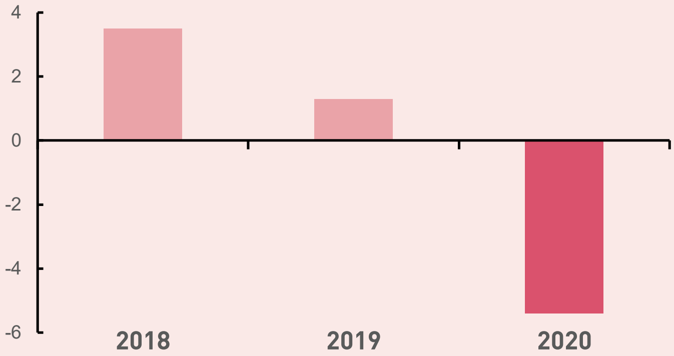
FEATURE ARTICLE

PERFORMANCE OF THE SINGAPORE ECONOMY IN 2020

INTRODUCTION

The COVID-19 pandemic caused massive global economic disruptions in 2020. Singapore was not spared as the economy recorded its worst full-year recession since independence. During the year, the economy had to grapple with both demand- and supply-side shocks, such as a fall in external demand for goods and services produced in Singapore caused by the economic slowdown in major economies and global travel restrictions, supply chain disruptions, as well as the implementation of the Circuit Breaker (CB) measures domestically from April to June 2020.

REAL GDP GROWTH RATE (%)



SINGAPORE'S ECONOMIC RECOVERY IN 2H20

Across sectors, the economic impact of COVID-19 was felt through different transmission channels. Consequently, their economic performance, including their recovery post-CB, was variegated.

TOURISM- AND AVIATION-RELATED

- Accommodation
- Air Transport
- Aerospace

CONSUMER-FACING

- Retail Trade
- Food & Beverage Services
- Land Transport

OUTWARD-ORIENTED

- Manufacturing
- Wholesale Trade
- Water Transport
- Information & Communications
- Finance & Insurance
- Professional Services

HIGH DEPENDENCE ON FOREIGN WORKERS

- Construction
- Marine & Offshore Engineering

RENTAL AND SALE OF PROPERTY, TANGIBLE GOODS AND INTANGIBLE ASSETS

- Real Estate
- Rental and Leasing

OUTLOOK

Overall, Singapore's GDP is projected to gradually recover and expand by 4.0 to 6.0 per cent this year, with GDP not likely to return to pre-COVID levels until the second half of the year at the earliest. The pace of recovery is also expected to be uneven across sectors. For instance, while outward-oriented sectors are likely to benefit from the pickup in global economic activity, activity levels in tourism- and aviation-related sectors are projected to remain below pre-pandemic levels even by the end of 2021.

EXECUTIVE SUMMARY

- The COVID-19 pandemic caused massive global economic disruptions in 2020. Singapore was not spared as the economy recorded its worst full-year recession since independence. During the year, the economy had to grapple with both demand- and supply-side shocks, such as a fall in external demand for goods and services produced in Singapore caused by the economic slowdown in major economies and global travel restrictions, supply chain disruptions, as well as the implementation of the Circuit Breaker (CB) measures domestically from April to June 2020.

- Across sectors, the economic impact of COVID-19 was felt through different transmission channels. Consequently, their economic performance, including their recovery post-CB, was variegated. For example, while the proxy indicators for external demand had either surpassed or were close to pre-pandemic levels by the fourth quarter of 2020, air passengers and tourist arrivals remained significantly lower than pre-pandemic levels as at end-2020.

- Furthermore, significant risks in the global economy remain. While Singapore's vaccination programme is well underway, there is uncertainty over how the COVID-19 pandemic will evolve around the world given the emergence of new strains of the virus and difficulties in vaccine rollouts globally.

- Overall, Singapore's GDP is projected to gradually recover and expand by 4.0 to 6.0 per cent this year, with GDP not likely to return to pre-COVID levels until the second half of the year at the earliest. The pace of recovery is also expected to be uneven across sectors. For instance, while outward-oriented sectors are likely to benefit from the pickup in global economic activity, activity levels in tourism- and aviation-related sectors are projected to remain below pre-pandemic levels even by the end of 2021

The views expressed in this paper are solely those of the authors and do not necessarily reflect those of the Ministry of Trade and Industry or the Government of Singapore.[1]

INTRODUCTION

The COVID-19 pandemic caused massive global economic disruptions in 2020. To-date, the virus has infected more than 100 million people worldwide and resulted in more than two million deaths. Many countries were forced to implement strict public health measures, including lockdowns and border closures, to contain the spread of the virus. This led to significant disruptions in global economic activity. Reflecting the unprecedented extent of the disruptions, the International Monetary Fund had revised its 2020 global growth forecasts downwards over the course of the year, with its forecasts in October 2020 being much lower than that announced a year ago before the start of the pandemic [Exhibit 1].

The Singapore economy was not spared the damage caused by the pandemic, contracting by 5.4 per cent in 2020, its worst full-year recession since independence. Our economic performance turned out to be much worse than the 2020 GDP growth forecast of 0.5 to 2.5 per cent announced by MTI in November 2019, before the pandemic struck. The sharp downturn came about as the economy had to grapple with both demand- and supply-side shocks arising from the pandemic, including a fall in external demand for goods and services produced in Singapore caused by the economic slowdown in major economies and global travel restrictions, supply chain disruptions, as well as the implementation of the Circuit Breaker (CB) measures domestically from 7 April to 1 June 2020. The effects of these shocks were the most pronounced in the first half of 2020 (1H20), and there were signs of recovery in the Singapore economy in the second half of 2020 (2H20) as the economy gradually re-opened and major economies emerged from their initial lockdowns.

Building on an earlier article which assessed the immediate impact of COVID-19 on the Singapore economy,[2] this article analyses the recovery of the economy in 2H20 relative to pre-pandemic levels[3] using high-frequency indicators as well as traditional sectoral indicators.

