MINISTRY OF TRADE AND INDUSTRY SINGAPORE

PRESS RELEASE

MTI Downgrades 2020 GDP Growth Forecast to "-0.5 to 1.5 Per Cent"

17 February 2020. The Ministry of Trade and Industry (MTI) announced today that the Singapore economy grew by 0.7 per cent in 2019. For 2020, MTI has downgraded the GDP growth forecast to "-0.5 to 1.5 per cent", with growth expected to come in at around 0.5 per cent, the mid-point of the forecast range.

Economic Performance in Fourth Quarter 2019

The Singapore economy grew by 1.0 per cent on a year-on-year basis in the fourth quarter, faster than the 0.7 per cent growth in the third quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded at a slower pace of 0.6 per cent compared to the 2.2 per cent growth in the preceding quarter.

The manufacturing sector shrank by 2.3 per cent year-on-year, extending the 0.7 per cent contraction in the third quarter. The performance of the sector was weighed down by output declines in the electronics, chemicals, transport engineering and general manufacturing clusters, which more than offset output expansions in the biomedical manufacturing and precision engineering clusters. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector contracted by 5.9 per cent, reversing the 4.8 per cent expansion in the preceding quarter.

The construction sector grew by 4.3 per cent year-on-year, accelerating from the 3.1 per cent expansion in the third quarter. Growth was supported by both public sector and private sector construction works. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded by 5.3 per cent, faster than the 3.5 per cent growth in the previous quarter.

The wholesale & retail trade sector contracted by 1.9 per cent year-on-year, moderating from the 3.5 per cent decline in the third quarter. Within the sector, the wholesale trade segment shrank on account of contractions in the machinery, equipment & supplies and fuels & chemicals sub-segments. The retail trade segment also contracted due to a decline in both motor vehicular and non-motor vehicular retail sales volumes. On a quarter-on-quarter seasonally-adjusted annualised basis, the wholesale & retail trade sector shrank by 0.6 per cent, extending the 1.3 per cent contraction in the preceding quarter.

The transportation & storage sector grew by 0.8 per cent year-on-year, better than the flat growth recorded in the third quarter. Growth was largely driven by the air transport segment, which saw an increase in air passengers handled. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded by 2.0 per cent, a turnaround from the 3.1 per cent contraction in the previous quarter.

The accommodation & food services sector posted growth of 2.5 per cent on a year-on-year basis, faster than the 1.9 per cent achieved in the third quarter. Both the

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accommodation and food services segments expanded. The former grew in tandem with an increase in international visitor arrivals, while the latter expanded on account of higher sales volumes at restaurants, fast food outlets and other eating places[1]. On a quarter-on-quarter seasonally-adjusted annualised basis, the accommodation & food services sector grew by 4.3 per cent, easing from the 5.1 per cent expansion in the previous quarter.

Growth in the information & communications sector came in at 4.5 per cent year-on-year, slightly higher than the 4.4 per cent recorded in the third quarter. The sector's growth was primarily driven by the IT & information services segment, which continued to benefit from enterprise demand for IT solutions. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded by 8.9 per cent, following the 10.8 per cent growth in the preceding quarter.

The finance & insurance sector grew by 4.0 per cent year-on-year, extending the 4.1 per cent growth in the third quarter. Growth was led by activities auxiliary to financial services, which was in turn boosted by a strong expansion in credit card network activities. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector's growth came in at 3.8 per cent, a reversal from the 1.9 per cent contraction in the previous quarter.

Growth in the business services sector picked up to 1.7 per cent on a year-on-year basis, from the 1.1 per cent registered in the third quarter, supported by expansions in the professional services, real estate and "others"[2] segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew by 2.2 per cent, faster than the 1.2 growth in the previous quarter.

The "other services industries" expanded by 3.3 per cent year-on-year, higher than the 2.4 per cent growth in the third quarter. Growth was mainly driven by the education, health & social services segment. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew by 3.1 per cent, extending the 2.9 per cent growth in the preceding quarter.

<u>Overall Performance in 2019</u>

For the whole of 2019, the Singapore economy expanded by 0.7 per cent, slower than the 3.4 per cent growth recorded in 2018.

The manufacturing sector contracted by 1.4 per cent, a reversal from the 7.0 per cent growth in 2018. The sector's performance was weighed down by output

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

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

declines in the electronics, chemicals, precision engineering and transport engineering clusters.

