S'pore downgrades 2020 official GDP growth forecast down to -4% to -7% yoy, from -1% to -4% previously.

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Highlights

The official full-year 2020 GDP growth downgrade was clearly forthcoming, but still implies a significant deterioration in the 2Q momentum due to the Circuit Breaker period as well as a weak recovery trajectory in 2H depending on global and domestic Covid-19 recovery process. MTI downgraded its 2020 official GDP growth forecast for the third time to -4% to -7% yoy, from -1% to -4% previously. This is consistent with our house view of around -6% yoy for full year growth. MTI cited that the “globally there continues to be a high degree of uncertainty over the length and severity of the outbreak, as well as the trajectory of the recovery in the global economy” and “domestically, how the Singapore economy performs in the remaining quarters of the year will also depend on the extent to which we are able to resume economic activities safely and without a resurgence of infections in the community as we exit from the Circuit Breaker period”. The morning market reaction in USDSGD was relatively muted, with S$NEER hovering around -0.3%, which suggested that the growth downgrade did not come as a surprise.

Risks still dominate for the 2H20 recovery path, even with the phased re-openings after the Circuit Breaker period ends on 1 June. The external risks remain the risk of subsequent waves of infections and re-imposition of containment measures, as well as a growing perception of diminished fiscal and monetary policy space in major economies which could drive further financial market volatility. Domestic risks are the expected deterioration in labour market conditions, which is clearly going to see a further fall out in the months to come as the fiscal assistance programs fade with time, hence the potential need for continued support to tide over this challenging period. Domestic demand expanded only 0.5% in 1Q20, compared to 3.6% a year ago, with public consumption expenditure (+8.5%) compensating for the drop off in private consumption expenditure (-1.6%).

1Q20 GDP growth was revised higher from the flash -2.2% yoy (-10.6% qoq saar) to -0.7% yoy (-4.7% qoq saar), largely driven by the March manufacturing data, but this is mostly water under the bridge. The manufacturing sector saw its flash 1Q growth revised up from -0.5% yoy to +6.6% yoy, lifted mainly by the biomedical manufacturing (especially pharmaceuticals), precision engineering and transport engineering. Both the construction and services sectors also saw less severe contractions at -4.0% yoy (previously -4.3%) and -2.4% yoy (previously -3.1%) in 1Q20. Outside of manufacturing, only two industries saw positive yoy growth in 1Q20, namely the finance and insurance industry, which outperformed at 8.0% yoy (17.2% qoq saar) in 1Q20, driven by banking and insurance, as well as the information & communications industry, which also expanded by 3.5% yoy due to sustained corporate demand for IT and digital solutions. The Circuit Breaker period accelerated the work-from-home arrangements and would likely sustain infocomm demand as well as online transactions.

The S'pore economy has weakened further since March. First, there has been a sharper slump in outward-oriented sectors like manufacturing, wholesale trade and transportation & storage due to the Covid-19 induced global demand shock and prolonged supply chain disruption. Second, domestic economy activities had stalled with the Circuit Breaker measures, particularly for consumer-facing segments like retail and food services, while many firms had to pare down operations notwithstanding the rush to shift to work-from-home. Third, manpower shortages, partly due to the Covid-19 outbreak in foreign worker dormitories and their subsequent movement restrictions, also impacted construction and marine & offshore engineering sectors.

Look to fiscal policy to do the heavy lifting again: Market focus will be on the fourth Budget ("Fortitude") this afternoon with another likely tap on the past reserves already receiving President's in-principle approval beyond the earlier $21 billion already announced for earlier Budgets. The policy priorities are to mitigate the expected softening in the domestic labour market. DPM Heng has already hinted that the focus will be on creating new jobs and traineeships, as well as providing supplementary budgets for the social services sector. MAS, on the other hand, reiterated monetary policy is unchanged and appropriate, and next review will be in October (ie. no inter-meeting). Note that overall unit labour cost had climbed 1.5% in 1Q20, led by accommodation & food (+25.8%), transportation & storage (+7.6%), business services (+6.9%) and wholesale & retail trade (+6.0%), whereas headline CPI only edged up 0.4%, which suggests that profit margins were under pressure and companies would have taken a much bigger hit amid the Circuit Breaker period when they face a double whammy from a demand shock and supply chain disruptions. Therefore, an extension of the Jobs Support Scheme, whether in terms of duration or extent of support, is plausible, amongst other measures. 1Q20 total employment had already fallen by 19.5k, the sharpest quarterly contraction since SARS (2Q03: -26k), and the job losses were concentrated in accommodation & food (-7.8k), wholesale & retail trade (-6.5k), construction (-6.1k) and manufacturing (-3.4k).

