S'pore's Covid-19 shock saw advance 1Q20 GDP growth contract more than expected by 2.2% yoy.

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Highlights

Covid-19 is like an economic tsunami hitting Singapore shores: Advance 1Q20 GDP growth slumped 2.2% yoy (-10.6% qoq saar), exceeding our expectations of -1.1% yoy (-8.7% qoq saar). This is the worst GDP yoy contraction since 1Q09 and the largest qoq slippage since 3Q10. This is also the first time we see a contraction in all three key sectors, namely manufacturing, services, and construction, since 3Q98 during the Asian Financial Crisis (AFC). The construction sector saw supply chain disruptions and delays in returning foreign workers saw a sharp pullback, whilst the services sector was the hardest hit (-3.1% yoy which is the weakest since 2Q09) amid a double whammy from the tourist and domestic consumption slump. The manufacturing sector was also not spared and contracted 0.5% yoy (+4.2% qoq saar).

We see more economic pains to come in 2Q20 with a technical recession highly likely (potentially the first technical recession since 3Q08). 2Q20 GDP growth could potentially shrink by up to 7% yoy (-20.6% qoq saar) with all three key sectors remaining mired in contraction territory. Note that Singapore's advance 1Q20 growth estimate only accounts for January to February data, and March was when the second wave of imported infections, tightened social distancing restrictions and the more recent measures to close entertainment venues, tuition and enrichments centres, which could take another toll on business and consumer sentiments. **Singapore's 1Q20 GDP growth estimate is like the canary in the mineshaft** and warns of further economic pain to come for other Asian economies as well. Generally, global growth forecasts revisions downwards have been coming fast and furious, with Thailand declaring a state of emergency from today and Bank of Thailand also slashed its 2020 growth forecast from 2.8% yoy to -5.3%. Malaysia also extended its Movement Control Order by two weeks to 14 April, with a new stimulus package due tomorrow.

2020 growth forecasts continue to plumb new depths: The official 2020 GDP growth forecast was slashed by MTI to -1% to -4%, from -0.5% to 1.5% previously in February, citing the heightened uncertainties given the escalating Covid-19 outbreak and unprecedented health measures and economic activity curtailment. Given that the global Covid-19 situation is still evolving rapidly, the balance of risks remains tilted to the downside. This makes our -1% to 0% forecast pale in comparison and warrants a further revision down to around -3% yoy, pending the supplementary budget announcement later this afternoon. Note that even during the 1998 AFC, Singapore's GDP growth only contracted 2.2% yoy.

Is a fiscal bazooka imminent? DPM Heng will announce his supplementary budget at 330pm today. A sizeable second stimulus package can help mitigate some of the downside risks, particularly to bolster consumer confidence, assist liquidity and short term survival of companies especially SMEs, and enhance job and income security of displaced workers including self-employed and gig workers. If you look to history, the Singapore government had sought President's approval for a $150b guarantee on all bank deposits in Singapore to be backed by the reserves and to draw on $4.9b of reserves to fund two one-off measures to boost the economy in 2009 during the GFC, namely the Jobs Credit Scheme (a wage subsidy give to employers to keep workers employed) and the Special Risk-Sharing Initiative (to help cash-strapped companies get credit financing). Even after factoring in the $10.9b (equivalent to 2.1% of GDP) deficit proposed in the 2020 Budget, there is an increasing need to shore up the domestic economy amid a Covid-19 pandemic and prospects of a global recession. So, the estimated size of the second package could be in the $20-25b range (about 5% of GDP), which if added to the 2020 budget deficit of 2.1%, would exceed 7% of GDP. In terms of assistance to beleaguered companies, look for a reduction of funding cost, lower risk premiums, increasing the bridging loan ceiling to $5 million, providing more rental rebates and possibly even tax deferrals, as well as possibly extending a loan moratorium on existing/new bank loans. In addition, ensuring sufficient market liquidity and bolstering consumer confidence will also be important. Hence, providing more direct assistance to displaced workers (possibly through funding more employment subsidies) and affected households may help partially buffer some of the demand shock.

Monetary policy easing to follow in lockstep on 30 March: a further flattening of the S$NEER slope to zero percent appreciation bias has already been largely discounted. A double-barrelled move is also likely, with the options between a re-centering lower and a widening of the S$NEER band width. The chances of lowering the policy band of the SGD NEER has increased, even though the SGD NEER itself is still relatively contained at -0.65% below its perceived parity. As a re-centering to current levels doesn't lend more headroom if economic and market conditions deteriorate from here, so a possibility is to re-center below the current prevailing level eg. by -2.0% even though this is unprecedented for the MAS to re-centre lower to a level below the prevailing SGD NEER. This option cannot be completely ruled out. Re-centering the policy band by -2.0% will leave the SGD NEER at +1.40% to +1.50% above the new parity level, and create about 3.4-3.5% of downside room. This may be preferred to widening of the S$NEER band width which may only lend around about 2.4% of downside room if the band is widened from +/-2% to +/-3%. A band widening was last seen in October 2010 due to increased volatility in the FX market conditions.

Gross Domestic Product in chained (2015) dollars

	1Q19	2Q19	3Q19	4Q19	2019	1Q20*
Percentage change over corresponding period of previous year						
Overall GDP	1.0	0.2	0.7	1.0	0.7	**-2.2**
Goods Producing Industries						
Manufacturing	0.0	-2.7	-0.7	-2.3	-1.4	**-0.5**
Construction	1.4	2.3	3.1	4.3	2.8	**-4.3**
Services Producing Industries	1.0	1.1	0.8	1.5	1.1	**-3.1**
Quarter-on-quarter annualised growth rate, seasonally-adjusted						
Overall GDP	2.3	-0.8	2.2	0.6	0.7	**-10.6**
Goods Producing Industries						
Manufacturing	-3.6	-4.1	4.8	-5.9	-1.4	**4.2**
Construction	7.9	-0.3	3.5	5.3	2.8	**-22.9**
Services Producing Industries	1.9	1.2	1.1	2.2	1.1	**-15.9**

*Advance estimates

Source: MTI

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