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Singapore: Sharper Contraction in 2009

- Singapore's full year 2008 GDP growth was again revised down to 1.2%, from 1.5% in the advance estimates.
- The MTI has also revised down its 2009 GDP estimate to -5% to -2%, from a previous range of -2% to +1%, citing a faster decline in the global economy and a greater resultant impact on Singapore's key sectors.
- We forecast this year's GDP growth could likely come in at -4%.
- Manufacturing and services sector to deteriorate further.
- No change to MAS' monetary policy of zero per cent appreciation.
- Conservatively, we are expecting net job losses of 50,000-100,000 this year compared with around 200,000 jobs created in the first three quarters of 2008. This is still significantly larger than the average 23,000 jobs lost during the downturn in 1998 and 2001 respectively and could be partly due to the hefty 795,800 employment creation since year 2004.
- We are set to see a period of mild deflation this year with MTI forecasting inflation at -1 to 0%, from a previous estimate of +1 to +2%, on a correction of commodity prices and the deceleration of economic activity.

Singapore's full year 2008 GDP growth was again revised down to 1.2%, from 1.5% in the advance estimates. This discrepancy from the advance estimates issued just earlier this month is rather unusual, and highlights the rapid downturn in the economy. With 4Q contraction deepening to 3.7% y/y, this is the worst quarter in 7 years, and 2008's full year growth is the slowest since 2001.

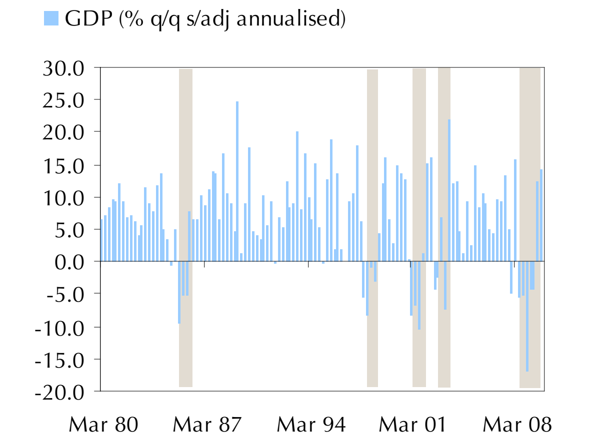
Growth in the manufacturing and services industry worsened, compared to data in the advance estimates, with manufacturing coming in at -10.7% in 4Q08, compared to -9% in the advance estimates, and the services sector which contracted 0.1% versus +1.1% in the advance estimate. As a result, 4Q08 contraction was steeper at 3.7% y/y, compared to -2.6% in the advance estimates. On an annualised q/q basis, GDP shrank 16.9% in 4Q08. The MTI has also revised down its 2009 GDP estimate substantially, with growth likely to come in at -5% to -2%, from a previous range of -2% to +1%, citing a faster decline in the global economy and a greater resultant impact on Singapore's key sectors.

Growth Under Significant Pressure

We expect the Singapore economy to sustain q/q contractions for at least five consecutive quarters (from 2Q08). This will be the longest downturn based on available data from 1975, and that means we still have at least two more quarters of contraction ahead. During the Asian Financial Crisis a decade ago, the Singapore economy fell for four straight quarters on a m/m basis, and in 1985 and 2001, GDP contracted for three straight quarters. On a y/y basis, we expect the contraction to deepen to around 7.9% y/y in 1H09 before we can start to see some upturn in the later part of the year. But even that is contingent on some pick-up in global demand.

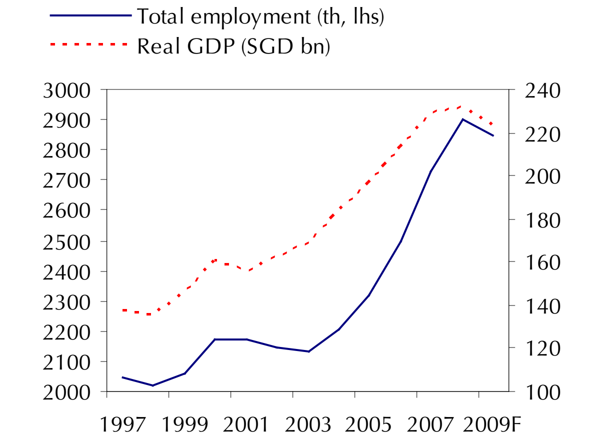
The road ahead remains difficult and the pain will likely drag on beyond 2009 until confidence returns and corporates are ready to hire again, as employment growth usually lags the recovery in the GDP. We are expecting 2009 full-year contraction of 4.0%, surpassing the crisis years of 1998 (-1.4%) and 2001 (-2.4%). We expect fixed investment to be the worst hit this year, contributing more than -4ppt to the decline in GDP. Despite the sharp fall in exports, net exports will be salvaged by a pullback in imports as production slows, and domestic consumption will also be tempered by job losses and lower wages. However, the correlation between the resident unemployment rate and private consumption is around 0.29 between 1992-1998, which suggests that the amount of consumption cutback might not be huge, despite the potentially large job losses this year. Nonetheless, we still expect private consumption to deduct around 1ppt from this year's growth rate.