Low for longer interest rate conditions are here to stay given very accommodative global financial conditions: the 3-month SIBOR and SOR are standing at 0.55916% and 0.21221% with ample domestic liquidity, but the retraction in the USD LIBOR counterpart appears to have stabilised around 0.36925% for now with Fed rhetoric still holding the official line against negative rates, and this suggests that any additional downside space for short-term SGD rates may be limited even if there are brief dips into negative territory for the overnight or 1-month SOR. While domestic SGD interest rates stay subdued as MAS (and also the FOMC) remain in policy stasis in the interim pending fresh economic and Covid-19 cues, there is also little impetus for mortgage demand to pick up given soft macroeconomic fundamentals.

SECTORAL GROWTH RATES

	1Q19	2Q19	3Q19	4Q19	2019	1Q20
	Year-on-Year % Change					
Total	1.0	0.2	0.7	1.0	0.7	-0.7
Goods Producing Industries	0.2	-1.9	-0.1	-1.3	-0.8	4.7
Manufacturing	0.0	-2.7	-0.7	-2.3	-1.4	6.6
Construction	1.4	2.3	3.1	4.3	2.8	-4.0
Services Producing Industries	1.0	1.1	0.8	1.5	1.1	-2.4
Wholesale & Retail Trade	-2.7	-3.6	-3.5	-1.9	-2.9	-5.8
Transportation & Storage	0.4	2.1	0.0	0.8	0.8	-8.1
Accommodation & Food Services	2.0	1.2	1.9	2.5	1.9	-23.8
Information & Communications	4.9	3.4	4.4	4.5	4.3	3.5
Finance & Insurance	3.1	5.1	4.1	4.0	4.1	8.0
Business Services	1.8	1.0	1.1	1.7	1.4	-3.3
Other Services Industries	2.1	2.4	2.4	3.3	2.6	-3.4
	Annualised Quarter-on-Quarter Growth % (SA)					
Total	2.3	-0.8	2.2	0.6	0.7	-4.7
Goods Producing Industries	-2.2	-2.9	3.9	-3.7	-0.8	24.0
Manufacturing	-3.6	-4.1	4.8	-5.9	-1.4	37.3
Construction	7.9	-0.3	3.5	5.3	2.8	-21.8
Services Producing Industries	1.9	1.2	1.1	2.2	1.1	-13.3
Wholesale & Retail Trade	-3.0	-2.0	-1.3	-0.6	-2.9	-18.1
Transportation & Storage	1.2	3.0	-3.1	2.0	0.8	-29.9
Accommodation & Food Services	-2.3	2.8	5.1	4.3	1.9	-69.9
Information & Communications	-5.3	2.8	10.8	8.9	4.3	-6.9
Finance & Insurance	0.8	13.8	-1.9	3.8	4.1	17.2
Business Services	5.2	-1.2	1.2	2.2	1.4	-15.0
Other Services Industries	8.9	-1.2	2.9	3.1	2.6	-17.3

	1Q19	2Q19	3Q19	4Q19	2019	1Q20
Retail Sales Index* (yoy, %)	-1.0	-4.6	-3.0	-5.0	-3.4	-9.7
Value Added Per Worker^ (yoy, %)	-0.4	-1.3	-1.0	-0.7	-0.9	-2.1
Value Added Per Actual Hour Worked^ (yoy, %)	-0.1	-3.1	-2.0	-2.2	-1.9	-4.7
Unemployment Rate, SA (%)	2.2	2.2	2.3	2.3	2.3	2.4
Changes in Employment ('000)	13.9	6.8	27.6	21.5	69.8	-19.5
Overall Unit Labour Cost (yoy, %)	2.5	3.3	3.6	2.1	2.8	1.5
Unit Business Cost of Manufacturing (yoy, %)	-3.4	-0.1	-4.6	-3.4	-3.0	-11.9
Consumer Price Index (yoy, %)	0.5	0.8	0.4	0.6	0.6	0.4
Fixed Asset Investments ($ bil)	3.8	4.3	0.2	6.9	15.2	12.4
Total Merchandise Trade (yoy, %)	2.1	-2.2	-6.7	-5.3	-3.2	0.6
Merchandise Exports	0.0	-4.6	-7.3	-4.3	-4.2	-1.3
Domestic Exports	-6.5	-10.6	-13.1	-11.5	-10.5	-6.2
Oil	-6.5	-2.9	-19.7	-21.5	-12.9	-28.9
Non-Oil	-6.4	-14.7	-9.6	-5.7	-9.2	5.8
Re-exports	6.8	2.0	-1.7	2.8	2.3	3.2
Merchandise Imports	4.5	0.5	-5.9	-6.3	-2.1	2.6
Total Services Trade (yoy, %)	0.3	1.9	0.6	2.5	1.3	-3.5
Exports of Services	0.6	1.9	1.9	4.5	2.2	-2.9
Imports of Services	-0.1	1.9	-0.8	0.6	0.4	-4.2

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

Source: MTI

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