

2Q19 GDP growth slowed more than expected

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Highlights:

- **2Q19 GDP growth slowed more than expected to near stalling speed at 0.1% yoy (-3.4% qoq saar)** based on flash estimates, with broad-based sequential growth weakness seen across all key sectors. This is the slowest yoy growth seen since 2Q09 and the worst qoq saar performance since 3Q12, and marked a sharp retreat from the downwardly revised 1Q growth of 1.1% yoy (3.8% qoq saar). While a weaker 2Q growth was already discounted, however, this was significantly below the Bloomberg consensus forecast of 1.1% yoy (+0.5% qoq saar) as well as our forecast for 1.0% yoy (-0.2% qoq saar).
- **The main drag was from manufacturing** which contracted for the second straight quarter by 3.8% yoy (-6.0% qoq saar, marking its third consecutive qoq decline), while construction also slowed a tad to 2.2% yoy (-7.6%), albeit services was stable at 1.2% yoy (-1.5% qoq saar). Within the manufacturing, electronics and precision engineering clusters were the main culprits for the underperformance, probably exacerbated by the US-China trade impasse in the run-up to the Trump-Xi meeting at G20 in late June and coupled with possible kneejerk reactions in the manufacturing supply chain activities to the Huawei news. For the construction sector, the growth has been supported by an uptick in public construction activities and this is likely to sustain in the near-term. For services, whilst growth was supported primarily by finance & insurance, other service industries and ICT, nevertheless, the 1.2% yoy growth pace is still a sharp moderation from the 2.9% yoy seen this time last year. Given the importance of the service sector as jobs engine, we're wary if this could start to impact hiring intentions if sentiments remain lacklustre into 2H19, albeit the new DRC measures from January 2020 may mitigate any fallout on this front.
- **Risk of a technical recession looming ahead?** This brought 1H19 GDP growth to a paltry 0.6% yoy, which is the weakest first half growth since 1H09, and clearly heightens the risk of a technical recession if growth momentum remains tepid going into the 3Q19. So far, the manufacturing and electronics PMIs remains mired in contraction territory, while the Spore PMI has also softened quite rapidly in the past two months. We suspect even if there is a US-China trade agreement materialising in the months ahead, it may not be sufficient to salvage the domestic manufacturing growth for 2H19 (1H19: 1.8% yoy).

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- **Whither policy?** This soft 2Q19 flash growth data clearly warrants a closer watch on the upcoming October monetary policy meeting where the odds of an easing (flatter S\$NEER slope or other options?) may have risen. The deterioration in the external macro-environment and the ongoing US-China trade war is obviously taking a big dent out of S'pore's growth prospects which explains the migration away from the earlier "slightly below potential" story. A potential downward revision of the official 2019 growth forecast from 1.5-2.5% yoy would not come as a surprise, but the question is the extent of the downgrade. With 2Q19 growth coming in significantly weaker than expected and 1H19 GDP growth at a paltry 0.6% yoy, the topside of our existing forecast range of 0.5-1.5% yoy looks increasingly less likely, so **a 0%-1% yoy range for full-year 2019 growth may be more realistic at this juncture**. If a technical recession does materialise, we would also not rule out potential targeted stimulus as there is ample fiscal headroom.

Gross Domestic Product in chained (2015) dollars

	2Q18	3Q18	4Q18	2018	1Q19	2Q19*
Percentage change over corresponding period of previous year						
Overall GDP	4.2	2.6	1.3	3.1	1.1	0.1
Goods Producing Industries						
Manufacturing	10.6	3.5	4.6	7.0	-0.4	-3.8
Construction	-4.3	-2.6	-1.2	-3.7	2.7	2.2
Services Producing Industries	2.9	2.8	1.5	2.9	1.2	1.2
Quarter-on-quarter annualised growth rate, seasonally-adjusted						
Overall GDP	0.7	0.8	-0.8	3.1	3.8	-3.4
Goods Producing Industries						
Manufacturing	7.8	1.1	-3.4	7.0	-6.4	-6.0
Construction	-7.8	0.2	5.3	-3.7	13.3	-7.6
Services Producing Industries	-1.5	1.7	0.4	2.9	4.4	-1.5

*Advance estimates

Source: Ministry of Trade and Industry (MTI)

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