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Thursday, 19 November 2009

Singapore: 3Q Final GDP Revised Downwards on Lower Manufacturing Growth

- Singapore's 3Q GDP was revised slightly downwards to +14.2% q/q saar and +0.6% y/y (adv est: +14.9% q/q saar and +0.8% y/y), on weaker pharmaceutical production, dragging manufacturing growth.
- We are revising our full year forecast upwards to -2.0% from -3.3%, on the back of the growth momentum seen in the 3Q, and carrying onto the 4Q. With the low comparison base from last year, we are now expecting 4Q GDP to come in at around +4.9% y/y, implying a flat q/q saar growth rate.
- MTI has projected 2010 GDP to grow between 3.0-5.0%, and maintained its 2009 growth forecast at -2.5 to -2.0% for this year.
- We are maintaining our forecast for 4.5% growth for 2010.
- The official forecast for CPI inflation in 2010 has been revised upwards to 2.5-3.5% from 1.0-2.0%, due to a revision in the annual values of HDB properties by the IRAS. MAS' underlying inflation forecast, excluding accommodation and private road transport still remains unchanged at 1.0-2.0%.

Singapore's 3Q GDP was revised slightly downwards to +14.2% q/q saar and +0.6% y/y (adv est: +14.9% q/q saar and +0.8% y/y), and was largely in line with our expectations (+14.3% q/q saar, +0.3% y/y), and consensus (+14.0% q/q saar, +0.5% y/y). The q/q saar growth follows 2Q's strong 21.7% q/q saar, and on a y/y basis, 3Q growth of +0.6% is the first expansion after 3 straight quarters of contraction. The marginal downward revision in 3Q data however, came from weaker pharmaceutical production, dragging manufacturing growth down to 6.6% y/y from 8.3% in the advance estimates. The services and construction sectors, however, turned in a slightly better performance compared to the advance estimates. Services declined 2.2% y/y, compared to -2.4% y/y, while construction expanded 12.8% from 12.4%. MTI has projected 2010 GDP to grow between 3.0-5.0%, and maintained its 2009 growth forecast at -2.5 to -2.0% for this year.

Looking at the sectors, the growth pace in manufacturing slowed in the 3Q, with q/q saar growth at 26.6% compared to 34.9% in the advance estimates and 58.5% in the 2Q. This was mainly due to the wane in pharmaceutical production, where output contracted 15.2% y/y in Sep, compared to the 177.0% and 107.0% on-year growth rates in Jul and Aug, respectively. We think it will be unlikely for pharma production to keep up its robust growth pace for the rest of the year, which will mean slower manufacturing growth. The latest Oct PMI figures pulled back from Sep's reading, to 50.2, from 50.6 in Sep. The electronics sector also does not seem to be pulling its weight as it has not shown any decisive recovery, with electronics PMI even dipping into negative territory at 49.6 in Oct vs 52.4 in Sep. The steeper-than-expected NODX contraction for Oct also sets a weaker tone for 4Q. But even then, relatively strong numbers are expected for the manufacturing sector in the 4Q due to the low comparison base from last year. The growth in the construction sector has also slipped in the 3Q, at +0.9% q/q saar, compared to +32.7% q/q saar, and construction may not grow as quickly in the 4Q, as projects near completion.

On the services side, the final figure was revised upwards to 10.8% q/q saar from the advance estimates of 9.5%. Improvement continues to be made across majority of the segments, especially as tourism-driven services such as hotels, F&B and retail sectors recover, with tourist arrivals growing for the first time in Sep after 15 consecutive months of declines. But financial services, which performed strongly in the 2Q at 22.5% q/q saar, showed a considerably slower growth pace of 3.9% in the 3Q probably in tandem with some pullback in the domestic stock market volume and loans growth slipping. Looking ahead however, due to the better sentiment, services should turn in a positive y/y growth in 4Q, after 4 straight prior quarters of decline.

In the release, the MTI mostly reiterated its stand on how a recovery in the advanced economies remain fragile and “the return towards pre-crisis levels of output is likely to be gradual”. The MTI added that, “A sluggish recovery in final demand in the advanced economies will moderate Singapore’s growth prospects in 2010.” We are projecting some softness next year, with q/q saar declines in some quarters. We have maintained our forecast for 4.5% growth for 2010.

For 2009, we are revising our full year forecast upwards to -2.0% from -3.3%, on the back of the growth momentum seen in the 3Q, and carrying onto the 4Q. With the low comparison base from last year, we are now expecting 4Q GDP to come in at +4.9% y/y, implying a flat q/q saar growth rate. At the weaker end of the official forecast, for the economy to reach -2.5% y/y for the full year, 4Q would have to see a q/q saar contraction of around -7.0% which is not entirely impossible, given that pharma production looks to be declining and electronics not picking up. But the seemingly healthy numbers due out in later quarters belie the softness in exports. NODX to key markets such as the US and EU remain wobbly, as household demand remains tepid and unemployment high. The official forecast for CPI inflation in 2010 has been revised upwards to 2.5-3.5% from 1.0-2.0%, due to a revision in the annual values of HDB properties by the IRAS. MAS’ underlying inflation forecast, excluding accommodation and private road transport still remains unchanged at 1.0-2.0%. We are maintaining our forecast of 3.5% inflation for next year.

3Q GDP Revised Downwards Slightly From Advance Estimates									
	2008	3Q08	4Q08	1Q09	2Q09	3Q09	1Q09	2Q09	3Q09
	y/y% change						q/q saar		
Real GDP	1.1	0.0	-4.2	-9.5	-3.3	0.6	-12.2	21.7	14.2
<u>Sectoral Breakdown</u>									
Goods-Producing Industries	-1.0	-6.2	-6.5	-17.4	1.6	7.1	-14.5	50.5	21.4
Manufacturing	-4.1	-11.0	-10.7	-24.2	-1.1	6.6	-18.9	58.5	26.6
Construction	20.3	26.0	18.5	24.4	18.6	12.8	9.6	32.7	0.9
Services-Producing Industries	4.7	5.5	-1.3	-5.1	-4.9	-2.2	-9.7	7.9	10.8
Wholesale/Retail Trade	2.6	4.5	-5.3	-14.8	-13.8	-8.8	-29.3	7.0	25.7
Transport & Storage	3.1	3.8	-2.4	-9.7	-10.7	-7.5	-23.4	-0.3	11.9
Hotels/Restaurants	1.2	0.0	-0.1	-5.5	-5.9	-2.5	-20.9	-1.1	14.5
Information & Communications	7.2	7.7	5.4	1.7	0.3	0.1	-8.1	5.1	4.6
Financial Services	5.5	5.6	-8.1	-7.6	-4.5	-0.2	10.3	22.5	3.9
Business Services	7.4	8.2	5.2	3.8	2.8	2.6	-1.8	5.9	7.6
Source: MTI									

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