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Monday, 21 November 2011

Flash Notes

Singapore: 3Q growth higher, outlook gloomy

3Q GDP growth came in slightly higher at 6.1% y/y, +1.9% q/q saar, compared to the 14 Oct advance estimates of 5.9% y/y and 1.3% q/q saar. MTI still expects full year 2011 growth at 5.0%, but of concern will be 2012 growth, which is likely to come in at a weaker 1.0-3.0%. The manufacturing and services sector are not likely to prove supportive for the economy, given the subdued external demand for Singapore's exports amid global uncertainties, and trade-related services being hit. We are expecting 4Q GDP to contract on a q/q saar basis, at -5.5% q/q saar and 3.5% y/y.

Our 2011 full year forecast of 4.8%, could be revised lower given the very downbeat Oct NODX data. For the remaining months of the year and into next year, exports should continue to remain tepid on softer external demand. For 2012, we're looking at full year growth likely coming in at 2.5%, with the domestic economy impacted by the fall in external demand, as well as reduced growth from the slower inflow of foreign labour.

Weaker outlook for manufacturing and services sector

The manufacturing sector grew by 14.2%y/y, compared to 13.2% in the advance estimates, boosted by pharmaceuticals. Construction was marginally weaker at 0.3% y/y compared to 0.4% in the advance estimates. For the rest of the year, manufacturing output should stay soft on subdued external demand, and this was reflected in the latest NODX data which showed exports to key markets such as Europe and US shrinking significantly. MTI also said that the biomedical sector is expected to slow after expanding in the 3Q. Electronics output continues to be sluggish, with no upturn seen yet. The same story is likely to continue into next year, as difficulties in the developed economies prevail, weighing on demand for Singapore's exports.

Services expanded slightly more than advance estimates, at 3.7% y/y compared to 3.6% y/y. On a q/q saar basis, declines were seen in wholesale and retail trade, transport and storage, and hotels and restaurants. Growth in the services sector should also continue to moderate, given the impact that weakened demand will have on trade-related services. Sentiment-driven financial services should also be adversely affected.

On the outlook, the MTI said that "global economic conditions are expected to remain subdued in 2012", and Singapore's electronics, wholesale trade and financial services will be affected by heightened uncertainties in the external environment. Nonetheless, some support will come from the biomedical and tourism-related sectors.

Impact on monetary policy

Given the gloomy domestic outlook and slower expected growth rate for 2012, MAS could ease monetary policy from its current "gradual appreciation" policy stance. Also with inflation likely to ease in 2012, the central bank will have more room to manoeuvre in its policy decision in Apr next year.

	3Q-11	2Q-11	1Q-11	2010	4Q-10	3Q-10	3Q-11	2Q-11	1Q-11	4Q-10	3Q-10
	Y/Y						Q/Q saar				
Real GDP	**6.1**	**1.0**	**9.4**	**14.5**	**12.0**	**10.5**	**1.9**	**-6.4**	**27.9**	**3.9**	**-16.7**
Sectoral Breakdown											
Goods-producing industries	**12.0**	**-4.4**	**14.2**	**25.0**	**20.2**	**12.4**	**8.0**	**-18.9**	**80.8**	**-0.4**	**-43.2**
Manufacturing	14.2	-5.6	16.8	29.7	25.5	13.7	11.7	-23.6	99.5	0.7	-48.5
Construction	0.3	1.5	2.4	6.1	-2.0	6.7	-11.8	13.3	13.5	-10.2	-9.6
Services-producing industries	**3.7**	**4.0**	**7.7**	**10.5**	**8.8**	**10.2**	**-0.6**	**-0.2**	**10.5**	**5.6**	**0.5**
Wholesale/retail trade	-0.2	0.2	5.0	15.1	10.8	14.4	-0.6	-7.7	4.7	3.7	0.0
Transport & Storage	4.2	4.4	4.9	6.0	3.8	5.2	-4.5	10.0	9.4	2.9	-4.5
Hotels/restaurants	5.6	5.3	8.1	8.8	7.5	8.2	-2.6	6.7	14.2	4.6	-3.7
Information & Communications	1.4	2.3	3.3	2.9	2.9	3.4	1.3	2.1	2.3	-0.4	5.2
Financial Services	10.5	9.9	11.3	12.2	10.9	9.7	0.8	-0.5	27.4	16.9	-1.4
Business Services	1.7	2.1	4.5	5.9	4.5	6.0	0.9	-3.6	7.2	2.8	2.1

Source: MTI