

## Singapore: 2Q GDP slower than in advance estimates, more moderation in second half

- Singapore's 2Q GDP came in less than the advance estimates, growing 18.8% y/y and 24.0% q/q saar (adv est: 19.3% y/y, and 26.0% q/q saar). The lower numbers were due to the manufacturing and construction sectors, which were weaker than earlier forecasted, at 44.5% y/y (adv est: 45.5%) and 11.5% y/y (adv est: 13.5%) respectively.
- On a q/q saar basis, we're starting to see manufacturing tapering off already, at 60.1% in 2Q, compared to 199.1% in 1Q. Industrial output grew at the slowest y/y pace in 4 months in Jun, after exceptionally strong expansion in May and Apr.
- We continue to see sluggish overall manufacturing growth in the latter part of the year, given several domestic and external factors such as plant maintenance shutdowns, the lack of clarity on the recovery process in the US, and Europe's sovereign debt problem still far from being solved.
- Our full year forecast remains unchanged at 13.8%, taking into account a contraction in the 3Q on a q/q saar basis, while in the 4Q, the economy should go back to expansion. We are still maintaining our forecast at 5.0% for 2011.
- We are maintaining our view that the MAS will keep its monetary policy steady in Oct. We view it as appropriate in tempering inflationary pressures for now. Also, in light of the economy moderating in the second half, there is no impetus to tighten monetary policy.

Singapore's 2Q GDP came in less than the advance estimates, growing 18.8% y/y and 24.0% q/q saar (adv est: 19.3% y/y, and 26.0% q/q saar). The lower numbers were due to the manufacturing and construction sectors, which were weaker than earlier forecasted, at 44.5% y/y (adv est: 45.5%) and 11.5% y/y (adv est: 13.5%) respectively. The services sector was just a tad weaker than in advance estimates at 11.2% y/y compared to 11.4%.

On a q/q saar basis, we're starting to see manufacturing tapering off already, at 60.1% in 2Q, compared to 199.1% in 1Q. Industrial output grew at the slowest y/y pace in 4 months in Jun, after exceptionally strong expansion in May and Apr. The weaker increase came primarily from pharmaceutical manufacturing, which could not sustain the extraordinarily strong growth rates of over 100% y/y in May and Apr. With further volatility in pharmaceutical production, we expect to see a wane in manufacturing output in the second half of this year. Electronics output so far has not shown any signs of slowing down, with the semiconductor industry still looking strong. The semi book to bill ratio stands at 1.19 in June, up from 1.13 in May, implying more orders received than filled. Electronics PMI also surged strongly, to a reading of 55.7 in July, from 50.5 in June, signaling continued expansion. We continue to see sluggish overall manufacturing growth in the latter half of the year, given several domestic and external factors such as plant maintenance shutdowns, the lack of clarity on the recovery process in the US, and Europe's sovereign debt problem still far from being solved. As for services, although the sector expanded at a slower pace in the second quarter, on a q/q saar basis, to 10.4% from 17.6%, we think the sector will continue to keep up the growth pace as tourism-related sectors and financial services continue its momentum. Our full year forecast remains unchanged at 13.8%, taking into account a contraction in the 3Q on a q/q saar basis, while in the 4Q, the economy should go back to expansion. A contraction in the 2Q and 3Q- implying a technical recession, is also a possibility, as highlighted by Ravi Menon, permanent secretary at MTI, in today's media reports. The contraction could be attributed more to a statistical pullback from the high growth rates in 1Q and 2Q, rather than a significant reduction in economic activity. We are still maintaining our forecast at 5.0% for 2011.

MTI has highlighted a few risks for the global economy for the second half of the year, namely, weaker growth in private consumption expenditure in the US due to the anemic labour market, as well as in inventory adjustment. The developments in Europe also bear monitoring, as the debt crisis has not been solved yet. "Within the EU, although the results of stress tests on commercial banks and secured debt financing in Greece have momentarily quelled market concerns, circumstances involving the southern European economies remain frail. Recovery in final demand in the EU is therefore expected to remain sluggish." The MTI also noted the moderation in growth momentum in other Asian countries such as China. MTI is maintaining its projection for 2010 GDP at 13.0-15.0%.

We are keeping to our view that the MAS will keep its monetary policy steady in Oct. The current policy stance seems appropriate in tempering inflationary pressures, and the widely-held view that the economy will moderate in the second half, ensures that monetary policy tightening is not on the cards for now.

### 2Q 2010 GDP Weaker Compared To Advance Estimates

	2Q-09	3Q-09	4Q-09	2009	1Q10	2Q10	2Q-09	3Q-09	4Q-09	1Q-10	2Q-10	
	Y/Y %						Q/Q saar					
<b>Real GDP</b>	<b>-1.7</b>	<b>1.8</b>	<b>3.8</b>	<b>-1.3</b>	<b>16.9</b>	<b>18.8</b>	<b>18.5</b>	<b>11.1</b>	<b>-1.0</b>	<b>45.7</b>	<b>24.0</b>	
<b>Sectoral Breakdown</b>												
<b>Goods-producing industries</b>	<b>1.7</b>	<b>7.7</b>	<b>3.5</b>	<b>-1.5</b>	<b>32.1</b>	<b>38.1</b>	<b>32.1</b>	<b>19.7</b>	<b>-20.7</b>	<b>147.5</b>	<b>53.0</b>	
Manufacturing	-0.4	7.6	2.2	-4.1	37.9	44.5	35.4	23.6	-27.0	199.1	60.1	
Construction	18.1	11.7	11.5	16.2	9.7	11.5	22.9	3.9	13.6	0.5	29.2	
<b>Services-producing industries</b>	<b>-3.4</b>	<b>-1.1</b>	<b>3.7</b>	<b>-1.4</b>	<b>11.4</b>	<b>11.2</b>	<b>11.5</b>	<b>7.6</b>	<b>9.6</b>	<b>17.6</b>	<b>10.4</b>	
Wholesale/retail trade	-11.8	-7.5	1.5	-8.2	16.9	18.9	5.8	7.8	8.8	53.2	11.1	
Transport & Storage	-10.1	-7.2	0.1	-7.0	7.9	7.6	8.3	10.0	16.4	-2.1	7.0	
Hotels/restaurants	-4.3	0.2	2.0	-1.5	7.0	10.4	-1.2	11.8	4.9	13.2	12.3	
Information & Communications	1.3	-0.1	1.6	1.2	2.3	2.8	3.5	2.3	5.3	-1.2	5.0	
Financial Services	0.7	3.5	8.5	1.3	19.1	10.2	49.6	9.5	14.6	7.2	9.7	
Business Services	4.0	3.7	4.2	4.5	6.6	6.4	3.1	5.1	5.9	12.4	2.8	

Source: MTI

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