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## Singapore: Better-than-Expected 2Q GDP Lifted by Manufacturing and Services

- Singapore's GDP grew at a better-than-expected 20.7% q/q saar in the 2Q09, compared to 20.4% in the advance estimates, boosted by pharmaceutical production and financial services.
- On a y/y basis, the economy shrank by 3.5% y/y, also surpassing slightly the advance estimate of -3.7% y/y.
- Although external conditions have picked up significantly, there is scope for further downside, as the traditionally volatile pharmaceutical segment might not see growth rates sustained. We are keeping our full year forecast of -5%.
- MTI is maintaining its forecast for full year GDP at -4% to -6%.

Singapore's GDP grew at a better-than-expected 20.7% q/q saar in the 2Q09, compared to 20.4% in the advance estimates. On a y/y basis, the economy shrank by 3.5% y/y, also surpassing slightly the advance estimate of -3.7% y/y. The upside came from the services sector, with a contraction of 4.8% y/y, rather than the -5.1% in the advance estimates. The decline in the manufacturing sector was more pronounced however, with -2.4%, compared to -1.5% in the advance estimates, due to lower-than-expected pharmaceutical production in June. Construction sector growth was a tad better at 18.6% compared to 18.3% in the advance estimates. On an annualised q/q basis, all sectors, except for hotels and restaurants have started to turn in growth, with manufacturing notching up the highest growth rates of 49.5%, on the back of robust pharmaceutical production. Financial services also surged 22.8%, as a rebound in the stock and property markets buoyed the segment during the 2Q. MTI is maintaining its forecast for full year GDP at -4% to -6%.

Although external conditions have picked up significantly, there is scope for further downside, as the traditionally volatile pharmaceutical segment might not see growth rates sustained. The improvement in manufacturing has also been attributed to inventory restocking in the electronics sector, and how long this will last remains to be seen. Economic indicators such as the non-oil domestic exports (NODX) and industrial production, although somewhat stabilized, have yet to show conclusively a recovery. NODX still continued to shrink at a double digit pace of 14.3% in the 2Q, although better than the -25.6% in the 1Q. External demand from the biggest export markets such as the US and Europe has also not returned. We are keeping our full year forecast of -5%.

The services sector has been largely boosted by financial services, with stock markets rallying strongly in the 2Q, and property sales staging a turnaround. Stock market turnover volumes rebounded nearly 70 per cent in the second quarter compared to the same period a year ago. This led to a q/q saar growth rate of 22.8%, compared to 10.1% in the 1Q. On year, the sector contracted by a smaller margin of 4.5% compared to -7.7% in 1Q. The sustainability of the stock market rally, though, has been questioned, and a retreat in the stock market in the latter half of this year might drag the financial services segment down. The hotels & restaurants segment was the only one which showed a decline on a q/q saar basis of -2%, in line with visitor arrivals still sagging in 2Q.

The MTI has started to sound slightly more upbeat in its reading of the economic outlook. It said economic indicators in the US such as the ISM PMI and Composite Leading Indicators have improved, and the housing market shows signs of bottoming out. It noted that Singapore businesses also think the outlook is less bleak. But it cautioned that

“there have been few signs of a decisive turnaround in final demand in Singapore’s key export markets”, adding that production and consumption in US and Europe remain weak, with unemployment still high. “Without a turnaround in these demand-led indicators, any economic recovery in the second half of the year will probably be sluggish and modest,” said the MTI.

2Q GDP Improves Slightly from Advance Estimates, q/q saar Figures Mostly Positive								
	2008	2Q08	3Q08	4Q08	1Q09	2Q09	1Q09	2Q09
	y/y% change						q/q saar	
Real GDP	1.1	2.5	0.0	-4.2	-9.5	-3.5	-12.2	20.7
Sectoral Breakdown								
Goods-Producing Industries	-1.0	-2.0	-6.2	-6.5	-17.4	0.5	-14.5	44.2
Manufacturing	-4.1	-5.6	-11.0	-10.7	-24.1	-2.4	-18.5	49.5
Construction	20.3	23.7	26.0	18.5	24.4	18.6	9.6	32.7
Services-Producing Industries	4.7	7.5	5.5	-1.3	-5.1	-4.8	-9.8	8.7
Wholesale/Retail Trade	2.6	6.0	4.5	-5.3	-14.8	-13.8	-29.3	6.9
Transport & Communications	3.1	5.8	3.8	-2.4	-9.7	-10.3	-23.5	1.8
Hotels/Restaurants	1.2	2.0	0.0	-0.1	-5.6	-6.2	-21.2	-2.0
Information & Communications	7.2	8.4	7.7	5.4	1.9	0.3	-7.5	4.1
Financial Services	5.5	11.2	5.6	-8.1	-7.7	-4.5	10.1	22.8
Business Services	7.4	7.7	8.2	5.2	3.8	2.7	-1.9	5.6
Source: MTI								

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