The construction sector expanded by 2.8 per cent, a turnaround from the 3.5 per cent contraction in 2018, supported by both public sector and private sector construction works.

The services producing industries grew by 1.1 per cent, moderating from the 3.4 per cent growth in 2018. Growth was mainly driven by the finance & insurance, other services and business services sectors, which expanded by 4.1 per cent, 2.6 per cent and 1.4 per cent respectively.

Economic Outlook for 2020

In November 2019, MTI announced a GDP growth forecast of "0.5 to 2.5 per cent" for 2020. The forecast was premised on a modest pickup in global growth, along with a recovery in the global electronics cycle, in 2020. Since then, the outbreak of the coronavirus disease 2019 (COVID-19) has affected China, Singapore and many countries around the world.

In Asia, the COVID-19 outbreak is likely to dampen the growth prospects of China and other affected countries this year. In China, GDP growth in 2020 is expected to come in lower than earlier projected due to a pullback in household consumption as a result of the lockdowns and travel restrictions implemented in several major Chinese cities to contain the spread of the virus. Industrial production has also been disrupted because of work stoppages and delays arising from these containment measures. These developments in China will, in turn, have a knock-on impact on regional economies, including the ASEAN economies, through lower outbound tourism and other import demand from China, as well as disruptions to supply chains. Regional economies directly affected by the COVID-19 outbreak, such as Japan, Thailand and Malaysia, may also experience a drop in domestic consumer sentiments, and hence private consumption growth.

Elsewhere, the growth outlook for the US and Eurozone economies in 2020 remains broadly unchanged. In the US, GDP growth is expected to moderate this year, as the impact of the 2018 tax cuts wanes and trade policy uncertainty continues to weigh on private investment. Nevertheless, private consumption is likely to remain firm on the back of a healthy labour market and resilient wage growth. Growth in the Eurozone economy in 2020 is expected to be similar to last year's, as stable labour market conditions and favourable financing conditions are likely to lend support to domestic demand.

At the same time, uncertainties in the global economy remain. First, should the COVID-19 outbreak be more widespread, severe and protracted than anticipated, there could be a sharper pullback in global consumption, as well as more prolonged

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disruptions to global supply chains and production. A sharper-than-expected slowdown in the Chinese economy arising from the outbreak will also negatively affect global trade and economic growth. Second, notwithstanding the Phase 1 trade deal, US-China trade relations remain uncertain, especially as they turn to more contentious issues in the next phase of their negotiations. Third, geopolitical tensions in the Middle East could affect financial and commodity markets, which will have negative spillover effects on the region and Singapore.

Against this backdrop, the outlook for the Singapore economy has weakened since the last review in November. In particular, the COVID-19 outbreak is expected to affect the Singapore economy through several channels. First, outward-oriented sectors such as manufacturing and wholesale trade will be affected by the weaker growth outlook in several of Singapore's key final demand markets, including China. Firms in these sectors could also be affected by supply chain disruptions arising from prolonged factory closures and labour shortages in China as a result of the measures implemented by the Chinese government to contain the outbreak.

Second, the outbreak has led to a sharp fall in tourist arrivals, particularly from China, to Singapore. This has badly affected the tourism (e.g., hotels, travel agents and cruise operators) and transport (e.g., air transport) sectors. Third, domestic consumption in Singapore is likely to decline as locals cut back on shopping and dining-out activities. This will adversely affect firms in segments such as retail and food services.

Nonetheless, there are pockets of relative strength in the Singapore economy. These include the construction sector, which is projected to post steady growth given the rebound in construction demand since 2018. The information & communications sector is also expected to be resilient on account of sustained enterprise demand for IT solutions.

Taking into account the global and domestic economic environment, the GDP growth forecast for 2020 is downgraded to **"-0.5 to 1.5 per cent"**, **with growth expected to come in at around 0.5 per cent, the mid-point of the forecast range**. As the COVID-19 situation is still evolving, MTI will continue to monitor developments and their impact on the Singapore economy closely.

