

MTI Expects GDP Growth to be “0.0 to 1.0 Per Cent” in 2019

13 August 2019. The Ministry of Trade and Industry (MTI) announced today that the GDP growth forecast for 2019 has been downgraded to “0.0 to 1.0 per cent”, with growth expected to come in at around the mid-point of the forecast range.

Economic Performance in Second Quarter 2019

The Singapore economy grew marginally by 0.1 per cent on a year-on-year basis in the second quarter, moderating from the 1.1 per cent growth in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy contracted by 3.3 per cent, a reversal from the 3.8 per cent growth in the first quarter.

The manufacturing sector contracted by 3.1 per cent year-on-year, sharper than the 0.3 per cent contraction in the previous quarter. Manufacturing output was largely weighed down by output declines in the electronics, transport engineering and precision engineering clusters. By contrast, output in the biomedical manufacturing and general manufacturing clusters rose. On a quarter-on-quarter seasonally-adjusted annualised basis, the manufacturing sector shrank at a more gradual pace of 3.4 per cent compared to the 6.4 per cent decline in the preceding quarter.

The construction sector expanded by 2.9 per cent year-on-year, extending the 2.8 per cent growth in the first quarter. Construction output was supported by public sector construction works. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector shrank by 5.5 per cent, reversing from the 13.7 per cent growth in the preceding quarter.

The wholesale & retail trade sector contracted by 3.2 per cent year-on-year, larger than the 2.5 per cent decline in the previous quarter. The sector’s weak performance was led by the wholesale trade segment, which shrank mainly on account of a decline in the machinery, equipment & supplies sub-segment. The latter was in line with the fall in Singapore’s non-oil domestic exports during the quarter, especially in electronics. Meanwhile, the retail trade segment also contracted as both motor vehicular and non-motor vehicular retail sales fell. On a quarter-on-quarter seasonally-adjusted annualised basis, the wholesale & retail trade sector shrank by 7.9 per cent, a turnaround from the 3.1 per cent growth in the first quarter.

Growth in the transportation & storage sector picked up to 2.2 per cent year-on-year, from 0.7 per cent in the previous quarter. The sector’s growth was supported primarily by the air transport and water transport segments, which expanded on the back of an increase in air passengers handled at Changi Airport and total sea cargo volume handled at Singapore’s ports respectively. On a quarter-on-quarter seasonally-adjusted annualised basis, the transportation & storage sector grew by 6.5 per cent, reversing the 2.1 per cent decline in the preceding quarter.

The accommodation & food services sector expanded by 0.9 per cent year-on-year, slowing from the 2.0 per cent growth in the previous quarter. Growth was supported by both the food services and accommodation segments. The food services segment expanded on account of higher sales at fast food outlets, other eating places and restaurants, while the accommodation segment grew on the back of a rise in international visitor arrivals. On a quarter-on-quarter basis, the accommodation & food services sector expanded at a seasonally-adjusted annualised rate of 2.3 per cent, a turnaround from the 5.3 per cent contraction in the preceding quarter.

The information & communications sector grew by 4.1 per cent year-on-year, easing from the 5.2 per cent growth in the previous quarter. Growth was driven by the IT & information services segment, which expanded at a robust pace on the back of healthy demand for IT solutions. On a quarter-on-quarter seasonally-adjusted annualised basis, the information & communications sector grew by 0.5 per cent, slower than the 2.8 per cent growth in the preceding quarter.

Growth in the finance & insurance sector came in at 5.2 per cent year-on-year, faster than the 3.2 per cent expansion in the previous quarter. The sector's strong performance was largely due to expansions in the fund management, foreign exchange trading, and "others"¹ segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the finance & insurance sector grew by 7.6 per cent, accelerating from the 4.9 per cent growth in the first quarter.

The business services sector expanded by 0.5 per cent year-on-year, moderating from the 1.7 per cent growth in the preceding quarter. Growth was supported by the professional services segment, even as the real estate segment continued to contract. On a quarter-on-quarter seasonally-adjusted annualised basis, the business services sector shrank by 3.9 per cent, a reversal from the 1.3 per cent growth in the previous quarter.

The "other services industries" grew by 2.1 per cent year-on-year, extending the 2.6 per cent growth in the preceding quarter. Growth was primarily supported by the education, health & social services and the arts, entertainment & recreation segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the "other services industries" contracted by 8.0 per cent, a pullback from the 15.3 per cent growth in the first quarter.

