

MTI Narrows 2016 GDP Growth Forecast to 1.0 to 2.0 Per Cent

11 August 2016. The Ministry of Trade and Industry (MTI) announced today that it has narrowed the GDP growth forecast for 2016 to 1.0 to 2.0 per cent, from 1.0 to 3.0 per cent.

Performance in Second Quarter 2016

The Singapore economy grew by 2.1 per cent on a year-on-year basis in the second quarter, unchanged from the first quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 0.3 per cent, slightly faster than the 0.1 per cent growth in the preceding quarter.

The manufacturing sector expanded by 1.1 per cent year-on-year, a reversal from the 0.5 per cent decline in the previous quarter. Growth was supported by the electronics and biomedical manufacturing clusters. On the other hand, the transport engineering and general manufacturing clusters continued to contract. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew by 1.0 per cent, slower than the 18.7 per cent growth in the preceding quarter.

Growth in the construction sector moderated to 3.3 per cent year-on-year, from 4.0 per cent in the first quarter, weighed down by a decline in private sector construction works. On a quarter-on-quarter basis, the sector grew at a seasonally-adjusted annualised rate of 5.3 per cent, faster than the 1.4 per cent growth in the preceding quarter.

The wholesale & retail trade sector expanded by 2.2 per cent year-on-year, a pullback compared to the 2.9 per cent growth in the previous quarter. Growth was supported by both the wholesale trade and retail trade segments, with the latter bolstered by motor vehicle sales. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded by 3.6 per cent, a reversal from the 6.1 per cent decline in the preceding quarter.

The transportation & storage sector grew by 2.9 per cent year-on-year, an improvement from the 0.1 per cent contraction in the previous quarter. Growth was supported mainly by the water transport segment, which expanded on the back of an increase in sea cargo handled. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded by 6.7 per cent, accelerating from the 4.4 per cent growth in the previous quarter.

The accommodation & food services sector registered growth of 1.6 per cent on a year-on-year basis, similar to the 1.7 per cent expansion in the previous quarter. Growth was supported by the accommodation segment, while the performance of the food & beverage segment remained sluggish. On a quarter-on-quarter seasonally-

adjusted annualised basis, the sector shrank by 4.0 per cent, a reversal from the 1.2 per cent expansion in the preceding quarter.

The information & communications sector expanded by 1.2 per cent year-on-year, as compared to the 3.1 per cent growth in the previous quarter. Growth was weighed down by the weak performance of the publishing and broadcasting industries, whereas the performance of the IT & information services segment remained resilient. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew by 1.2 per cent, a turnaround from the 3.6 per cent decline in the first quarter.

The finance & insurance sector grew by 0.8 per cent year-on-year, slowing from the 2.7 per cent growth in the previous quarter. Growth was largely underpinned by the forex trading and insurance segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector contracted by 11.2 per cent following the 14.2 per cent decline in the preceding quarter.

The business services sector recorded a slight contraction of 0.2 per cent on a year-on-year basis, compared to the 0.1 per cent growth in the first quarter. Growth was weighed down primarily by the real estate segment. On a quarter-on-quarter basis, the sector contracted at a seasonally-adjusted annualised rate of 3.6 per cent, extending the 0.9 per cent decline in the previous quarter.

Growth in the “other services industries” came in at 1.6 per cent year-on-year, higher than the 0.8 per cent in the previous quarter. While the public administration & defence and education, health & social services segments recorded positive growth, the arts, entertainment & recreation segment contracted due to the weak performance of the gaming industry. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded by 4.9 per cent, a reversal from the 3.0 per cent decline in the preceding quarter.

Economic Outlook for 2016

The global economic outlook has weakened slightly since three months ago in May. The UK’s vote in June to leave the European Union (i.e., “Brexit”) has dampened and also added uncertainties to the global growth outlook. In line with this, most key economies, except for the US, are expected to see similar or slower growth in the second half of the year as compared to the first half of the year.

The US economy grew modestly in the second quarter, following the weak growth momentum in the first quarter. Looking ahead, growth is expected to pick up in the remaining quarters of the year. Growth will be supported by domestic demand as the labour and housing markets have remained resilient. Monetary conditions are also likely to be accommodative to growth. For the year as a whole, the US economy is projected to grow at a slower pace compared to 2015.

In the UK, while growth picked up in the second quarter, forward-looking indicators suggest a potential slowdown in growth in the second half of the year as the uncertainties associated with Brexit could weigh on investments and consumption. For the Eurozone, growth in the first half of the year came in better than expected, but is likely to slow marginally in the second half of the year on the back of weakening consumer confidence in the region. Nonetheless, growth is expected to be supported by highly accommodative monetary policy. On balance, full-year growth in the Eurozone is likely to remain modest and come in slightly lower compared to 2015.

In Asia, China's growth in the second quarter was unchanged from that in the first quarter, at 6.7 per cent year-on-year. While the continued slowdown in investments will weigh on growth for the rest of the year, the expansion of credit and fiscal stimulus by the Chinese government is likely to contain downward pressures on the economy. Overall, growth is expected to slow in the second half of the year relative to the first half, with full-year growth projected to be lower than in 2015. In ASEAN, growth in the Indonesian and Malaysian economies in the second half of the year is expected to be broadly similar to that in the first half, supported by resilient domestic demand.

