

MTI Downgrades 2020 GDP Growth Forecast to “-7.0 to -4.0 Per Cent”

26 May 2020. The Ministry of Trade and Industry (MTI) today revised Singapore’s GDP growth forecast for 2020 downwards to “-7.0 to -4.0 per cent”.

Economic Performance in First Quarter 2020

The Singapore economy contracted by 0.7 per cent on a year-on-year basis in the first quarter, a reversal from the 1.0 per cent growth in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy shrank by 4.7 per cent, a pullback from the 0.6 per cent expansion in the fourth quarter of last year.

The manufacturing sector expanded by 6.6 per cent year-on-year, reversing the 2.3 per cent contraction in the previous quarter. Growth was on account of output expansions in the biomedical manufacturing, precision engineering and transport engineering clusters, which outweighed output declines in the electronics, general manufacturing and chemicals clusters. In particular, the pharmaceuticals segment of the biomedical manufacturing cluster recorded a surge in the production of active pharmaceutical ingredients and biological products during the quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the manufacturing sector grew by 37.3 per cent, rebounding from the 5.9 per cent decline in the preceding quarter.

The construction sector contracted by 4.0 per cent year-on-year, a reversal from the 4.3 per cent expansion in the previous quarter. The performance of the sector was weighed down primarily by a fall in private sector construction works. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector contracted by 21.8 per cent, a significant turnaround from the 5.3 per cent growth in the fourth quarter.

The wholesale & retail trade sector shrank by 5.8 per cent year-on-year, extending the 1.9 per cent decline in the previous quarter, as both the wholesale trade and retail trade segments contracted. The wholesale trade segment saw a sharp pullback in growth as a result of weaker global demand and disruptions in supply chains due to the COVID-19 pandemic. Meanwhile, the retail trade segment contracted, weighed down by a fall in the volume of motor vehicle sales, as well as the sales of discretionary goods such as watches & jewellery and wearing apparel & footwear. On a quarter-on-quarter seasonally-adjusted annualised basis, the wholesale & retail trade sector shrank by 18.1 per cent, worsening from the 0.6 per cent decline in the preceding quarter.

The transportation & storage sector contracted by 8.1 per cent year-on-year, a reversal from the 0.8 per cent expansion in the previous quarter. Within the sector, the air transport segment shrank on the back of a steep decline in air passengers handled at Changi Airport due to the global travel restrictions imposed to contain the spread of COVID-19. Similarly, both the water transport and land transport

segments contracted amidst sluggish growth in total sea cargo handled and reduced domestic demand for public transport respectively. On a quarter-on-quarter seasonally-adjusted annualised basis, the transportation & storage sector shrank by 29.9 per cent, a sharp reversal from the 2.0 per cent growth in the fourth quarter.

The accommodation & food services sector contracted by 23.8 per cent year-on-year, a significant pullback from the 2.5 per cent growth in the preceding quarter. The performance of the sector was weighed down by both the accommodation and food services segments. The accommodation segment shrank due to a plunge in international visitor arrivals and gross lettings at gazetted hotels as a result of the travel restrictions in place. Meanwhile, the food services segment contracted as food caterers, restaurants and other eating places recorded a fall in sales.¹ On a quarter-on-quarter seasonally-adjusted annualised basis, the accommodation & food services sector reversed its 4.3 per cent expansion in the fourth quarter to register a contraction of 69.9 per cent in the first quarter, its largest decline on record.

The information & communications sector grew by 3.5 per cent year-on-year, moderating from the 4.5 per cent growth in the previous quarter. Growth was mainly supported by the IT & information services segment on account of firms' sustained demand for IT and digital solutions. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector contracted by 6.9 per cent, a reversal from the 8.9 per cent expansion in the preceding quarter.

The finance & insurance sector expanded by 8.0 per cent year-on-year, faster than the 4.0 per cent growth in the previous quarter. The robust performance of the sector was driven by strong growth in the banking and insurance segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew at a quicker pace of 17.2 per cent compared to the 3.8 per cent growth in the preceding quarter.

The business services sector shrank by 3.3 per cent year-on-year, reversing the 1.7 per cent growth in the fourth quarter, on the back of contractions in the real estate, professional services and "others"² segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector contracted by 15.0 per cent, a turnaround from the 2.2 per cent growth in the preceding quarter.

