

Singapore: Technical recession expected in 3Q, but likely to be temporary

2Q GDP growth came in at 0.9% y/y, -6.5% q/q saar, higher than advance estimates and market consensus of 0.5% y/y and -7.8% q/q saar. The MTI also expects full year growth to be slower, downgrading GDP growth to 5-6% from the 5-7% forecast in May, in light of the heightened downside external risks.

We are downgrading our full year forecast to 4.8%, below the government forecast range, from our original 5.7%. The outlook for the 2H has been clouded by the stalling US recovery, and compounded by debt problems in the EU. Growth in the 2H 2011 might not bounce back as quickly as expected, in light of the protracted weakness in the economies of the US and EU. Softer external demand will impact on Singapore's manufacturing sector and some segments in services. We're now looking at 2H growth averaging 4.6%. The lower end of the government forecast range of 5.0%, implies 2H growing at an average of 5.1%, while a 6% full year growth could imply 2H growing about 7.1%.

We're projecting a technical recession in 3Q, with a possible 3.2% q/q saar contraction. But we are not expecting the recession to be prolonged, with the 4Q swinging back to growth on a q/q saar basis.

Manufacturing weakened, services not so hot either

Looking at the numbers, manufacturing contracted 5.9% y/y, compared to -5.5% in the adv est. Construction was marginally weaker at 1.5% y/y compared to 1.6% in the adv est. We had initially anticipated a stronger rebound in the manufacturing sector in the 2H, boosted by higher electronics and non-electronics output. But a strong recovery does not look imminent. July PMI data does not augur well for the manufacturing sector in 2H, with a reading of 49.3 from 50.4, signalling a contraction. External demand will continue to be weak, and IE Singapore today revised down Singapore's NODX growth, to 6-7% from 8-10%.

The services sector grew more strongly at 3.9% y/y compared to 3.3% in the adv est. However, on a q/q saar basis, services shrank 0.2%, the first contraction since 1Q09, dragged down by wholesale & retail trade, financial services and business services. The slower exports growth will impact on trade-related services.

On the outlook, the MTI said that domestic growth 2H will be "bolstered by industry-specific factors", such as biomedical manufacturing, financial services and tourism-related sectors. However, MTI highlighted that Singapore's economic growth could be lower than expected given the increase in downside risks. "Concerns of a double-dip recession in the US have emerged, as upcoming plans for fiscal consolidation and weak labour and housing markets dampen consumer and business sentiments. In addition, the recent downgrade of US sovereign debt rating has led to financial market volatility and increased uncertainties. In the EU, market sentiment remains fragile, on account of lingering anxiety over possible contagion from the peripheral EU economies to the wider region."

Impact on monetary policy

The slowdown in domestic growth and inflation moderating suggests that MAS is likely to keep its current monetary policy stance in Oct. But further weakness stemming from the slow recovery in the US and EU debt problems could see the risk of MAS loosening monetary policy by easing back to a more gradual and modest appreciation.

2Q11 GDP better than advance estimates											
	2Q-11	1Q-11	2010	4Q-10	3Q-10	2Q-10	2Q-11	1Q-11	4Q-10	3Q-10	2Q-10
	Y/Y						Q/Q saar				
Real GDP	0.9	9.3	14.5	12.0	10.5	19.4	-6.5	27.2	3.9	-16.7	29.7
Sectoral Breakdown											
Goods-producing industries	-4.7	13.9	25.0	20.2	12.4	38.5	-19.0	79.0	-0.4	-43.2	66.9
Manufacturing	-5.9	16.5	29.7	25.5	13.7	45.2	-23.7	97.2	0.7	-48.5	79.2
Construction	1.5	2.4	6.1	-2.0	6.7	11.4	13.4	13.5	-10.2	-9.6	21.2
Services-producing industries	3.9	7.6	10.5	8.8	10.2	12.1	-0.2	10.1	5.6	0.5	14.5
Wholesale/retail trade	0.0	5.0	15.1	10.8	14.4	18.9	-8.4	4.7	3.7	0.0	11.6
Transport & Storage	4.1	4.9	6.0	3.8	5.2	8.5	8.9	9.4	2.9	-4.5	13.0
Hotels/restaurants	6.4	7.2	8.8	7.5	8.2	12.5	14.8	10.6	4.6	-3.7	19.0
Information & Communications	2.4	3.3	2.9	2.9	3.4	2.9	2.6	2.3	-0.4	5.2	6.5
Financial Services	10.0	11.4	12.2	10.9	9.7	9.9	-0.2	27.6	16.9	-1.4	4.6
Business Services	2.2	4.4	5.9	4.5	6.0	7.1	-2.9	7.0	2.8	2.1	5.6
Source: MTI											

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