Singapore

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S'pore saw a record contraction of 41.2% qoq saar (-12.6% yoy) in 2Q20 due to the Covid-19 pandemic and Circuit Breaker restrictions, entering a recession, but the worst may be over?

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Highlights

Hitting bottom? 2Q20 GDP growth shrank a record 41.2% qoq saar (-12.6% yoy) due to the Covid-19 pandemic and Circuit Breaker restrictions, tipping the S'pore economy into technical recession even though 1Q20 GDP growth was also revised higher to -3.3% qoq saar (-0.3% yoy). This is close to our forecast of -40.2% qoq saar (-10% yoy) and a tad worse than the Bloomberg consensus forecast of -35.9% qoq saar (-10.5% yoy). While manufacturing grew 2.5% yoy (-23.1% qoq saar) aided by the biomedical cluster (mainly pharmaceuticals), the main drags came from construction slumped a record 54.7% yoy (-95.6% qoq saar) and services also contacted a record 13.6% yoy (-37.7% qoq saar) due to workplace disruptions and business closures during the Circuit Breaker period.

The worst is likely over even with confirmation that the Singapore economy has entered a recession. With 1H growth already contracting 6.5% yoy, 3Q may see some stabilization from the 2Q growth trough as the S'pore economy re-opens, but will likely still continue to contract on-year. Hence, full-year 2020 GDP growth is likely to remain mired deep in recession at around our forecast of -5.5% yoy. The official 2020 growth forecast of -4% to -7% yoy also remains intact as the incoming data signals are currently within range and should not surprise significantly. The domestic manufacturing and electronics PMIs have improved in May and June, reflecting that global supply chain disruptions have abated. However, the test of the pudding is the recovery pace in the private consumption and in turn the services sector. In particular, the international travel restrictions had brought air and sea travel to a virtual standstill, and this is unlikely to improve significantly in the near-term, albeit the return of domestic restaurant dining-in and re-opening of retail shops may fare better in June with the transition to Phase 2.

Is more stimulus on the way? Given significant frontloading of fiscal and monetary policy, there is a relatively high bar for additional stimulus from here, especially since the June economic indicators are already showing tentative signs of stabilization and improvement, barring any potential further deterioration in the global/domestic Covid-19 developments and the ongoing tenuous US-China relations. However, given that jobs featured highly during the recent election campaign, some of the budget measures targeting jobs may potentially be extended if the domestic labour market continues to soften further. The retrenchment and unemployment data are likely to still creep higher in the coming months/quarters as demand conditions remain tepid into 2H20.

Market response has been muted as a poor 2Q growth outcome was inevitable and probably largely discounted: USDSGD is around 20-25 pips higher at 1.3925 this morning. S$NEER remains anchored close to its band parity as well. SGS yields are also marginally softer by 1-2bps across the curve this morning, whilst swap rates were up to 4bps lower led by the longer tenors following the slight risk-off tone overnight. External cues may be important out from here, especially with the upcoming China's 2Q20 GDP growth print due on Thursday since China is deemed the first-in and first-out of the Covid-19 crisis and any downside surprises due to the mini-outbreak in Beijing may lend a cautious tone for Asia's expected 2H recovery path ahead.

Gross Domestic Product in chained (2015) dollars

	2Q19	3Q19	4Q19	2019	1Q20	**2Q20***
Percentage change over corresponding period of previous year						
Overall GDP	0.2	0.7	1.0	0.7	-0.3	**-12.6**
Goods Producing Industries						
Manufacturing	-2.7	-0.7	-2.3	-1.4	8.2	**2.5**
Construction	2.3	3.1	4.3	2.8	-1.1	**-54.7**
Services Producing Industries	1.1	0.8	1.5	1.1	-2.4	**-13.6**
Quarter-on-quarter annualised growth rate, seasonally-adjusted						
Overall GDP	-0.8	2.2	0.6	0.7	-3.3	**-41.2**
Goods Producing Industries						
Manufacturing	-4.1	4.8	-5.9	-1.4	45.5	**-23.1**
Construction	-0.3	3.5	5.3	2.8	-12.2	**-95.6**
Services Producing Industries	1.2	1.1	2.2	1.1	-13.4	**-37.7**

*Advance estimates

Source: MTI

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