1 *We would like to thank Ms Yong Yik Wei, Dr Andy Feng, Mr Kenneth Yeow and Mr Tan Di Song for their useful suggestions and comments. All errors belong to the authors.*
2 *See Saw, Lin & Wong (2020).*
3 *Pre-pandemic levels refer to the fourth quarter of 2019 for quarterly data and January 2020 for monthly data.*

Exhibit 1: World GDP Growth Forecasts

Dependent Variable	2020 Forecast in Oct 2019	2020 Forecast in Oct 2020	Percentage point difference
World GDP	3.4	-4.4	-7.8
United States	2.1	-4.3	-6.4
Eurozone	1.4	-8.3	-9.7
Japan	0.5	-5.3	-5.8
Mainland China	5.8	1.9	-3.9
Hong Kong SAR	1.5	-7.5	-9.0
Taiwan	1.9	0.0	-1.9
Republic of Korea	2.2	-1.9	-4.1
Malaysia	4.4	-6.0	-10.4
Indonesia	5.1	-1.5	-6.6
Thailand	3.0	-7.1	-10.1
Philippines	6.2	-8.3	-14.5
Vietnam	6.5	1.6	-4.9

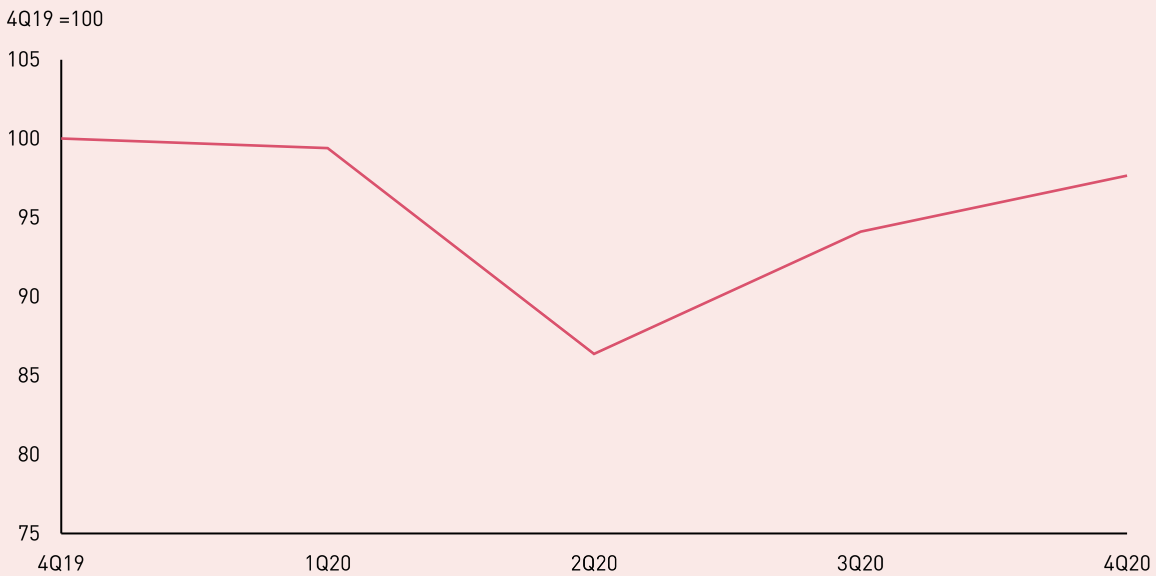
Source: IMF World Economic Outlook (October 2019, October 2020)

SINGAPORE'S ECONOMIC RECOVERY IN SECOND HALF OF 2020

The Singapore economy contracted sharply in 1H20, largely due to the CB measures as well as the global fallout from the pandemic. In particular, even though the CB measures – which included the suspension of non-essential services and the closure of most workplace premises – were necessary to contain the increasing local transmissions of COVID-19 then, they had a severe impact on the Singapore economy. In the second quarter of 2020 (2Q20), Singapore registered the largest quarterly GDP contraction, both on a year-on-year and quarter-on-quarter basis, on record [Exhibit 2].

After the CB period, the Singapore economy saw two consecutive quarters of positive quarter-on-quarter growth due to the phased resumption of activities domestically, and the rebound in activity in major economies as they emerged from their initial lockdowns. By the fourth quarter of 2020 (4Q20), the economy had recovered to about 98 per cent of pre-pandemic levels – which is taken to be the seasonally-adjusted GDP level in the fourth quarter of 2019 (4Q19) – compared to the low of 86 per cent in 2Q20.

Exhibit 2: Singapore's Seasonally-adjusted Quarterly GDP



Source: DOS

The impact of COVID-19 on the Singapore economy was felt through five main transmission channels: (i) a fall in tourist arrivals and air travel; (ii) a fall in domestic consumption; (iii) a fall in external demand and supply chain disruptions; (iv) manpower disruptions and the requirement to implement safe management measures; and (v) negative spillovers from the slowdown in domestic economic activity. Each of these channels affected the various sectors of the economy to varying degrees [Exhibit 3]. Consequently, the performance of the different sectors of the economy in 2020 was variegated.

