

Singapore: 2Q Growth Weakens More Than Expected

Advance estimates today showed Singapore's 2Q11 GDP weakening more than expected, at 0.5% y/y, and contracted 7.8% q/q saar, below consensus estimates of 1.0% y/y, -2.6% q/q saar. This is markedly lower than the revised 9.3% y/y, 27.2% q/q saar in 1Q11. Growth was dragged down by the extremely weak manufacturing data in Apr and May, impacted by the supply chain disruption in Japan and also slower external demand from markets like the US and EU. The manufacturing sector contracted 5.5% y/y and 22.5% q/q saar in 2Q, on contraction in output of both electronics and pharma products. The 2Q data implies Jun industrial production figures rebounding back to a growth after 2 consecutive month of contraction. Jun IP should come in at around +6.5% m/m s/adj and +13.6% y/y.

Services Growth Not As Robust As Expected

In terms of services, 2Q data shows services did not grow as strongly as expected. We were projecting growth of more than 5% y/y for this quarter, on still strong loans growth and tourism-related segments. But weakness was apparent in the wholesale & retail trade and financial services due to weaker trade flows and a decline in stock trading activities. Overall though, the outlook for the services sector should remain healthy, on loans growth, tourists from the IRs and growth in the financial services. Services should continue to support GDP growth, but if exports and manufacturing still remain tepid, this could have knock-on effects on trade-related service sectors such as transport and storage.

Growth In The Second Half Should Pick Up

We think there should be some reprieve after the weak 2Q growth, which was hampered by the effects of the earthquake in Japan. We are expecting growth in the second half of the year to pick up, growing at around 6.7% y/y, on average, due in part to a lower base in 2H of 2010. We are also expecting some recovery in the electronic manufacturing sector with global demand for electronics still strong. Negative impact from the supply chain disruption in Japan would have eased off by then, and also, fears of a slowdown in China have not really panned out, as shown by still strong GDP growth of 9.5% in 2Q. We are also expecting economies of EU and US to recover gradually in the 2H of the year, which will be supportive of Singapore's exports. At this point, we are maintaining our GDP growth forecast of 5.7% for the full year 2011. But risks are now to the downside, with the ongoing debt crisis in Europe, and the very slow recovery in the US, which could see full year GDP come in slower than our forecast.

Monetary Policy To Stand Pat In Oct

As for monetary policy, with the recent tightening efforts by the MAS, it looks unlikely that the MAS will allow further strengthening at the upcoming monetary policy meeting in Oct. in light of easing inflation and slowing growth, we expect the MAS to stand pat on the current monetary policy stance. In the past week, our SGD NEER model shows the SGD TWI has remained resilient and moved higher, to the upper end of the policy band, of around 2.0-2.5% above the midpoint, despite the risk aversion in the markets. This could be the result of safe haven flows and stronger capital flows. We are maintaining our view of a stronger SGD, on still sound fundamentals and in tandem with a stronger RMB, going into the remainder of the year. Volatility emanating from European debt crisis and weak US economic data notwithstanding, we are keeping our projections for the USD/SGD to reach 1.22 at the end of 3Q and 1.19 by year end.

2Q11 GDP Advance Estimates											
	2Q11	1Q11	2Q10	3Q10	4Q10	2010	2Q11	1Q11	2Q10	3Q10	4Q10
	Y/Y %						Q/Q saar				
Real GDP	0.5	9.3	19.4	10.5	12.0	14.5	-7.8	27.2	29.7	-16.7	3.9
Manufacturing	-5.5	16.4	45.2	13.7	25.5	29.7	-22.5	96.6	79.2	-48.5	0.7
Construction	1.6	2.4	11.4	6.7	-2.0	6.1	13.8	13.5	21.2	-9.6	-10.2
Services-producing industries	3.3	7.6	12.1	10.2	8.8	10.5	-2.9	10.3	14.5	0.5	5.6
<i>Source: MTI</i>											

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