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17 February 2020

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ANNEX

SECTORAL GROWTH RATES

	4Q18	2018	1Q19	2Q19	3Q19	4Q19	2019
	Year-on-Year % Change						
Total	1.1	3.4	1.0	0.2	0.7	1.0	0.7
Goods Producing Industries	3.0	4.9	0.2	-1.9	-0.1	-1.3	-0.8
Manufacturing	4.6	7.0	0.0	-2.7	-0.7	-2.3	-1.4
Construction	-3.4	-3.5	1.4	2.3	3.1	4.3	2.8
Services Producing Industries	1.4	3.4	1.0	1.1	0.8	1.5	1.1
Wholesale & Retail Trade	-1.1	2.8	-2.7	-3.6	-3.5	-1.9	-2.9
Transportation & Storage	-1.2	0.0	0.4	2.1	0.0	0.8	0.8
Accommodation & Food Services	3.7	3.1	2.0	1.2	1.9	2.5	1.9
Information & Communications	9.1	6.5	4.9	3.4	4.4	4.5	4.3
Finance & Insurance	4.3	7.2	3.1	5.1	4.1	4.0	4.1
Business Services	0.9	2.4	1.8	1.0	1.1	1.7	1.4
Other Services Industries	0.9	2.2	2.1	2.4	2.4	3.3	2.6
	Annualised Quarter-on-Quarter Growth % (SA)						
Total	-1.3	3.4	2.3	-0.8	2.2	0.6	0.7
Goods Producing Industries	0.5	4.9	-2.2	-2.9	3.9	-3.7	-0.8
Manufacturing	-0.4	7.0	-3.6	-4.1	4.8	-5.9	-1.4
Construction	2.5	-3.5	7.9	-0.3	3.5	5.3	2.8
Services Producing Industries	-0.9	3.4	1.9	1.2	1.1	2.2	1.1
Wholesale & Retail Trade	-7.4	2.8	-3.0	-2.0	-1.3	-0.6	-2.9
Transportation & Storage	-1.0	0.0	1.2	3.0	-3.1	2.0	0.8
Accommodation & Food Services	2.2	3.1	-2.3	2.8	5.1	4.3	1.9
Information & Communications	9.3	6.5	-5.3	2.8	10.8	8.9	4.3
Finance & Insurance	4.5	7.2	0.8	13.8	-1.9	3.8	4.1
Business Services	-0.4	2.4	5.2	-1.2	1.2	2.2	1.4
Other Services Industries	-0.5	2.2	8.9	-1.2	2.9	3.1	2.6

OTHER ECONOMIC INDICATORS

	4Q18	2018	1Q19	2Q19	3Q19	4Q19	2019
Retail Sales Index* (yoy, %)	-2.3	-1.2	-0.5	-4.5	-2.8	-4.8	-3.2
Value Added Per Worker^ (yoy, %)	-0.1	2.7	-0.4	-1.2	-0.9	-0.6	-0.8
Value Added Per Actual Hour Worked^ (yoy, %)	0.6	3.9	-0.1	-3.1	-0.9	-1.6	-1.5
Unemployment Rate, SA (%)	2.2	2.1	2.2	2.2	2.3	2.3	2.3
Changes in Employment ('000)	15.9	45.3	13.4	5.5	26.0	18.3	63.2
Overall Unit Labour Cost (yoy, %)	1.8	0.3	2.5	3.3	3.6	2.1	2.8
Unit Business Cost of Manufacturing (yoy, %)	-7.4	-7.0	-3.4	-0.1	-4.6	-3.4	-3.0
Consumer Price Index (yoy, %)	0.5	0.4	0.5	0.7	0.4	0.6	0.6
Fixed Asset Investments ($ bil)	4.1	10.9	3.8	4.3	0.2	6.9	15.2
Total Merchandise Trade (yoy, %)	9.2	9.2	2.1	-2.2	-6.7	-5.3	-3.2
Merchandise Exports	7.2	7.9	0.0	-4.6	-7.3	-4.3	-4.2
Domestic Exports	3.4	8.4	-6.5	-10.6	-13.1	-11.5	-10.5
Oil	12.1	17.1	-6.5	-2.9	-19.7	-21.5	-12.9
Non-Oil	-1.1	4.2	-6.4	-14.7	-9.6	-5.7	-9.2
Re-exports	11.2	7.4	6.8	2.0	-1.7	2.8	2.3
Merchandise Imports	11.5	10.6	4.5	0.5	-5.9	-6.3	-2.1
Total Services Trade (yoy, %)	10.4	12.5	0.3	1.9	0.6	2.5	1.3
Exports of Services	13.2	16.6	0.6	1.9	1.9	4.5	2.2
Imports of Services	7.8	8.7	-0.1	1.9	-0.8	0.6	0.4

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

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