The "other services industries" contracted by 3.4 per cent year-on-year, in contrast to the 3.3 per cent expansion in the previous quarter. The performance of the sector was primarily weighed down by the arts, entertainment & recreation segment, which was in turn negatively affected by the plunge in visitor arrivals as well as the implementation of safe distancing measures. On a quarter-on-quarter seasonally-adjusted annualised basis, the "other services industries" shrank by 17.3 per cent, a pullback from the 3.1 per cent expansion in the preceding quarter.

¹ Other eating places include cafes, coffee houses, food courts, food kiosks, pubs and canteens.

² The "others" segment of the business services sector consists of (i) rental & leasing, (ii) other professional, scientific & technical services, and (iii) other administrative & support services.

Economic Outlook for 2020

In March, MTI highlighted that the escalation of the COVID-19 outbreak worldwide had led to a significant deterioration in the external economic environment. Since then, the disruptions to economic activity in major economies around the world have been more severe than expected. In its April review, the IMF projected that the global economy would contract by 3.0 per cent in 2020, with most of the major advanced and emerging economies expected to see full-year recessions.

In the US, GDP is forecast to decline in 2020 on the back of sustained weakness in personal consumption expenditure due to the COVID-19 outbreak. The curtailment of economic activity from “stay-at-home” orders issued by state governments has triggered large-scale job losses and weakened consumer spending. Even as the states begin to re-open, consumer spending is unlikely to recover strongly in the near-term given heightened uncertainties in the labour market. Similarly, the Eurozone economy is expected to be in recession this year, as measures implemented by the Eurozone countries to contain the spread of COVID-19 have taken a heavy toll on economic activity and weakened labour market conditions.

In Asia, China’s economy is projected to slow sharply in 2020 as compared to 2019 due to the lockdowns and restrictions imposed to curb the spread of COVID-19. Private consumption growth is expected to remain weak as households cut back on spending due to uncertainty about the future and subsequent waves of infections, while exports growth is likely to be subdued because of sluggish global demand. Growth in the key ASEAN economies of Malaysia, Thailand and Indonesia is also expected to be weighed down by weak external demand and domestic consumption as a result of the COVID-19 outbreak.

There remain significant uncertainties in the global economy. First, there is a risk that subsequent waves of infections in major economies such as the US and Eurozone may further disrupt economic activity. In particular, if infections start to rise and strict measures such as lockdowns and movement restrictions are re-imposed, the downturn in these economies could be more severe and prolonged than expected. Second, a growing perception of diminished fiscal and monetary policy space in many major economies could damage confidence in authorities’ ability to respond to shocks, undermining risk appetite and driving further financial market volatility, with negative spillovers for the broader global economy.

Against this backdrop, the outlook for the Singapore economy has weakened further since March. First, outward-oriented sectors such as manufacturing, wholesale trade and transportation & storage will be adversely affected by the sharper-than-expected slowdown in many of Singapore’s key markets, as well as more prolonged supply chain disruptions. Second, the Circuit Breaker (CB) measures implemented to curb the spread of COVID-19 in Singapore, which include the closure of most workplace

premises, have further dampened domestic economic activity, along with domestic consumption. In particular, consumer-facing segments such as retail and food services have been negatively affected by the CB measures. Firms across most sectors, especially those that cannot operate fully from home, have also been working under reduced capacity as a result of the workplace closures and the fall in demand. Third, sectors like construction and marine & offshore engineering have been severely affected by manpower shortages due to the outbreak of infections among foreign workers, especially those living in foreign worker dormitories.

Nonetheless, there are pockets of resilience in the Singapore economy. Within the manufacturing sector, the biomedical manufacturing cluster is expected to continue to expand, supported by the production of pharmaceutical and biological products. Among the services sectors, the information & communications sector is also projected to grow given firms' resilient demand for IT and digital solutions.

In view of the deterioration in the external demand outlook for Singapore as well as the expected economic impact of the CB measures, the GDP growth forecast for Singapore for 2020 is downgraded to **"-7.0 to -4.0 per cent"**, from **"-4.0 to -1.0 per cent"**. Notwithstanding the downgrade, there continues to be a significant degree of uncertainty over the length and severity of the COVID-19 outbreak, as well as the trajectory of the economic recovery, in both the global and Singapore economies.

