

## S'pore government cuts full-year 2019 GDP growth forecast to 0-1%

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### Highlights

- **S'pore's 2Q19 GDP growth was only marginally revised to 0.1% yoy (-3.3% qoq saar)**, compared to the flash 0.1% yoy (-3.4% qoq saar). This disappointed our expectation for a revision to 0.2% yoy (-2.9% qoq saar) on the back of the June industrial production which came in better-than-expected at -6.9% yoy (+1.2% mom sa). Notably, the construction sector's 2Q growth was also revised higher from the flash 2.2% yoy to 2.9% yoy, whereas the services growth was little changed at 1.1% yoy (flash: 1.2% yoy).
- **MTI cut the full-year 2019 GDP growth forecast to 0-1%** with growth expected to be around the mid-point of the forecast range due to heightened uncertainties and downside risks in the global economy. In addition to the familiar three risks of US-China trade war, China slowdown, and Brexit, MTI added a fourth risk of uncertainties in Hong Kong, Japan-South Korea trade dispute and geopolitical tensions. This is in line with our earlier call for 0-1% yoy for 2019 GDP growth. We see 2H19 growth remaining soft at 0.3% yoy, which is only half the pace of 1H19 growth amid the macro headwinds. In particular, we continue to expect a protracted US-China trade war, especially with the 10% tariffs for the next US\$300 billion of Chinese imports due to kick in on 1 September and US president Trump threatening to hike tariffs further if there is no progress in trade negotiations. Other event risks on the horizon include the ongoing Japan-South Korea trade spat and the rising possibility of a no-deal Brexit at end-October, amongst others.
- **The official 2019 NODX growth forecast was also slashed to -9% to -8% yoy** by Enterprise Singapore, from its earlier revised forecast of -2% to 0%. The total trade growth forecast was also revised downwards to -3% to -2% by Enterprise Singapore, citing weakness in global growth and demand, especially from key trading partners, and lower oil prices. Note that we had warned of downside risks to our earlier 2019 NODX growth forecast of -8% yoy. Our current NODX growth forecast is -11% to -9% yoy, potentially the worst full-year NODX growth performance since 2009 (-10.5% yoy), assuming that protracted trade uncertainties and the regional growth slowdown do not abate in the near future.
- **Our view is that a fiscal policy response is likely forthcoming**, possibly in the form of targeted help for businesses, especially SMEs, and workers, given that Budget 2020 is only around six months away. On the basis that the current growth slowdown is concentrated mainly in manufacturing, especially electronics, and wholesale and retail trade, and any fiscal assistance is unlikely to be broad-based at this juncture. That said, watch for any signs of

softening in the labour market conditions for the quarters ahead, albeit any deterioration is likely to be gradual rather than kneejerk. While selected firms may choose to be more cautious with fresh hiring or not replace staff resignations, as reflected in the recent business expectations surveys, retrenchments may not spike with the expected DRC tightening in January 2020 for the services sector. As such, the overall unemployment rate may only increase modestly from its current 2.2% in 1H19.

- Monetary policy easing has become mainstream globally**, with the US Federal Reserve buying “insurance” through its recent rate cut and RBNZ, RBI and BSP cutting interest rates more than expected last week. While MAS has clarified its monetary policy stance is unchanged and that they are not considering an off-cycle move, given that the S\$NEER has retreated to ~0.3% on the stronger side of its parity band, market speculation for a more dovish tilt will only grow ahead of the October policy meeting. The question is whether a slope flattening is still the most likely outcome or an even more dovish move in the form of a move to neutral slope and/or a re-centering should also come into the realm of consideration.

### SECTORAL GROWTH RATES

	2Q18	3Q18	4Q18	2018	1Q19	2Q19
	Year-on-Year % Change					
Total	4.2	2.6	1.3	3.1	1.1	0.1
Goods Producing Industries	7.8	2.5	3.5	5.0	0.1	-2.2
Manufacturing	10.6	3.5	4.6	7.0	-0.3	-3.1
Construction	-4.3	-2.6	-1.2	-3.7	2.8	2.9
Services Producing Industries	2.9	2.8	1.5	2.9	1.2	1.1
Wholesale & Retail Trade	2.6	2.4	-0.8	1.7	-2.5	-3.2
Transportation & Storage	1.2	1.6	0.5	1.3	0.7	2.2
Accommodation & Food Services	3.5	3.4	3.5	2.8	2.0	0.9
Information & Communications	6.1	5.1	5.0	5.4	5.2	4.1
Finance & Insurance	5.8	3.9	3.7	5.8	3.2	5.2
Business Services	2.1	3.0	2.6	2.8	1.7	0.5
Other Services Industries	1.1	1.8	0.3	1.6	2.6	2.1
	Annualised Quarter-on-Quarter Growth % (SA)					
Total	0.7	0.8	-0.8	3.1	3.8	-3.3
Goods Producing Industries	5.6	1.0	-3.0	5.0	-3.0	-3.3
Manufacturing	7.8	1.1	-3.4	7.0	-6.4	-3.4
Construction	-7.8	0.2	5.3	-3.7	13.7	-5.5
Services Producing Industries	-1.5	1.7	0.4	2.9	4.3	-2.0
Wholesale & Retail Trade	-5.9	-2.7	-5.0	1.7	3.1	-7.9
Transportation & Storage	0.3	4.5	0.4	1.3	-2.1	6.5
Accommodation & Food Services	6.9	2.9	3.9	2.8	-5.3	2.3
Information & Communications	4.6	6.5	7.2	5.4	2.8	0.5
Finance & Insurance	-0.2	2.9	5.5	5.8	4.9	7.6
Business Services	0.8	2.7	1.8	2.8	1.3	-3.9
Other Services Industries	-6.1	2.7	-0.5	1.6	15.3	-8.0

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