

# Country Analyst

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## Singapore: Out of "Technical Recession". First Q/Q Growth After 4 Consecutive Quarters of Contraction

- Advance estimates for 2Q09 at +20.4% q/q saar and -3.7% y/y
- Significant improvement from 1Q's revised -9.6%, largely due to healthier pharmaceutical production
- Manufacturing appears to have bounced back sharply, services sector's contraction steady
- We are revising our full year contraction for the economy to -5% from -7.5%. MTI has revised upwards the official growth forecast to between -4% and -6%, from the previous -6% to -9%
- But global restocking process might not be sustainable, and final demand from key export countries have not yet returned

At +20.4% q/q saar and -3.7% y/y, advance estimates for Singapore's 2Q GDP came in better than our expectations of +13.4% q/q saar and -5.4% y/y, on robust manufacturing data. The q/q saar growth is the first expansion since 1Q 2008, and ends Singapore's technical recession. 2Q09's q/q saar growth is also the strongest since the 3Q of 2003, post-SARS. The numbers have improved significantly from 1Q09's revised -9.6%, largely due to healthier pharmaceutical production, which contributed to a lift in manufacturing numbers. Financial services also kept the services sector buoyed, with the contraction in the sector maintained at -5.1% y/y in 2Q, from a revised -5.1% y/y in the 1Q. Construction slowed to a growth rate of 18.3% from 24.4% in the previous quarter.

Manufacturing appears to have bounced back sharply, from a weak -24.3% (revised) in 1Q, to -1.5% in 2Q. Pharmaceuticals were the main drivers of this quarter's rebound, growing 78.7% y/y in Apr, and 138.6% y/y in May. This led to a surge in manufacturing to +0.4% y/y and +2% y/y in Apr and May, respectively. Excluding biomedical production (which constitutes 22% of overall output), would show a more even contraction in the manufacturing sector, of -15.4% y/y in Apr and -17.7% y/y in May. The 2Q manufacturing data implies that industrial production numbers might contract 6.3% y/y in Jun. Services maintained its contraction pace at -5.1%, declining at a similar rate to 1Q's -5.1%. Improving sentiment in the stock market and capital markets led to a smaller contraction in the financial services segment. But the wholesale and retail, as well as hotels and restaurant segments continued to sag.

With the narrower contraction in the 2Q GDP, we are revising our full year GDP forecast to -5% from -7.5%. MTI has revised upwards the official growth projection to between -4% and -6%, from the previous -6% to -9% just 3 months ago. We are maintaining caution despite this upturn, as it does not signal a v-shaped recovery. Pharmaceutical production, which has largely boosted this quarter's GDP, is volatile and prone to swings. The restocking process which is benefiting Singapore's manufacturing sector might not be sustainable, and we would thus be hesitant to conclude that the economy has recovered, as final demand from key export countries like US and Europe is still weak. Indeed, Singapore's non-oil domestic exports (NODX) although showing steady improvements in declines, are still low, at levels seen during year 2003, and nowhere near the levels seen from 2005-2008. MTI also warned in the release of the 2Q GDP flash estimates that rising unemployment and lower household spending in US and Europe reflect continued weaknesses in the global economy.

2Q GDP Boosted by Pharmaceutical Output						
	2Q08	3Q08	4Q08	2008	1Q09	2Q09*
Real GDP	2.5	0.0	-4.2	1.1	-9.6	-3.7
Goods-Producing Industries						
Manufacturing	-5.6	-11.0	-10.7	-4.1	-24.3	-1.5
Construction	23.7	26.0	18.5	20.3	24.4	18.3
Services-Producing Industries	7.5	5.5	-1.3	4.7	-5.1	-5.1
Source: MTI (* Advance estimates)						

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