Exhibit 3: Grouping of Sectors, based on Nature of Activity and Transmission Channels

Group	Examples of Sectors	Nature of Activity	Main Transmission Channels of Economic Impact from COVID-19
1	Accommodation, Air Transport, Aerospace	Sectors closely related to tourism and aviation, and dependent on tourist arrivals and air travel	Weak tourist arrivals and air travel due to global travel restrictions
2	Retail Trade, Food & Beverage (F&B) Services, Land Transport	Consumer-facing sectors with output mostly driven by domestic demand	Fall in domestic consumption on account of weak consumer sentiments and labour market conditions; capacity constraints from safe distancing measures
3	Manufacturing, Wholesale Trade, Water Transport, Information & Communications, Finance & Insurance, Professional Services	Outward-oriented sectors with output mostly driven by external demand	Fall in external demand and supply chain disruptions
4	Construction and Marine & Offshore Engineering	Sectors with a high dependence on foreign workers, especially work-permit holders (WPH) and S-Pass holders	Disruptions in manpower supply; requirement to implement safe management measures which weigh on productivity and activity levels
5	Real Estate, Rental & Leasing	Rental and sale of residential, commercial and industrial property, as well as rental and leasing of tangible goods and intangible assets	Adverse effects on individual and business sentiments from the slowdown in domestic economic activity

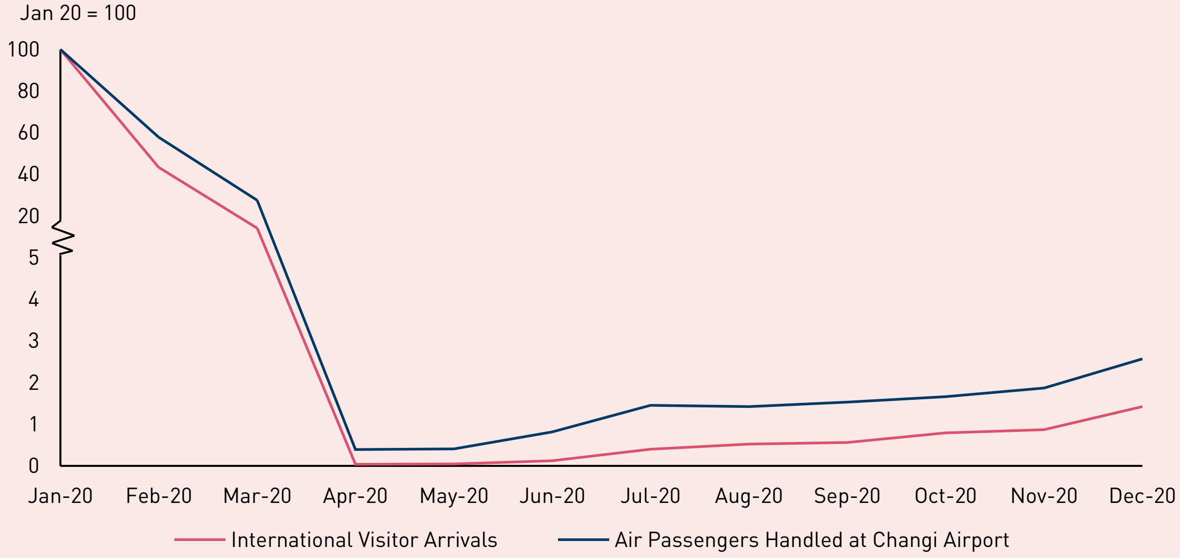
Performance of Group 1 Sectors

Since February 2020, increasingly tight global travel restrictions and domestic border controls to contain the spread of COVID-19 led to a sharp fall in air travel demand and tourist arrivals to Singapore. While there were attempts to kickstart the recovery in air travel and tourist arrivals to Singapore through the introduction of reciprocal green lanes and travel bubbles in 2H20, the impact has been limited due to the cautious demand for travel globally. The global surge in COVID-19 cases and emergence of more contagious variants of the virus also led to a suspension of some of these arrangements, and a slowdown in the pace of border re-opening in recent months.

As a result, the activity of Group 1 sectors continued to languish even at the end of 2020, with air passenger volume and international visitor arrivals coming in at less than 5 per cent of pre-pandemic (i.e., January 2020) levels throughout the period of April to December 2020 [Exhibit 4]. Consequently, the performance of the accommodation sector was also tepid, with the monthly gross lettings of gazetted hotels only at about 30 per cent of pre-pandemic levels in November 2020, although the re-opening of hotels for staycation bookings since July 2020 provided some support to the sector [Exhibit 5].

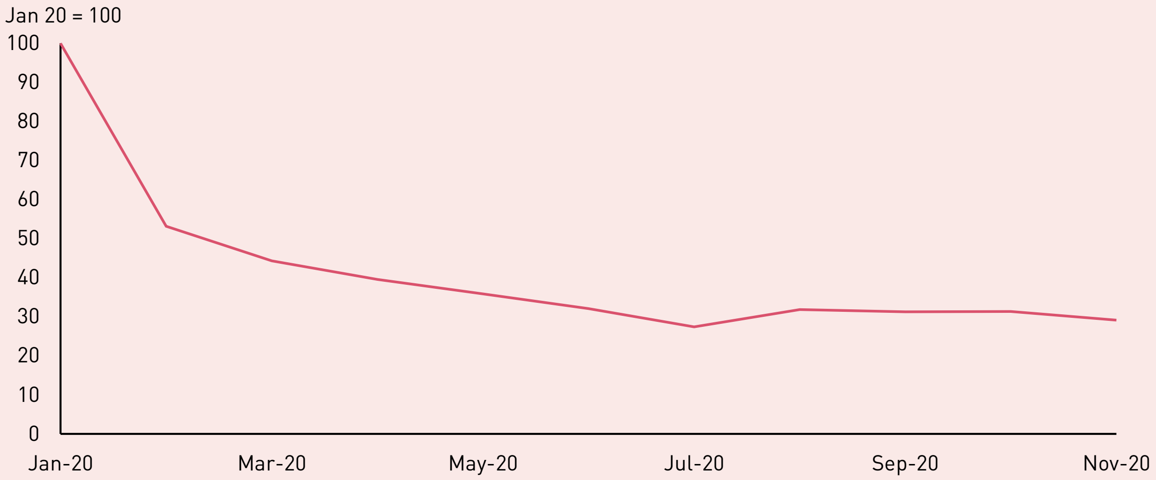
Likewise, the sharp reduction in air travel and subsequent grounding of aircraft led to a plunge in the volume of aircraft maintenance and repair work, with output in the aerospace segment remaining depressed compared to year-ago levels since April 2020 [Exhibit 6].