Economic Outlook for 2019

Since the last Economic Survey of Singapore published in May, the global growth outlook has weakened further, with the IMF downgrading its global growth forecast for 2019 in its July review. In particular, the growth prospects of key emerging markets and developing economies such as ASEAN-5 and China have

¹ The others segment includes payment players and money-changing services.

worsened, partly due to the escalation in the US-China trade conflict in recent months. Concurrently, the global electronics cycle has entered a sharper-than-expected downswing, with the ongoing downturn exacerbated by the uncertainty caused by the US-China trade conflict. The global electronics downswing will pose a greater drag on economies with sizeable electronics and related sectors.

Looking ahead, GDP growth in many of Singapore's key final demand markets in the second half of 2019 is expected to slow from, or remain similar to, that recorded in the first half. In the US, following a better-than-anticipated performance in the first half of 2019, GDP growth is expected to moderate in the second half of the year, as the effects of the fiscal stimulus implemented in early-2018 dissipate even as slowing global growth and prolonged trade uncertainty weigh on private investment. Nonetheless, growth for the rest of the year is likely to be supported by private consumption on the back of firm labour market conditions. Meanwhile, the Eurozone economy registered weaker growth in the second quarter as compared to the first quarter. Growth momentum is likely to remain subdued for the rest of the year, with some support coming from domestic demand. In particular, labour market conditions are likely to remain healthy, while borrowing costs are expected to remain low due to accommodative monetary policies.

In Asia, China's economy expanded at a slower pace in the second quarter of 2019 as compared to the first quarter. Growth is projected to ease further in the second half of the year on the back of weaker investment growth and a continued decline in exports, exacerbated by the increase in the US's tariffs on its exports. However, private consumption is likely to remain stable, supported in part by government measures to boost household spending. On the other hand, GDP growth in the key ASEAN economies is expected to remain resilient for the rest of the year. While slowing merchandise exports are likely to weigh on growth, consumer sentiments are expected to remain firm and hence largely supportive of private consumption.

At the same time, uncertainties and downside risks in the global economy have increased since three months ago. First, the US's recent announcement of possible tariffs on an additional US\$300 billion of imports from China has led to a further escalation of the trade conflict between the US and China. This could severely dent global business and consumer confidence, with adverse implications on global trade and global economic growth. Second, a steeper-than-expected slowdown of the Chinese economy could be precipitated by additional tariffs imposed by the US. This could in turn lead to a sharp fall in Chinese import demand and negatively affect the region's growth. Third, the risk of a "no-deal" Brexit has increased with the recent change in UK's political leadership. If it happens, substantial trade frictions between the UK and its trading partners could arise and adversely affect consumer and business sentiments in the UK and EU, with negative repercussions on their economic growth. Fourth, there are risks arising from the uncertainties in Hong Kong, the trade dispute between Japan and South Korea, as well as geopolitical tensions in North Korea and the Strait of Hormuz.

More broadly, prolonged uncertainties as a result of heightened risks in the global economy could further weaken business and consumer confidence, and lead to a cutback in global investment and consumption, thereby lowering global growth.

Against this challenging external macroeconomic backdrop, and the deepening downturn in the global electronics cycle, the Singapore economy is likely to continue to face strong headwinds for the rest of the year. In particular, the weaker-than-expected performance of the electronics and precision engineering clusters in the first half of 2019 is expected to be sustained into the remaining quarters of the year due to the deterioration in the outlook for global semiconductor demand. The downturn in these clusters will also continue to have negative spillover effects on the wholesale trade segment. At the same time, the chemicals cluster is likely to soften given weakening import demand from China. In addition to wholesale trade, growth in other trade-related services sectors like transportation & storage is likely to ease in tandem with slowing global trade volumes.

Nonetheless, there are several areas of strength in the Singapore economy. Within the manufacturing sector, the aerospace and food & beverage manufacturing segments are expected to continue to do well given firm demand conditions. Among the services sectors, the growth of the information & communications and finance & insurance sectors is projected to remain healthy, bolstered by sustained demand for enterprise IT solutions and increased demand for payment processing services respectively. Meanwhile, the education, health & social services segment's growth is likely to be resilient, supported by the ramp-up of operations in healthcare facilities. The recovery in the construction sector is also expected to be sustained.

Taking into account the global and domestic economic environment, as well as the performance of the Singapore economy in the first half of the year, the GDP growth forecast for 2019 is downgraded to **“0.0 to 1.0 per cent”**, from **“1.5 to 2.5 per cent”**, with **growth expected to come in at around the mid-point of the forecast range**.