At the same time, additional downside risks in the global economy remain. First, Brexit has heightened uncertainties in the UK and EU economies. If the impact on consumer and business confidence is more severe than expected, there could be a sharp pullback in consumption and investments, which could in turn lead to a further slowdown in economic growth. The uncertainties could also spark bouts of risk aversion and volatility in global financial markets, with potential knock-on effects on global growth. Second, amidst rising corporate credit levels in China, there is a risk that debt defaults could spike as the economy continues to restructure, thus leading to a tightening of financial conditions. If this materialises, the Chinese economy could slow down more sharply than expected.

Domestically, the growth of externally-oriented services sectors, such as finance & insurance and wholesale trade, has slowed. While the manufacturing sector has seen an improvement in performance on account of pockets of strength in segments such as semiconductors and biomedical manufacturing, this may not be sustained in the light of sluggish global economic conditions. Growth in the construction sector is also likely to weaken in the coming quarters, with firms in the sector becoming more pessimistic about their business outlook.

On the other hand, tourism-related sectors such as the accommodation segment may see a boost from healthy growth in visitor arrivals, supported by the launch of new flights between Singapore and key inbound markets. Growth in "other services industries" and the information & communications sector is also likely to remain resilient, supported by growth in the education, health & social services and IT & information services segments respectively.

In line with weaker global growth outlook, and barring the full materialisation of downside risks, the 2016 growth forecast for the Singapore economy is narrowed to **1.0 to 2.0 per cent**, from 1.0 to 3.0 per cent.

MINISTRY OF TRADE AND INDUSTRY
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Annex

SECTORAL GROWTH RATES

	2Q15	3Q15	4Q15	2015	1Q16	2Q16
	Year-on-Year % Change					
Total	1.7	1.8	1.8	2.0	2.1	2.1
Goods Producing Industries	-3.2	-4.0	-4.0	-3.4	0.6	1.6
Manufacturing	-5.2	-6.0	-6.7	-5.2	-0.5	1.1
Construction	3.6	3.0	4.9	2.5	4.0	3.3
Services Producing Industries	3.2	3.4	2.8	3.4	1.7	1.4
Wholesale & Retail Trade	5.5	6.4	6.8	6.1	2.9	2.2
Transportation & Storage	-1.0	0.4	-0.9	0.0	-0.1	2.9
Accommodation & Food Services	-1.1	1.1	0.9	0.2	1.7	1.6
Information & Communications	5.8	2.5	3.3	4.2	3.1	1.2
Finance & Insurance	6.6	4.6	2.4	5.3	2.7	0.8
Business Services	0.6	2.0	0.8	1.5	0.1	-0.2
Other Services Industries	1.2	1.5	1.7	1.6	0.8	1.6
	Annualised Quarter-on-Quarter Growth % (SA)					
Total	-1.6	2.3	6.2	2.0	0.1	0.3
Goods Producing Industries	-9.2	-4.3	-2.1	-3.4	14.0	1.8
Manufacturing	-13.8	-6.0	-4.9	-5.2	18.7	1.0
Construction	7.7	0.2	6.0	2.5	1.4	5.3
Services Producing Industries	0.4	3.8	7.7	3.4	-4.9	-0.6
Wholesale & Retail Trade	7.0	7.9	3.7	6.1	-6.1	3.6
Transportation & Storage	-6.3	3.7	-2.6	0.0	4.4	6.7
Accommodation & Food Services	-3.9	8.8	1.0	0.2	1.2	-4.0
Information & Communications	10.3	0.7	6.4	4.2	-3.6	1.2
Finance & Insurance	-4.2	0.9	34.1	5.3	-14.2	-11.2
Business Services	-3.2	2.5	1.8	1.5	-0.9	-3.6
Other Services Industries	1.8	1.8	2.9	1.6	-3.0	4.9

OTHER ECONOMIC INDICATORS

	2Q15	3Q15	4Q15	2015	1Q16	2Q16
Retail Sales Index* (yoy, %)	6.4	5.5	3.2	4.6	2.4	1.7
Value Added Per Worker^ (yoy, %)	-0.6	0.0	0.5	-0.1	0.8	0.7
Unemployment Rate, SA (%)	1.9	2.0	1.9	1.9	1.9	2.1
Changes in Employment ('000)	9.7	12.6	16.1	32.3	13.0	5.5
Overall Unit Labour Cost (yoy, %)	3.5	2.5	1.8	2.8	3.1	3.6
Unit Business Cost of Manufacturing (yoy, %)	3.0	-1.2	5.8	1.4	0.8	-0.9
Consumer Price Index (yoy, %)	-0.4	-0.6	-0.7	-0.5	-0.8	-0.9
Fixed Asset Investments (\$ bil)	3.1	3.7	1.4	11.5	3.0	2.8
Total Merchandise Trade (yoy, %)	-10.9	-8.5	-7.7	-9.5	-9.7	-5.7
Merchandise Exports	-9.0	-8.0	-5.7	-7.2	-11.6	-4.7
Domestic Exports	-12.2	-14.4	-12.9	-12.9	-16.8	-6.0
Oil	-31.3	-32.6	-29.9	-32.2	-33.8	-18.4
Non-Oil	1.5	-2.2	-3.5	-0.1	-9.0	0.0
Re-exports	-5.6	-0.5	1.4	-0.9	-6.5	-3.4
Merchandise Imports	-13.0	-9.1	-9.9	-12.1	-7.4	-6.7
Total Services Trade (yoy, %)	0.2	1.1	-0.3	0.3	-0.4	1.2
Services Exports	1.1	1.4	0.0	0.5	-0.9	0.9
Services Imports	-0.6	0.8	-0.5	0.1	0.2	1.6

*At constant prices. ^ Based on GDP at 2010 market prices.