Exhibit 4: Air Passenger Volume and International Visitor Arrivals



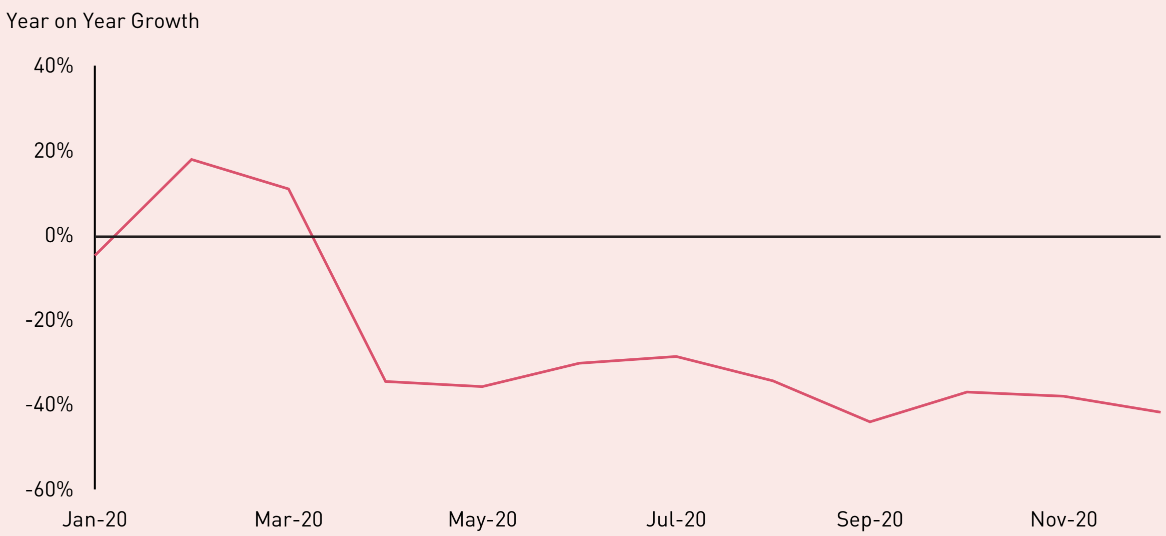
Source: Civil Aviation Authority of Singapore, Singapore Tourism Board

Exhibit 5: Gross Lettings of Gazetted Hotels



Source: Singapore Tourism Board
Note: The data does not take into account the occupancy of rooms arising from government contracts for stay-home notice and quarantine facilities.

Exhibit 6: Index of Industrial Production in the Aerospace Segment



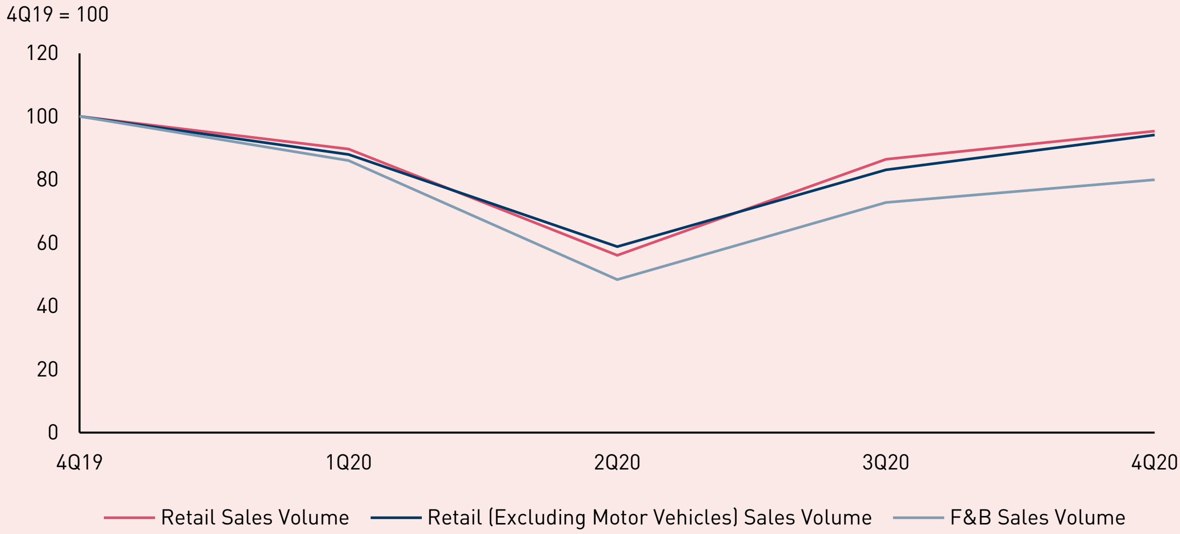
Source: Economic Development Board

Performance of Group 2 Sectors

The COVID-19 outbreak also had a severe effect on consumer-facing sectors in 1H20, as the CB measures restricted business operations (e.g., physical workplace closures affected most retailers, while F&B outlets were not allowed to offer dining-in services). The economic downturn and resulting weakening of labour market conditions also weighed on sentiments, and in turn, domestic consumption.

In tandem with the phased re-opening of the Singapore economy, activity in the Group 2 sectors picked up in 2H20. For instance, retail and F&B sales volumes saw a rebound with the resumption of physical retail and dining-in activities in June 2020 [Exhibit 7]. However, notwithstanding the improvement, they remained below pre-pandemic (i.e., 4Q19) levels even by 4Q20 on account of sluggish tourist demand brought about by the plunge in visitor arrivals, as well as lacklustre consumer sentiments in view of weak labour market conditions. In addition, the F&B services sector was adversely affected by safe distancing measures which constrained dining-in capacity.

