

MTI Narrows 2020 GDP Growth Forecast to “-7.0 to -5.0 Per Cent”

11 August 2020. The Ministry of Trade and Industry (MTI) today narrowed Singapore’s GDP growth forecast for 2020 to “-7.0 to -5.0 per cent”, from “-7.0 to -4.0 per cent”.

Economic Performance in Second Quarter 2020

The Singapore economy contracted by 13.2 per cent on a year-on-year basis in the second quarter, worsening from the 0.3 per cent contraction in the previous quarter. The fall in GDP was due to the Circuit Breaker (CB) measures implemented from 7 April to 1 June 2020 to slow the spread of COVID-19 in Singapore, as well as weak external demand amidst a global economic downturn caused by the COVID-19 pandemic. On a quarter-on-quarter seasonally-adjusted basis, the economy contracted by 13.1 per cent, sharper than the 0.8 per cent fall in the first quarter.

In terms of sectors, the manufacturing sector shrank by 0.7 per cent year-on-year, a reversal from the 7.9 per cent growth in the previous quarter. Manufacturing output was weighed down by output declines in the transport engineering, general manufacturing and chemicals clusters. By contrast, output in the biomedical manufacturing, electronics and precision engineering clusters rose. In particular, the electronics and precision engineering clusters were supported by better-than-expected demand for semiconductors from the 5G market, data centres and cloud services, and semiconductor equipment from leading foundries, respectively.

The construction sector contracted by 59.3 per cent year-on-year, deteriorating from the 1.2 per cent contraction in the previous quarter. This was because almost all construction activities stopped during the CB period. Construction firms were also affected by manpower disruptions arising from additional measures to curb the spread of the virus, including movement restrictions at foreign worker dormitories.

The wholesale & retail trade sector shrank by 8.2 per cent year-on-year, worsening from the 5.6 per cent decline in the first quarter, as both the wholesale trade and retail trade segments contracted. The wholesale trade segment was weighed down primarily by a contraction in the machinery, equipment & supplies and “others”¹ sub-segments. Meanwhile, the retail trade segment was adversely affected by weak sales as most retailers were prohibited from operating at their physical outlets between 7 April and 18 June.

The transportation & storage sector contracted by 39.2 per cent year-on-year, worse than the 7.7 per cent decline in the previous quarter. Within the sector, the

¹ The “others” sub-segment comprises a diverse range of products, including metals, timber & construction materials, household equipment & furniture, and food, beverages & tobacco, among others.

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, the water transport segment contracted amidst a fall in both total sea cargo volume handled and container throughput, while the land transport segment shrank as CB measures and work-from-home arrangements led to a sharp reduction in commuter volumes on public transport.

The accommodation & food services sector contracted by 41.4 per cent year-on-year, sharper than the 23.8 per cent decline in the preceding quarter. Within the sector, the accommodation segment shrank on the back of a plunge in international visitor arrivals arising from border controls and weak global travel demand. Meanwhile, the food & beverage segment contracted due to the prohibition of dining-in activities from 7 April to 18 June.

The information & communications sector recorded a mild contraction of 0.5 per cent year-on-year, a reversal from the 2.6 per cent growth in the previous quarter. Within the sector, the telecommunications segment shrank on account of weaker demand for roaming and prepaid services due to reduced overseas travel. By contrast, the IT & information services segment expanded because of healthy enterprise demand for IT solutions.

The finance & insurance sector expanded by 3.4 per cent year-on-year, moderating from the 8.3 per cent growth in the preceding quarter. Growth in the sector was underpinned by steady expansions in insurance and other auxiliary activities, with the latter supported in turn by an acceleration in the adoption of digital payments.

The business services sector shrank by 20.2 per cent year-on-year, worsening from the 3.4 per cent decline in the previous quarter. Within the sector, the real estate and “others”² segments contracted because of the workplace restrictions imposed during the CB period, while the professional services segment was adversely affected by weak demand as both domestic and regional business activities slowed.

The “other services industries” contracted by 17.8 per cent year-on-year, deteriorating from the 3.7 per cent contraction in the first quarter, largely due to the weak performance of the arts, entertainment & recreation (AER) and “others”³ segments. Both segments were negatively affected by the CB measures, which led to many firms in the segments being unable to operate at their physical premises. The AER segment was also weighed down by the fall in international visitor arrivals.

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.

³ The “others” segment of the other services industries consists of (i) membership organisations, (ii) repair of computers, personal and household goods and vehicles, and (iii) other personal service activities such as personal care services, wedding services and funeral services.

