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S'pore's 2Q20 total unemployment rate jumped to 2.9%, with resident unemployment at 3.9%

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Highlights:

It could have been worse? S'pore's total unemployment rate jumped from 2.4% in 1Q20 to 2.9% in 2Q20, with the resident unemployment rate also similarly surging from 3.4% to 3.9% over the same period. The S'pore citizen unemployment rate also increased from 3.5% to 4.0%. This came as retrenchments spiked 108.0% QoQ to 6,700 in 2Q, up from 3,220 in 1Q20, as the two-month Circuit Breaker period exacted a heavy toll on the S'pore economy and shuttered many business operations. This also marked the highest layoffs since the GFC in 2008-09 where there were 12,760 layoffs, but has clearly overtaken the SARS period where 5,510 retrenchments were seen. Notably, total employment plunged by 121,800 in 2Q (excluding foreign domestic workers) and coupled with the 25,600 decline in 1Q20, brought the first half total employment decline to 147,500.

The pain was broad-based across the key manufacturing, services, and construction sectors. The worst hit was the services sector, especially in F&B, retail trade, hospitality-related recreation, and education industries as the S'pore economy shuttered most economic activities except for essential services. The wholesale and transport equipment sectors were also impacted by the closure of domestic retail shops and near-standstill in the travel industry, especially in aviation.

With the re-opening of the Global and Spore economy from June, the partial resumption of many economic activities should limit the further softening in the labour market, but it is highly likely we have not hit bottom yet for the domestic labour market even though 2Q20 GDP may have troughed. One key milestone to watch will be the upcoming expiry of the Jobs Support Scheme in August and a calibrated extension to provide longer support for a longer period of time given the long tail nature of the Covid-19 pandemic cannot be discounted. Globally, market attention has turned to the resurgence of Covid-19 infections after re-openings, with some countries either slowing the pace of re-opening or tightening measures again, and the prospect of a fiscal cliff where government fiscal stimulus or support schemes expire could potentially contribute to a rolling over of economic recovery momentum remains a key risk, in addition to re-escalating US-China tensions. The path of least resistance may be that fiscal stimulus remains on tap, as we have seen is currently under consideration in the US Congress, and various forms of jobs/unemployment wage support schemes have also been extended in Australia and the UK.

More fallout to come? The total and resident unemployment rate is likely to climb further in the second half of 2020. Without the SGUnited jobs and skills programme, the local job market conditions would have likely deteriorated faster. However, the private consumption story is likely to remain muted, and business hiring plans are also tepid in tandem. Our end 2020 total unemployment rate forecast remains at 3-3.5% on the assumption that more policy assistance should be forthcoming.

Both headline and core CPI are tipped to register a 0.4% yoy contraction for the full year. However, this picture is likely to reverse into 2021 as the recovery trajectory, however, as 2020 is already setting a very low base which is unlikely to extend further, barring a further deterioration in the Covid-19 situation which prompts another round of widespread national lockdowns. That said, it will likely be an uptick rather than an upsurge in inflation in 2021, which we estimate at 1.0% to 1.5% yoy, as there is still a significant amount of uncertainty attached to the shape of the Covid-19 recovery trajectory. As such, there is no significant risk associated with the MAS monetary policy stance being kept unchanged at its current zero appreciation stance at this juncture. Accordingly, short-term domestic interest rates like the 3-month SIBOR and SOR are also likely to stay subdued in the near-term.

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