MINISTRY OF TRADE AND INDUSTRY
26 May 2020

ANNEX

SECTORAL GROWTH RATES

	1Q19	2Q19	3Q19	4Q19	2019	1Q20
	Year-on-Year % Change					
Total	1.0	0.2	0.7	1.0	0.7	-0.7
Goods Producing Industries	0.2	-1.9	-0.1	-1.3	-0.8	4.7
Manufacturing	0.0	-2.7	-0.7	-2.3	-1.4	6.6
Construction	1.4	2.3	3.1	4.3	2.8	-4.0
Services Producing Industries	1.0	1.1	0.8	1.5	1.1	-2.4
Wholesale & Retail Trade	-2.7	-3.6	-3.5	-1.9	-2.9	-5.8
Transportation & Storage	0.4	2.1	0.0	0.8	0.8	-8.1
Accommodation & Food Services	2.0	1.2	1.9	2.5	1.9	-23.8
Information & Communications	4.9	3.4	4.4	4.5	4.3	3.5
Finance & Insurance	3.1	5.1	4.1	4.0	4.1	8.0
Business Services	1.8	1.0	1.1	1.7	1.4	-3.3
Other Services Industries	2.1	2.4	2.4	3.3	2.6	-3.4
	Annualised Quarter-on-Quarter Growth % (SA)					
Total	2.3	-0.8	2.2	0.6	0.7	-4.7
Goods Producing Industries	-2.2	-2.9	3.9	-3.7	-0.8	24.0
Manufacturing	-3.6	-4.1	4.8	-5.9	-1.4	37.3
Construction	7.9	-0.3	3.5	5.3	2.8	-21.8
Services Producing Industries	1.9	1.2	1.1	2.2	1.1	-13.3
Wholesale & Retail Trade	-3.0	-2.0	-1.3	-0.6	-2.9	-18.1
Transportation & Storage	1.2	3.0	-3.1	2.0	0.8	-29.9
Accommodation & Food Services	-2.3	2.8	5.1	4.3	1.9	-69.9
Information & Communications	-5.3	2.8	10.8	8.9	4.3	-6.9
Finance & Insurance	0.8	13.8	-1.9	3.8	4.1	17.2
Business Services	5.2	-1.2	1.2	2.2	1.4	-15.0
Other Services Industries	8.9	-1.2	2.9	3.1	2.6	-17.3

OTHER ECONOMIC INDICATORS

	1Q19	2Q19	3Q19	4Q19	2019	1Q20
Retail Sales Index* (yoy, %)	-1.0	-4.6	-3.0	-5.0	-3.4	-9.7
Value Added Per Worker [^] (yoy, %)	-0.4	-1.3	-1.0	-0.7	-0.9	-2.1
Value Added Per Actual Hour Worked [^] (yoy, %)	-0.1	-3.1	-2.0	-2.2	-1.9	-4.7
Unemployment Rate, SA (%)	2.2	2.2	2.3	2.3	2.3	2.4
Changes in Employment ('000)	13.9	6.8	27.6	21.5	69.8	-19.5
Overall Unit Labour Cost (yoy, %)	2.5	3.3	3.6	2.1	2.8	1.5
Unit Business Cost of Manufacturing (yoy, %)	-3.4	-0.1	-4.6	-3.4	-3.0	-11.9
Consumer Price Index (yoy, %)	0.5	0.8	0.4	0.6	0.6	0.4
Fixed Asset Investments (\$ bil)	3.8	4.3	0.2	6.9	15.2	12.4
Total Merchandise Trade (yoy, %)	2.1	-2.2	-6.7	-5.3	-3.2	0.6
Merchandise Exports	0.0	-4.6	-7.3	-4.3	-4.2	-1.3
Domestic Exports	-6.5	-10.6	-13.1	-11.5	-10.5	-6.2
Oil	-6.5	-2.9	-19.7	-21.5	-12.9	-28.9
Non-Oil	-6.4	-14.7	-9.6	-5.7	-9.2	5.8
Re-exports	6.8	2.0	-1.7	2.8	2.3	3.2
Merchandise Imports	4.5	0.5	-5.9	-6.3	-2.1	2.6
Total Services Trade (yoy, %)	0.3	1.9	0.6	2.5	1.3	-3.5
Exports of Services	0.6	1.9	1.9	4.5	2.2	-2.9
Imports of Services	-0.1	1.9	-0.8	0.6	0.4	-4.2

* In Chained Volume Terms. [^] Based on GDP at market prices in chained (2015) dollars.