Economic Outlook for 2020

In May, MTI downgraded Singapore's GDP growth forecast for 2020 to “-7.0 to -4.0 per cent” due to the expected economic impact of the CB measures, and the sharp deterioration in the growth outlook of major economies that were grappling with the COVID-19 pandemic. Since then, Singapore's external demand outlook has weakened slightly. Many of Singapore's key final demand markets saw worse-than-projected economic disruptions in the second quarter, and are also expected to experience a more gradual pace of recovery in the second half of 2020 due to the threat of localised outbreaks and the continued need for restriction measures to contain such outbreaks as they occur.

In the US, GDP contracted sharply in the second quarter and the pace of recovery in the second half of 2020 is expected to be slower than previously forecast due to a resurgence of infections across the Southern and Western states, which has prompted a pause in, or rollback of, the reopening plans in some of these states. The rise in infections, and the step-up in public health measures in response, are expected to dampen consumer sentiments and weaken labour market conditions, which will in turn weigh on personal consumption expenditures. Similarly, the Eurozone economy saw a steep contraction in the second quarter, and economic recovery in the second half of 2020 is expected to be slower than previously projected. Domestic demand will likely remain subdued as elevated uncertainty surrounding the COVID-19 situation and the continued need for safe distancing measures are expected to pose a drag on consumer and business sentiments, and also weigh on the labour market.

In Asia, China's economy rebounded in the second quarter, following a decline in the first quarter, primarily supported by fixed asset investments. Investment growth is expected to continue to drive China's economic recovery in the second half of 2020, even though private consumption growth is likely to stay subdued because of continued safe distancing measures amidst fears of renewed COVID-19 outbreaks. Meanwhile, China's exports growth is expected to remain sluggish for the rest of the year due to weak global demand. Growth in the key ASEAN economies of Malaysia, Thailand and Indonesia in the second half of 2020 is likely to be slower than earlier anticipated, mainly due to the weaker-than-expected recovery of external demand.

Furthermore, there remain significant uncertainties in the global economy. First, a major resurgence of COVID-19 infections could lead to a significant tightening of public health measures or a re-imposition of nationwide lockdowns across the major advanced and emerging economies. This could result in an even sharper and more protracted period of economic slowdown in these economies. Second, the global economic downturn could increase financial system stresses, including a rise in corporate indebtedness, financial market dislocations and capital outflows from emerging market economies. These could in turn trigger negative feedback

loops and potentially intensify the global recession. Third, there are risks arising from geopolitical tensions and anti-globalisation sentiments, such as increased protectionism, which could result in further disruptions to global supply chains. The latter could in turn weigh on global trade and the global economic recovery.

Against this backdrop, the outlook for the Singapore economy has weakened slightly since May. First, the subdued external economic environment will continue to pose a drag on several of Singapore's outward-oriented sectors such as transportation & storage and wholesale trade. Second, due to the protracted COVID-19 situation worldwide, the reopening of international borders is expected to take place more gradually than earlier anticipated. This is likely to weigh on the outlook of sectors that are reliant on tourism (e.g., accommodation, tour operators and MICE organisers) and air travel (e.g., air transport and aerospace). Third, the resumption of activity for sectors that are reliant on foreign workers who reside in dormitories has been slower than expected due to the longer time taken to clear these workers for work, as well as the challenges faced by firms in meeting the safe management measures required at workplaces for a safe restart. In particular, the downturn in the construction and marine & offshore engineering sectors is projected to be deeper and more protracted than previously anticipated. A sharper slowdown in these sectors is also expected to have negative spillover effects on firms in supporting industries, such as professional services firms providing architectural & engineering services for construction projects.

Nonetheless, there are several areas of strength in the Singapore economy. In particular, the outlook for the electronics and precision engineering clusters has improved, as the stronger-than-expected demand for semiconductors and semiconductor equipment seen in the second quarter is expected to be sustained in the second half of 2020. The biomedical manufacturing cluster is also expected to continue to grow, supported by the production of pharmaceutical and biological products. Likewise, the finance & insurance and information & communications sectors are projected to expand this year. The former will be supported in part by the strong demand for digital payment processing services, while the latter will benefit from firms' continued demand for IT and digital solutions.

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 Singapore for 2020 is narrowed to **"-7.0 to -5.0 per cent"**, from **"-7.0 to -4.0 per cent"**. Notwithstanding the narrowing of the forecast range, there continues to be significant uncertainty over how the COVID-19 situation will evolve in the coming quarters, and correspondingly, the trajectory of the economic recovery in both the global and domestic economies.