Exhibit 7: Retail and F&B Sales Volume

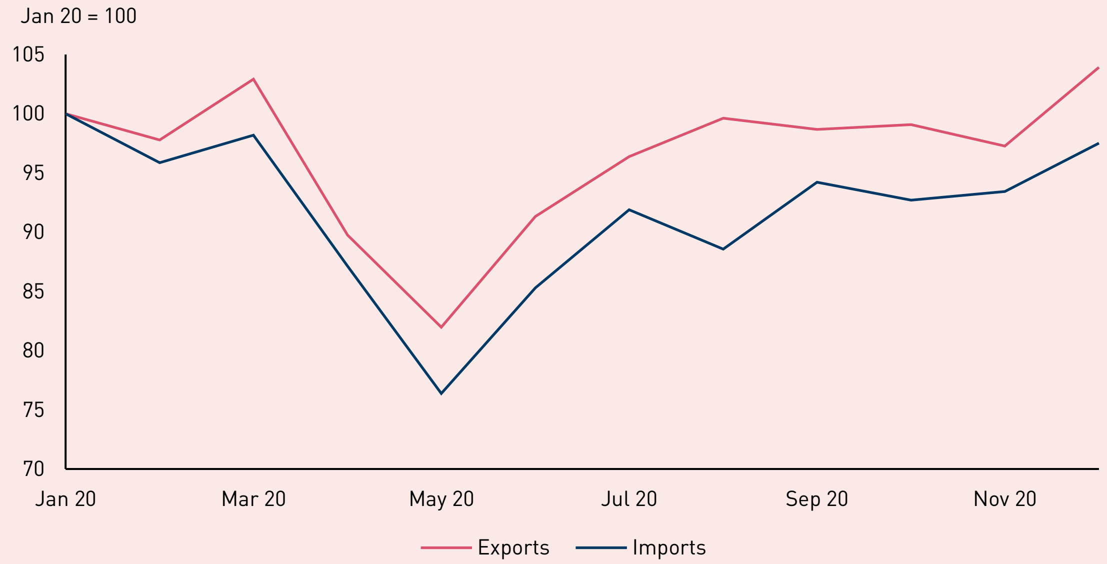


Source: Department of Statistics

Performance of Group 3 Sectors

In 1H20, COVID-19 affected the external demand for Singapore goods and services as well as disrupted supply chains, as major economies around the world implemented lockdowns and restrictions to contain the spread of the virus. Economic uncertainty caused by the pandemic also negatively affected global consumer and business sentiments. Reflecting these factors, Singapore's merchandise trade declined significantly from March 2020 to May 2020, with imports and exports in May 2020 reaching a low of 76 per cent and 82 per cent of pre-pandemic (i.e., January 2020) levels respectively [Exhibit 8]. However, merchandise trade rebounded relatively quickly when major economies emerged from their initial lockdowns towards the middle of 2020. By the end of 2020, exports recovered to surpass pre-pandemic levels while imports recovered to 98 per cent of these levels.

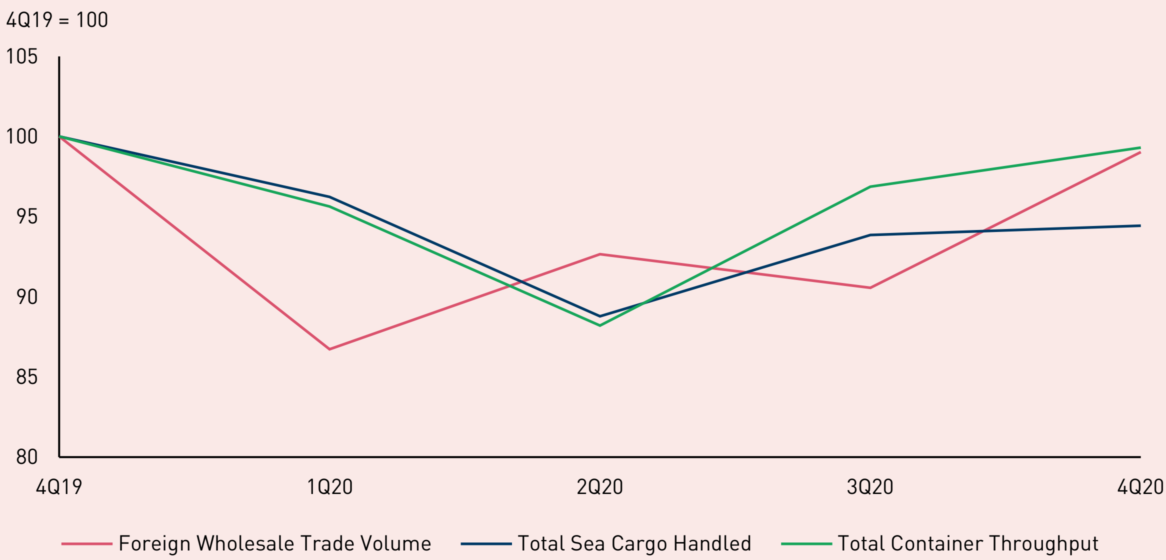
Exhibit 8: Singapore's Monthly Merchandise Imports and Exports



Source: Department of Statistics

In tandem with the pickup in external demand, the Group 3 sectors generally saw a recovery in activity in 2H20, although the pace of recovery varied across sectors. Activity in trade-related services sectors such as wholesale trade and water transport, while improving over the course of 2H20, remained weaker than pre-pandemic levels amidst continued economic uncertainty. For instance, total foreign wholesale trade volume had not recovered to 4Q19 levels even by 4Q20, while total sea cargo handled and total container throughput also remained below 4Q19 levels in the same quarter [Exhibit 9].

