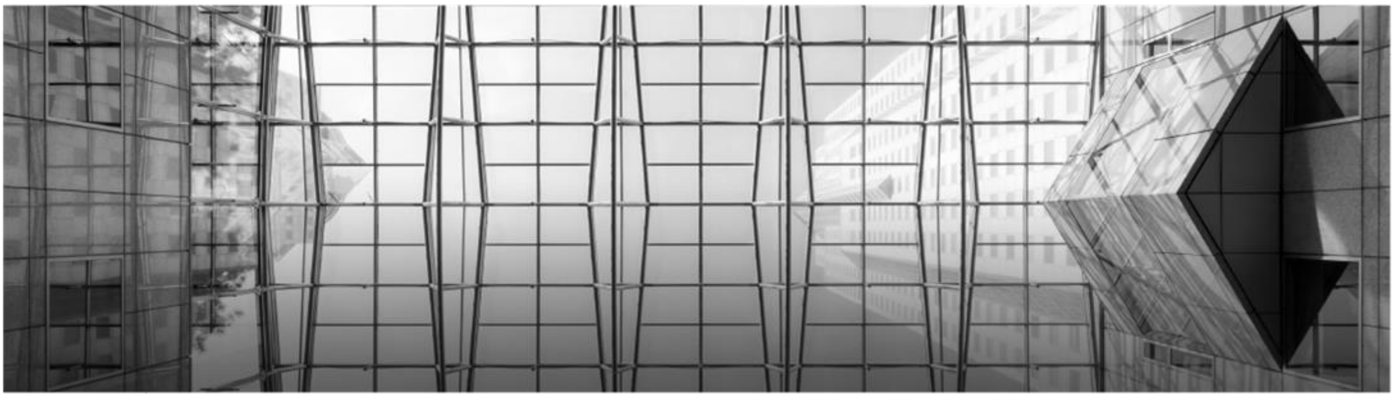
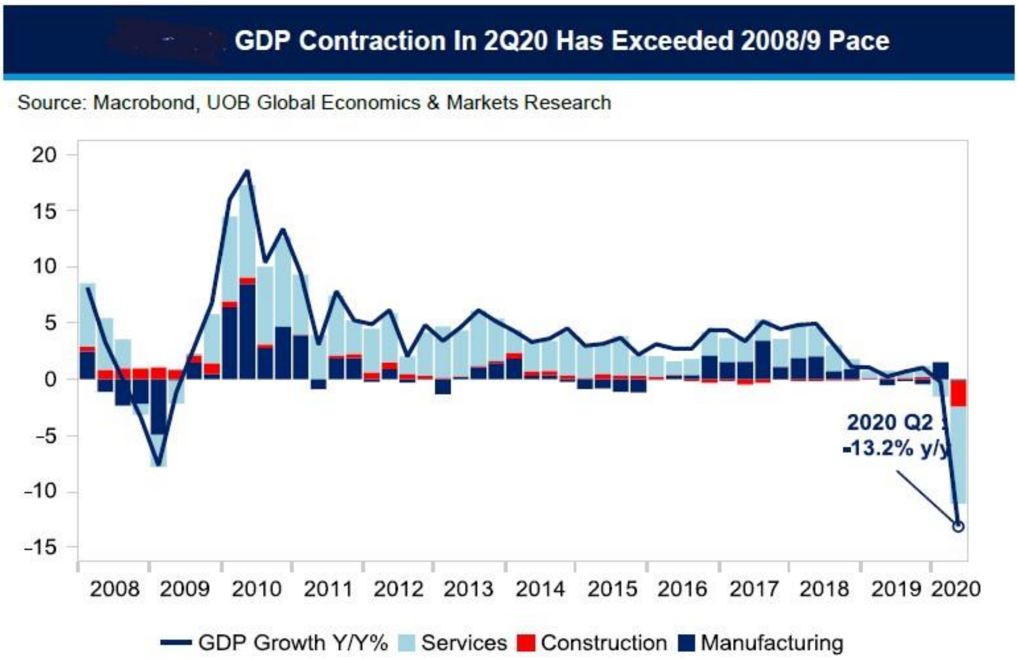


Singapore: Full-year GDP forecast revised on final 2Q20 data

Singapore's 2Q20 GDP had contracted 13.2% year-on-year (-42.9% quarter-on-year and seasonally adjusted annual rate), down from the previous advanced estimates at -12.6% y/y (-41.2% q/q SAAR) which solidifies the Republic's first technical recession since 1Q09, and the worst contraction on record.

The downgrade from the advanced estimates was primarily led by a decline in manufacturing activities which fell 0.7% in 2Q20 instead of the advanced estimates of +2.5%. The final GDP for 2Q has prompted the Ministry of Trade and Industry (MTI) to revise the contraction range for 2020 to between -5% and -7% from the prior range of -4% to -7%.

The services sector fell 13.4% y/y (advanced estimates -13.6%) as tourism-related sectors such as retail, accommodation and air travel were severely affected. The construction sector plunged -59.3% y/y over the same period compared to -1.2% in 1Q20. The sharp decline was mainly due to the manpower disruptions arising from movement restrictions at foreign worker dormitories, which led to the stoppage of "almost all construction activities" during the circuit breaker period. With COVID-19 testing of migrant workers completed by 7 August, the majority of workers should be able to resume work by mid-late August.



Outlook

Despite the dismal data, it is our view the dip in GDP has bottomed in 2Q20 as Circuit Breaker restrictions are being eased gradually. While the GDP will remain in contraction, it will be at a more moderate pace in the second half of 2020. The three drivers for gradual recovery will come from (1) improvement in the COVID-19 situation in Singapore, (2) opening up of tourist attractions from 1 July and (3) support from the biomedical industry in the midst of stronger pharmaceutical-related demand.

At this juncture, we also recognise that the likelihood of stronger-than-expected demand for semiconductors and semiconductor equipment in 2H20. In addition, pockets in the services sector including finance & insurance, information & communications may see further expansions in the second half of this year.

In the latest revised figures from Enterprise Singapore (ESG), total trade for Singapore is still forecast to contract by 8% to 10% (up from -9% to -12%), even though non-oil domestic exports (NODX) is now expected to expand by between 3% and 5% (up from -1% to -4%). The upgrade to trade expectations comes on the heels of a 16.5% surge in NODX in June 2020, led by an increase in both electronic exports (+22.2% y/y) and non-electronic exports (+14.5% y/y).

The downside risks at this juncture include those of a COVID-19 resurgence and the heating up of geopolitical and trade tensions especially between the US and China which will hurt already weakened global trade. Given the fluid nature of the pandemic worldwide and the impact of global trade to manufacturing coupled by the downturn in the construction and services sector in Singapore, we have downgraded our full-year GDP outlook to -5.0% in 2020, down from a previous -4.0%.

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