MINISTRY OF TRADE AND INDUSTRY
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ANNEX

SECTORAL GROWTH RATES

	2Q19	3Q19	4Q19	2019	1Q20	2Q20
	Year-on-Year % Change					
Total	0.2	0.7	1.0	0.7	-0.3	-13.2
Goods Producing Industries	-1.9	-0.1	-1.3	-0.8	6.2	-9.2
Manufacturing	-2.7	-0.7	-2.3	-1.4	7.9	-0.7
Construction	2.3	3.1	4.3	2.8	-1.2	-59.3
Services Producing Industries	1.1	0.8	1.5	1.1	-2.3	-13.4
Wholesale & Retail Trade	-3.6	-3.5	-1.9	-2.9	-5.6	-8.2
Transportation & Storage	2.1	0.0	0.8	0.8	-7.7	-39.2
Accommodation & Food Services	1.2	1.9	2.5	1.9	-23.8	-41.4
Information & Communications	3.4	4.4	4.5	4.3	2.6	-0.5
Finance & Insurance	5.1	4.1	4.0	4.1	8.3	3.4
Business Services	1.0	1.1	1.7	1.4	-3.4	-20.2
Other Services Industries	2.4	2.4	3.3	2.6	-3.7	-17.8
	Annualised Quarter-on-Quarter Growth % (SA)					
Total	-0.8	2.2	0.6	0.7	-3.1	-42.9
Goods Producing Industries	-2.9	3.9	-3.7	-0.8	31.2	-48.1
Manufacturing	-4.1	4.8	-5.9	-1.4	44.2	-31.7
Construction	-0.3	3.5	5.3	2.8	-12.3	-97.1
Services Producing Industries	1.2	1.1	2.2	1.1	-13.0	-37.4
Wholesale & Retail Trade	-2.0	-1.3	-0.6	-2.9	-17.4	-12.5
Transportation & Storage	3.0	-3.1	2.0	0.8	-28.6	-80.7
Accommodation & Food Services	2.8	5.1	4.3	1.9	-70.0	-64.1
Information & Communications	2.8	10.8	8.9	4.3	-9.9	-9.0
Finance & Insurance	13.8	-1.9	3.8	4.1	18.6	-5.3
Business Services	-1.2	1.2	2.2	1.4	-15.4	-53.5
Other Services Industries	-1.2	2.9	3.1	2.6	-18.1	-47.5

OTHER ECONOMIC INDICATORS

	2Q19	3Q19	4Q19	2019	1Q20	2Q20
Retail Sales Index* (yoy, %)	-4.6	-3.0	-5.0	-3.4	-9.9	-41.0
Value Added Per Worker [^] (yoy, %)	-1.3	-1.0	-0.7	-0.9	-1.6	-11.6
Value Added Per Actual Hour Worked [^] (yoy, %)	-3.1	-2.0	-2.2	-1.9	-3.3	2.0
Unemployment Rate, SA (%)	2.2	2.3	2.3	2.3	2.4	2.9
Changes in Employment ('000)	6.8	27.6	21.5	69.8	-25.2	-131.5
Overall Unit Labour Cost (yoy, %)	3.3	3.6	2.1	2.8	1.2	-18.6
Unit Business Cost of Manufacturing (yoy, %)	-0.1	-4.6	-3.4	-3.0	-12.9	-22.1
Consumer Price Index (yoy, %)	0.8	0.4	0.6	0.6	0.4	-0.7
Fixed Asset Investments (\$ bil)	4.3	0.2	6.9	15.2	12.4	1.9
Total Merchandise Trade (yoy, %)	-2.2	-6.7	-5.3	-3.2	0.5	-15.2
Merchandise Exports	-4.6	-7.3	-4.3	-4.2	-1.4	-13.8
Domestic Exports	-10.6	-13.1	-11.5	-10.5	-6.4	-21.1
Oil	-2.9	-19.7	-21.5	-12.9	-28.9	-67.7
Non-Oil	-14.7	-9.6	-5.7	-9.2	5.4	6.5
Re-exports	2.0	-1.7	2.8	2.3	3.2	-6.8
Merchandise Imports	0.5	-5.9	-6.3	-2.1	2.6	-16.6
Total Services Trade (yoy, %)	1.9	0.6	2.5	1.3	-3.2	-22.2
Exports of Services	1.9	1.9	4.5	2.2	-3.0	-20.3
Imports of Services	1.9	-0.8	0.6	0.4	-3.3	-24.1

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