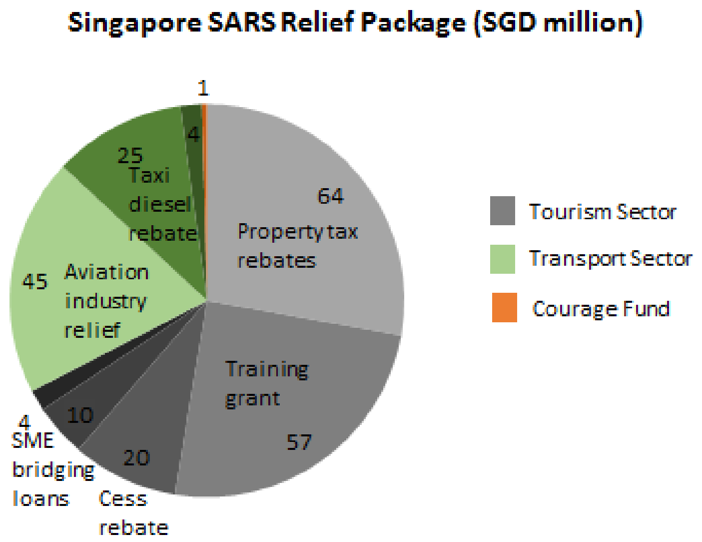
Scenario (yoy %)	GDP	Manufacturing	Construction	Services
Base	1% to 2%	2.1%	2.6%	1.3%
Mild	0.5% to 1%	0% to 1%	1.5% to 2.5%	0% to 1%
Severe	<0.5%	<0%	<1.5%	<0%



Source: CEIC, Singstat, MTI, OCBC Bank

Budget implications: should we expect a relief package like the $230m back in 2003?

In April 2003, the Singapore government unveiled a $230 million SARS relief package, which was mainly targeted to aid the tourism and transport industries. Adjusting for inflation, this would be worth approximately $306 million today. As the current situation regarding the 2019-nCoV has not appeared as severe as SARS, it is not apparent if an immediate and significant relief package is required and will be unveiled at the upcoming budget 2020 on 18 February, albeit we would not rule out some tourism-related assistance initiatives which may go beyond what had already been planned to help SMEs tackle the challenge of a growth slowdown and the need for capability upgrading. If the situation takes a turn for the worse, however, there is definitely fiscal room for more targeted relief measures to be announced post-budget on a needs basis.



Source: MOF, MTI, OCBC Bank

	Measures	Impact ($mil)
Tourism-Related Industries		
1	Additional property tax rebates for commercial properties	56
2	Higher property tax rebates for gazetted tourist hotels	8
3	50% reduction in Foreign Worker Levy for unskilled workers in gazetted tourist hotels	2
4	100% rebate of TV licence fees for gazetted tourist hotels	2
5	Cess rebate and waiver of cess security deposit	20
6	Bridging Loan Programme for tourism-related SMEs	10
7	Enhanced training grant for the MOM and STB-approved tourism-related courses	57
Transport Sector		
8	Diesel tax rebates for taxis	25
9	Waiver of taxi operator licence fees	3
10	Road tax rebates and flexible laying-up procedures for buses	0.3
11	Relief measures for the aviation industry	45
12	50% reduction in port dues for cruise ships	0.2
Courage Fund		
13	$1 million upfront contribution to Courage Fund	1
14	Matching grant to Courage Fund	-
TOTAL		**230**

Source: MOF, MTI

MAS monetary policy decision in April unlikely to be swayed for now.

The MAS monetary policy decision in April 2020 is unlikely to be swayed for now, but the incoming economic data prints will continue to be important. Back at the start of 2003, MAS said it would maintain the neutral policy stance of a zero percent appreciation for the S$NEER. Given the worsening sentiments and economic conditions due to the SARS outbreak which saw the official inflation forecast also downgraded to 0.5-1.0% from 0.5-1.5%, so

MAS re-centered the band lower to the level of S$NEER in July 2003, with no change to the width and gradient of the band, to support economic growth in view of the downside risks in the external environment. Similar to the FOMC who is now concerned that there is less room to reduce interest rates to support the US economy in a future downturn, many central banks are now in pause mode as they want to keep their remaining powder dry when the need arises. As it stands now, the market has already done a lot of the easing for MAS. The SGD NEER came down very quickly this week, from +1.80% above parity to the current +1.00% above parity. Prior to Oct 2019 meeting, the lowest was about +0.20% above parity when the street was expecting the MAS to go to neutral. As such, perhaps the macro situation is less pressing now compared to pre-October for the MAS to cut further to a neutral stance.

Conclusion

The Wuhan coronavirus poses an emerging dark cloud to China's growth stabilization and also the modest 2020 growth recovery prognosis for the regional economies including Singapore. It is still early days yet for estimating the economic impact of the coronavirus outbreak, but Singapore's 2020 growth forecast of 1-2% yoy could see downside risk if the duration and severity of the outbreak worsens further. Using the SARS experience in 2003 as a reference, we estimate that Singapore's GDP growth could potentially be shaved off by up to 0.5-1% point from the baseline if the current epidemic lasts more than 3-6 months and constrains business and consumer confidence, restricts travel (air, land and sea included), and impacts productivity (with workers under voluntary/involuntary quarantine), albeit this is not our basecase scenario and excludes any policy support that could be forthcoming.

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