Exhibit 9: Foreign Wholesale Trade Volume, Total Sea Cargo Handled and Total Container Throughput

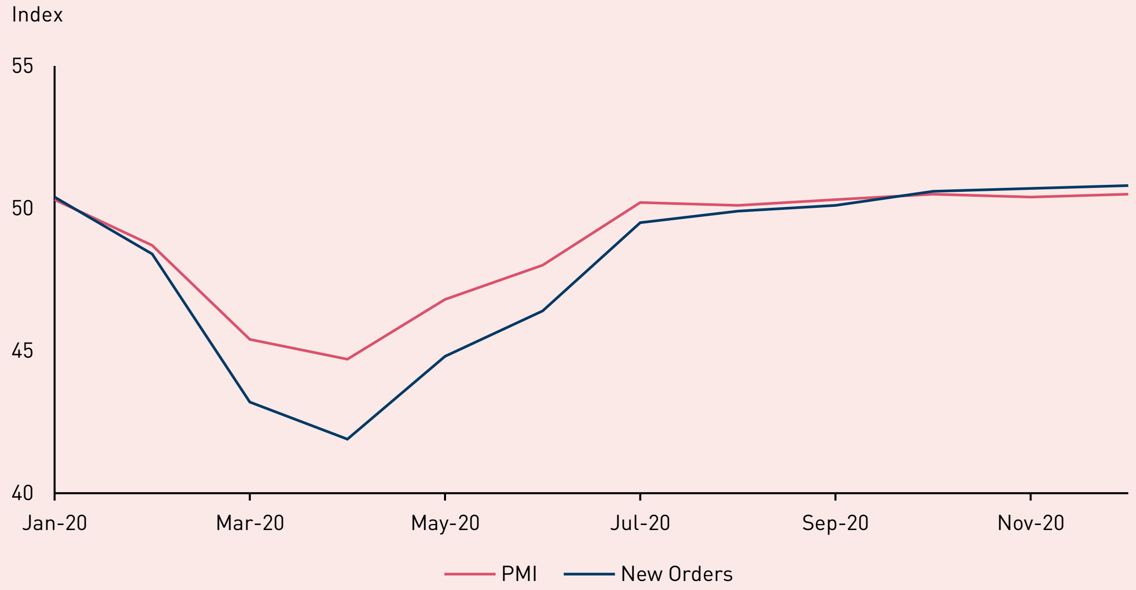


Source: Department of Statistics,

By contrast, the performance of sectors such as manufacturing, information & communications and finance & insurance sectors has been relatively robust. In particular, the overall manufacturing sector saw a strong recovery in 2H20, with the manufacturing purchasing managers' index (PMI) rebounding from the trough registered in April 2020 during the CB [Exhibit 10].[4] This was mainly on account of the robust performance of the electronics and precision engineering clusters as production in these clusters climbed above year-ago levels in 2H20 due to buoyant global demand for semiconductors from the 5G markets, data centres and cloud services, as well as semiconductor equipment respectively [Exhibit 11]. Meanwhile, the information & communications and finance & insurance sectors also continued to post steady growth in both 3Q20 and 4Q20, led by resilient enterprise demand for IT solutions, as well as healthy expansions in the banking and insurance segments respectively.

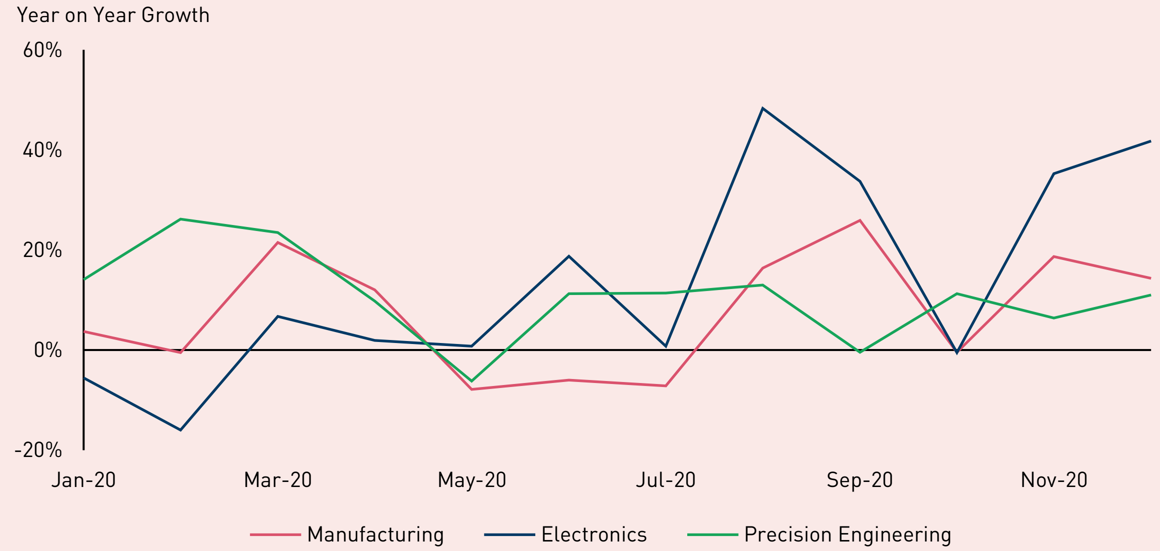
4 *The rebound in overall manufacturing output was similarly seen in the Index of Industrial Production, which recorded positive year-on-year growth in all months of 2H20 except for July and October 2020.*

Exhibit 10: Manufacturing Purchasing Managers' Index



Source: Singapore Institute of Purchasing and Materials Management

Exhibit 11: Index of Industrial Production in the Electronics and Precision Engineering Clusters



