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Spore may escape a technical recession in 3Q, but 4Q prognosis remains soft

Highlights

Our forecast is for Singapore's 3Q19 GDP growth to be 0.3% yoy (1.9% qoq saar), which will be a modest improvement from 2Q19's 0.1% yoy (-3.3% qoq saar). This means that the S'pore economy will likely escape a technical recession which was last seen during the GFC in 2008 on the basis of the July-August manufacturing contraction of -3.9% yoy and assuming that September manufacturing output does not deteriorate further to a double-digit yoy decline. The construction and services sectors are tipped to still expand by around 3.0% and 1.1% yoy in 3Q19.

The prognosis for 4Q19 remains somewhat lacklustre. Even if a partial or mini US-China trade deal materialises, most composite leading indicators do not suggest a quick rebound is in store. Our full-year 2019 GDP growth forecast for Singapore remains unchanged at a 0-1% range centred around 0.4% yoy. That said, given that 2019 growth will be a very low base, the 2020 growth range is likely to see a modest improvement to around 1-2% yoy assuming that the global trade tensions do not escalate further from here and the manufacturing and trade outlook sees a modicum of stabilization.

The biggest risk remains the fragility of the external environment and the prospect of anaemic global growth amid the myriad of uncertainties pertaining to US-China tensions beyond trade, Brexit, China's slowdown, and geopolitical hotspots in Hong Kong etc which could continue to weigh on business and consumer confidence. With leading indicators like PMIs still suggesting that the global manufacturing slowdown is well-entrenched, it is of no surprise that central banks have pivoted to monetary policy easing. Still, the domestic labour market bears close monitoring as a further softening may warrant a more robust fiscal response from S'pore policymakers.

Our base case scenario is for the MAS to ease its monetary policy stance by reducing the slope the SGD NEER policy band from the currently estimated +1.00% p.a. appreciation path to +0.50% p.a with no change in the width and centre of the policy band. While the risk of a more dovish move to a zero rate of appreciation cannot be fully discounted (and may have in fact increased slightly over the recent weeks), we think this drastic step may not be warranted for now as it would imply an official economic prognosis that is considerably worse than currently expected or a prediction of rapid deterioration from here. Given a modest slope flattening is the market consensus call, market reaction may be somewhat muted in the event it materialises. The S$NEER is currently hovering above 1% on the stronger side of its parity band.

Given that global manufacturing momentum remains sluggish and the new orders books suggests pipeline is also soft, the challenge is probably not one of structural competitiveness at this juncture. In fact, Singapore overtook the US to pole position for the latest 2019 WEF global competitiveness survey. That said, there is still room for improvement in areas like future workforce (S'pore ranked 27th), attitudes towards entrepreneurial risk (ranked 27th) and innovation capability (ranked 13th). A more expansionary FY20 Budget is likely to provide the buffer for downside growth risks going ahead as well.

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