UOB Asset Management

Insights

Singapore: Unprecedented dip in GDP but Is the worst over?

Based on advanced estimates, Singapore's 2Q20 GDP had contracted by a record 12.6% year-on-year, marking its first technical recession since the first quarter of 2009. It is also the worst contraction on record outpacing market expectations for a 10.5% decline on year.

- The sharp decline had stemmed mainly from the Circuit Breaker measures implemented between 7 April and 1 June to curb the spread of the coronavirus (COVID-19) by the closure of non-essential services and most workplace premises.

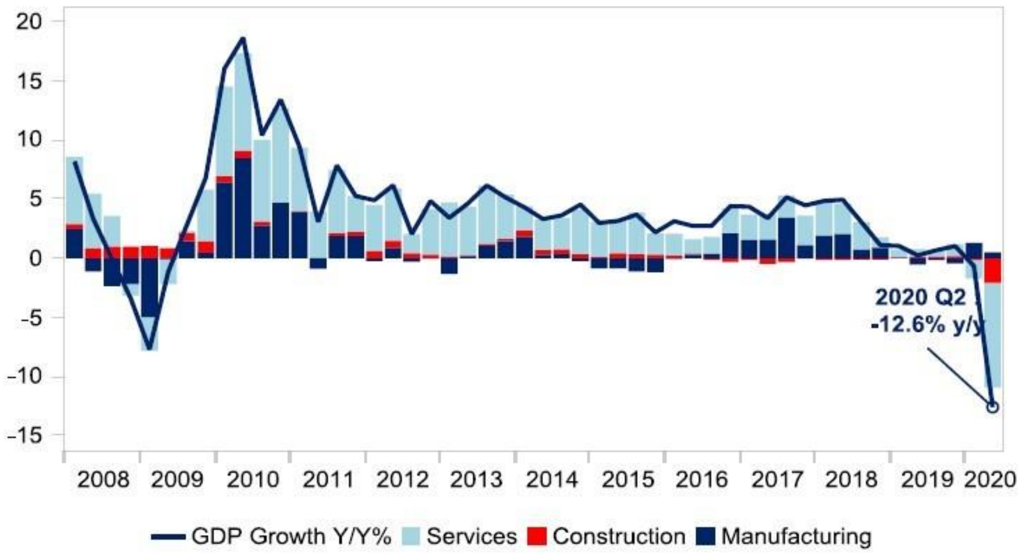
- Two of Singapore's key industries – services and construction – bore the brunt of the 2Q slowdown. The services sector contracted 13.6% as tourism-related sectors such as retail, accommodation and air transport were severely impacted. The construction sector declined by 54.7% after work was stopped for most construction activities

- The bright spot was in manufacturing where a growth of 2.5% on year was led by a surge in output in the biomedical cluster while weak external demand dragged down output in the chemicals, transport engineering and general manufacturing clusters.

- Our view is that the GDP contraction has bottomed in 2Q20, and while growth will decline on a year-on-year basis, it will be at a more moderate pace in the second half of 2020. Overall, we expect the Singapore economy to contract by an average of 4.0% for the whole of 2020 with downside risks. Our forecast is also at the top-bound of the Ministry of Trade & Industry's revised GDP growth range outlook of between -4.0% and -7.0% for the year.

GDP Contraction In 2Q20 Has Exceeded 2008/9 Pace

Source: Macrobond, UOB Global Economics & Markets Research



Outlook

Barring an unexpected upsurge in coronavirus (COVID-19) cases, the local economy should see a gradual pick-up in growth on the back of more business-friendly Phase Two and subsequently Phase Three measures. The opening up of tourist attractions from as of 1 July, coupled with more hospitality venues opening up to allow staycations, may be a first step to recovery in tourism-related sectors. However, a sustainable and robust recovery for related industries such as food and beverages, hotels and hospitality, transport and entertainment will still be dependent on the opening of Singapore’s borders to international visitors.

There is still remains a high degree of uncertainty due to the unpredictable nature of the virus. Pharmaceutical exports only accounted for 9.9% of non-oil domestics exports (NODX) in 2019, while the biomedical manufacturing cluster weighed in just below 20% of total industrial production. This suggests that any exacerbation of the COVID-19 pandemic globally will likely be more detrimental than beneficial for Singapore’s manufacturing environment. Beyond the pandemic, other potential risks to growth disruption would be from brewing geopolitical flare-ups and trade tensions which may intensify in the second half of 2020.

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UOB Asset Management (Malaysia) Bhd 199101009166 (219478-X)