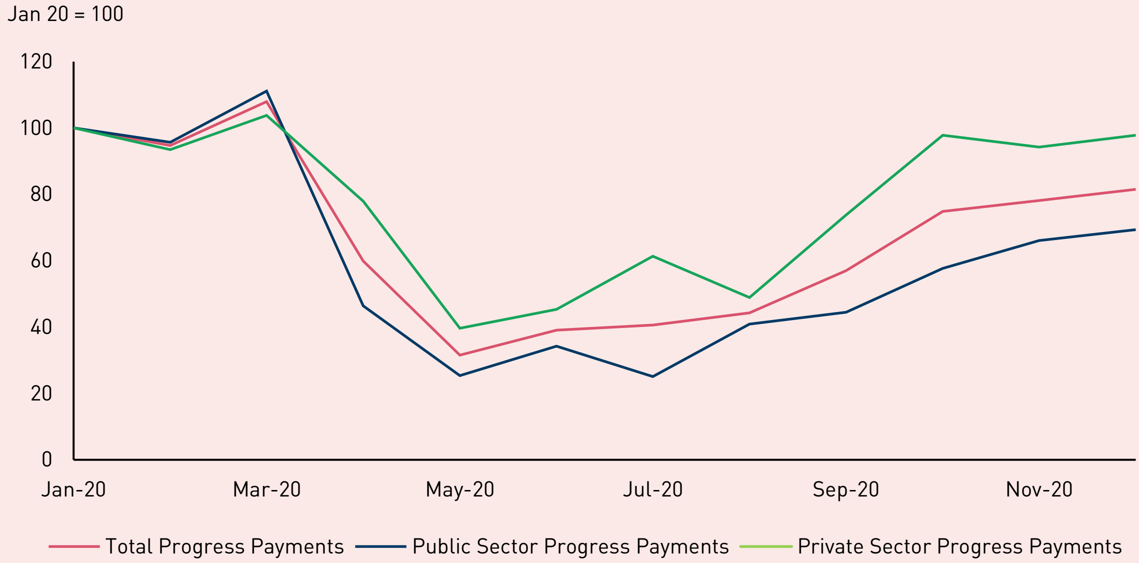
Source: Economic Development Board

Performance of Group 4 Sectors

During the earlier outbreak of COVID-19 in the foreign worker dormitories, movement restrictions implemented to contain the outbreak led to manpower shortages in the Group 4 sectors (i.e., construction and marine & offshore engineering), which in turn weighed heavily on their performance. The subsequent requirement for strict safe management measures at construction worksites and shipyards to mitigate the risk of future outbreaks among the foreign workforce also continued to dampen activity levels in these sectors.

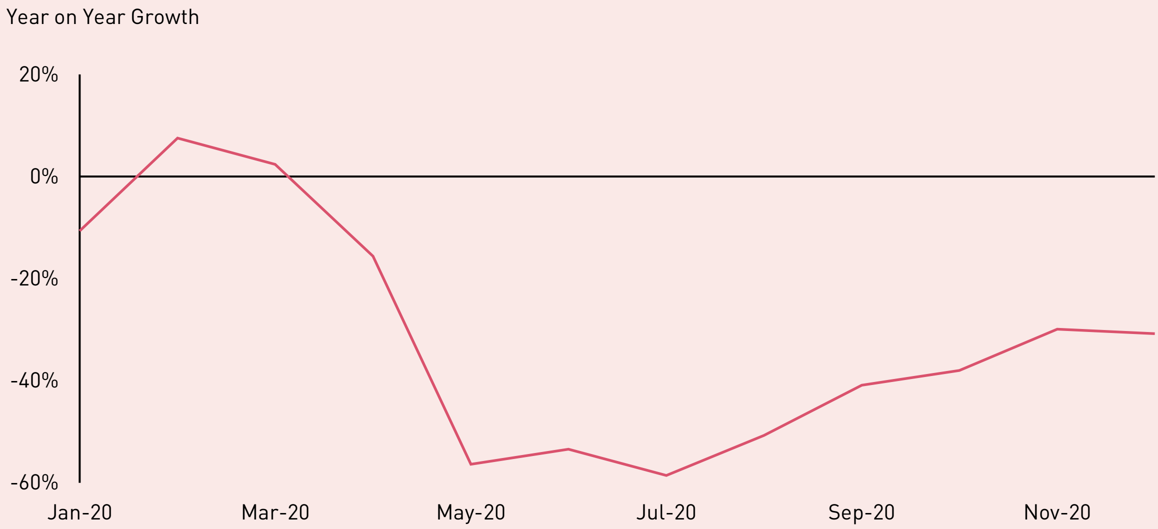
As a result, the construction sector and marine & offshore engineering segment saw a relatively slow recovery in 2H20. Construction output, in terms of certified progress payments, remained below pre-pandemic (i.e., January 2020) levels in December 2020 [Exhibit 12]. Similarly, output in the marine & offshore engineering segment continued to languish below year-ago levels in December 2020 [Exhibit 13].

Exhibit 12: Certified Progress Payments



Source: Building and Construction Authority

Exhibit 13: Index of Industrial Production in the Marine & Offshore Engineering Segment