MINISTRY OF TRADE AND INDUSTRY
13 August 2019

ANNEX

SECTORAL GROWTH RATES

	2Q18	3Q18	4Q18	2018	1Q19	2Q19
	Year-on-Year % Change					
Total	4.2	2.6	1.3	3.1	1.1	0.1
Goods Producing Industries	7.8	2.5	3.5	5.0	0.1	-2.2
Manufacturing	10.6	3.5	4.6	7.0	-0.3	-3.1
Construction	-4.3	-2.6	-1.2	-3.7	2.8	2.9
Services Producing Industries	2.9	2.8	1.5	2.9	1.2	1.1
Wholesale & Retail Trade	2.6	2.4	-0.8	1.7	-2.5	-3.2
Transportation & Storage	1.2	1.6	0.5	1.3	0.7	2.2
Accommodation & Food Services	3.5	3.4	3.5	2.8	2.0	0.9
Information & Communications	6.1	5.1	5.0	5.4	5.2	4.1
Finance & Insurance	5.8	3.9	3.7	5.8	3.2	5.2
Business Services	2.1	3.0	2.6	2.8	1.7	0.5
Other Services Industries	1.1	1.8	0.3	1.6	2.6	2.1
	Annualised Quarter-on-Quarter Growth % (SA)					
Total	0.7	0.8	-0.8	3.1	3.8	-3.3
Goods Producing Industries	5.6	1.0	-3.0	5.0	-3.0	-3.3
Manufacturing	7.8	1.1	-3.4	7.0	-6.4	-3.4
Construction	-7.8	0.2	5.3	-3.7	13.7	-5.5
Services Producing Industries	-1.5	1.7	0.4	2.9	4.3	-2.0
Wholesale & Retail Trade	-5.9	-2.7	-5.0	1.7	3.1	-7.9
Transportation & Storage	0.3	4.5	0.4	1.3	-2.1	6.5
Accommodation & Food Services	6.9	2.9	3.9	2.8	-5.3	2.3
Information & Communications	4.6	6.5	7.2	5.4	2.8	0.5
Finance & Insurance	-0.2	2.9	5.5	5.8	4.9	7.6
Business Services	0.8	2.7	1.8	2.8	1.3	-3.9
Other Services Industries	-6.1	2.7	-0.5	1.6	15.3	-8.0

OTHER ECONOMIC INDICATORS

	2Q18	3Q18	4Q18	2018	1Q19	2Q19
Retail Sales Index* (yoy, %)	0.4	-1.0	-2.3	-1.2	-0.6	-4.7
Value Added Per Worker^ (yoy, %)	3.7	1.6	0.1	2.4	-0.3	-1.4
Value Added Per Actual Hour Worked^ (yoy, %)	6.3	1.8	0.8	3.6	0.0	-3.4
Unemployment Rate, SA (%)	2.1	2.1	2.2	2.1	2.2	2.2
Changes in Employment ('000)	6.5	19.3	15.9	45.3	13.4	3.3
Overall Unit Labour Cost (yoy, %)	0.1	1.0	1.4	0.4	2.4	3.0
Unit Business Cost of Manufacturing (yoy, %)	-8.2	-4.3	-8.2	-6.5	-2.0	1.1
Consumer Price Index (yoy, %)	0.3	0.7	0.5	0.4	0.5	0.7
Fixed Asset Investments (\$ bil)	4.5	1.5	4.1	10.9	3.8	4.3
Total Merchandise Trade (yoy, %)	10.2	14.7	9.2	9.2	2.1	-2.1
Merchandise Exports	9.3	12.7	7.2	7.9	0.0	-4.5
Domestic Exports	12.9	14.5	3.4	8.4	-6.4	-10.6
Oil	20.4	28.9	12.1	17.1	-6.5	-2.9
Non-Oil	9.3	8.0	-1.1	4.2	-6.4	-14.6
Re-exports	5.7	11.1	11.2	7.4	6.8	2.2
Merchandise Imports	11.1	17.0	11.5	10.6	4.6	0.6
Total Services Trade (yoy, %)	1.6	2.1	0.8	2.1	0.1	1.4
Exports of Services	3.2	4.3	2.1	3.9	-0.4	0.9
Imports of Services	0.1	-0.1	-0.5	0.3	0.5	1.9

*At constant prices. ^Based on GDP at market prices in chained (2015) dollars.