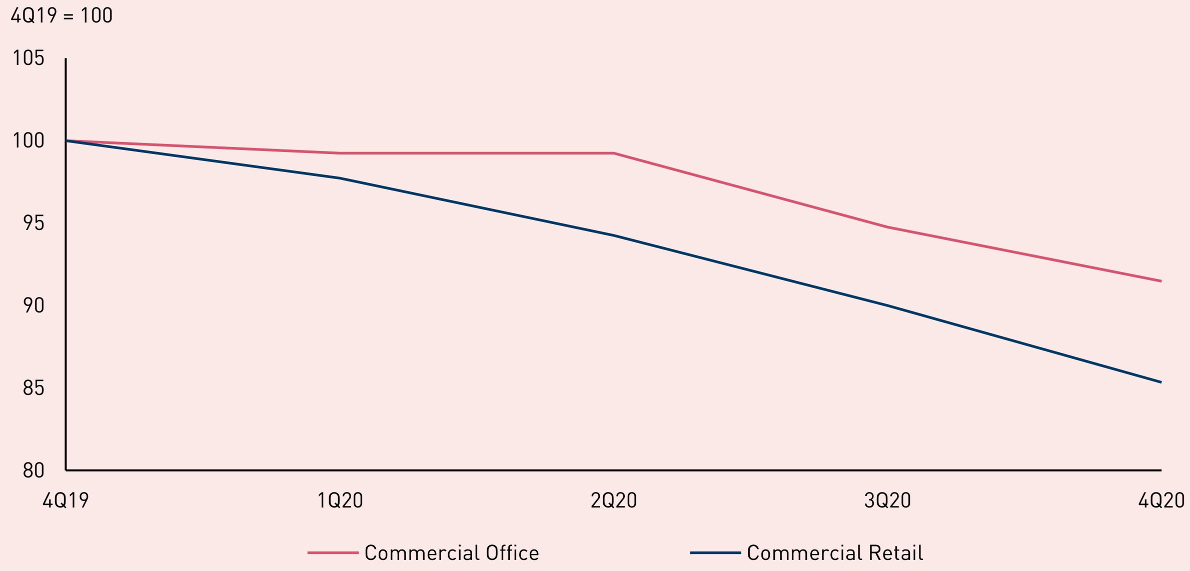


Source: Economic Development Board

Performance of Group 5 Sectors

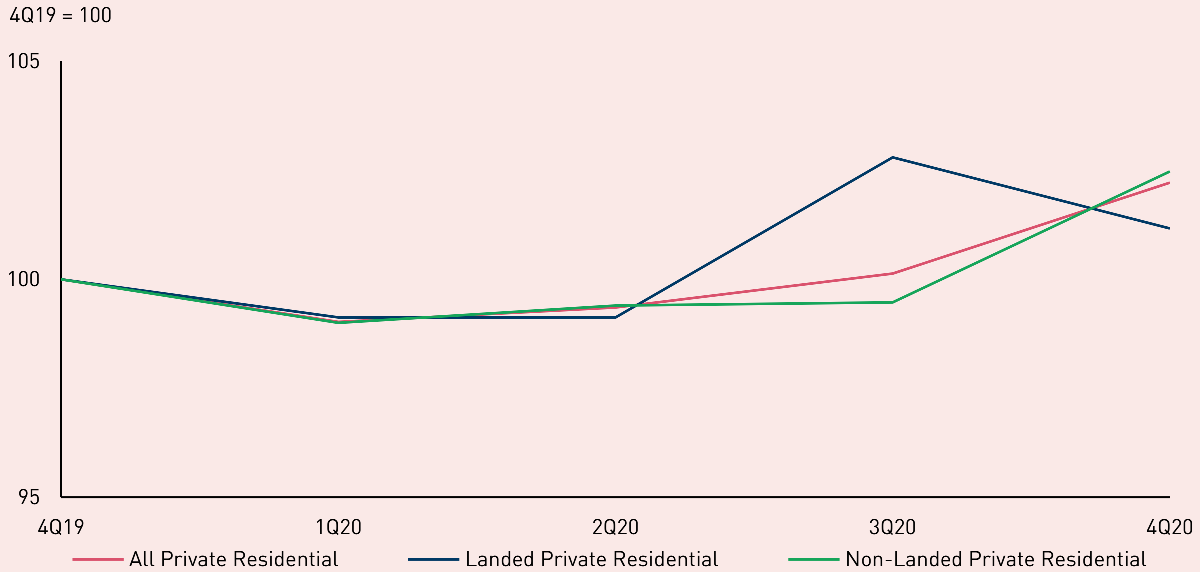
Finally, the economic downturn in Singapore due to COVID-19 also resulted in negative spillovers to domestically-oriented sectors such as real estate. For example, the poor performance of the retail trade sector in 2020 had a knock-on effect on the commercial retail property segment of the real estate sector, with retail rentals in 4Q20 remaining around 15 per cent lower compared to the same period a year ago due to weak leasing demand. Similarly, commercial office rentals remained depressed as at end-2020 on account of the economic downturn and cautious business sentiments [Exhibit 14]. By contrast, the private residential property segment was resilient, with the prices of landed and non-landed private residential property in 4Q20 already exceeding 4Q19 levels, supported by stable demand from buyers amidst a low interest rate environment [Exhibit 15].

Exhibit 14: Rental Indices of Commercial (Retail and Office) Property



Source: Urban Redevelopment Authority

Exhibit 15: Price Indices of Private Residential Property



Source: Urban Redevelopment Authority

CONCLUDING REMARKS AND OUTLOOK

The COVID-19 pandemic caused massive global economic disruptions in 2020. Singapore was not spared as the economy recorded its worst full-year recession since independence. Across sectors, the economic impact of COVID-19 was felt through different transmission channels. Consequently, their economic performance in 2020 was variegated.

Furthermore, significant risks in the global economy remain. While Singapore's vaccination programme is well underway, there is uncertainty over how the COVID-19 pandemic will evolve around the world given the emergence of new strains of the virus and difficulties in vaccine rollouts globally.

Overall, barring the materialisation of downside risks, Singapore's GDP is projected to recover gradually and expand by 4.0 to 6.0 per cent this year, with GDP not likely to return to pre-COVID levels until 2H21 at the earliest. Moreover, the pace of recovery is expected to remain uneven across sectors. In particular, the tourism- and aviation-related sectors are unlikely to return to pre-pandemic levels even by the end of 2021 due to the slow lifting of global travel restrictions and weak global demand for air travel amidst the emergence of more contagious variants of the virus.

Similarly, the slower recovery in visitor arrivals and capacity constraints due to safe distancing measures are likely to continue to weigh on the performance of the consumer-facing sectors, thus hindering their return to pre-pandemic levels throughout 2021. The recovery of the construction sector and marine & offshore engineering segments will likewise be slow because of the continued need for safe management measures at worksites and shipyards, as well as sluggish demand arising from the plunge in construction contracts awarded in 2020 and weakness in the global oil & gas market respectively. By contrast, the outward-oriented sectors – which had either already surpassed or recovered close to pre-pandemic levels by 4Q20 – are expected to continue to benefit from the pickup in global economic activity this year.

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