The Growth Contractions will Drag for at Least Five Consecutive Quarters.



Source: CEIC, UOB

Bulk of Last Year's Jobs Creation at Risk as GDP Falls Below 2007 Level



Source: CEIC, UOB

Manufacturing Sector Continuing to Deteriorate

The manufacturing sector extended its declines, contributing to the slump in 4Q08, with weakness coming from electronic and non-electronic manufacturing. 4Q08 showed a contraction of 10.7% y/y in manufacturing, from -10.9% in 3Q08, led by a fall in electronics, precision engineering and chemicals production, as external demand dropped off. For Dec, manufacturing shrank by 13.5%, bringing full year contraction to 4.1%.

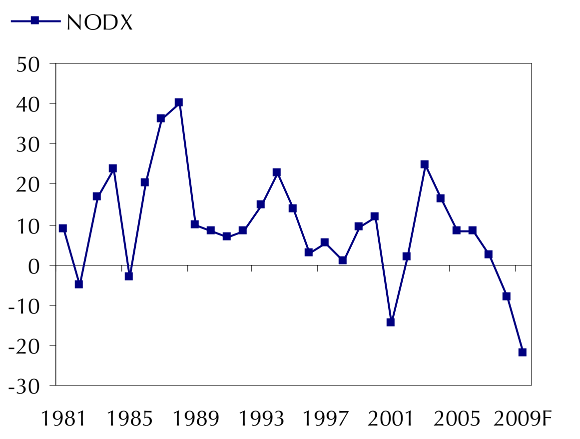
According to the latest industrial production numbers for Dec, electronics manufacturing continued its steep decline, contracting 35.1% y/y in Dec from -19.9% in Nov. Biomedical manufacturing picked up in Dec, expanding 24.5% y/y from 18.4% in Nov. But biomedical production is often volatile and driven by its sectoral dynamics and not by economic cycles. For the year ahead, we expect to see continued declines in both electronic and non-electronic manufacturing as the pace in exports and trade has braked sharply.

Export-Oriented Singapore Suffers from Trade Slowdown

Singapore's growth outlook has deteriorated rapidly in recent months in line with other parts of Asia. By November, the real sector impact of the recession in US and EU had already become apparent on Asia. Exports contracted in all the Asian countries in the month and are expected to worsen further in the months ahead, affected by falling demand and financing difficulties. Because of its high dependence on exports, Singapore's economy will also suffer a disproportionate hit from the fallout in the global financial crisis. Of the nine Asian economies that we cover, Singapore has one of the highest export (NODX) to GDP ratio of 70.6%.

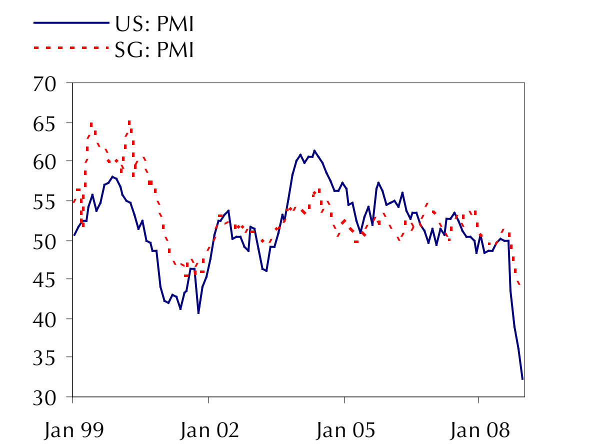
In terms of the export numbers, Singapore was the worst performing among the Asian economies as NODX was already contracting in 2Q08, well ahead of the Asian pack due to the change in product mix in the pharmaceutical manufacturing as well as some restructuring in the electronics industry which saw some mobile phone companies shifting out of the country. We expect monthly NODX to contract through nearly the whole of 2009, capping a consecutive 19 months of y/y decline. This will be more severe than the 13 straight months of contraction in 2001-2002 and 6 straight months of negative growth following the Asian Financial Crisis, between 1998-1999. NODX level has fallen back to early-2004 levels and we are expecting it to contract 22% to 2003 level this year following the 7.9% fall in 2008.

NODX Set to Contract by Record Pace this Year



Source: CEIC, UOB

Singapore's PMI Has Fallen to Lowest Level on Record but External Environment Suggests that there Might be more Downside Ahead



Source: CEIC, UOB

Exports Plunged in November 2008								
y/y% change	CN	TW	TH	HK	MY	ID	KR	SG: NODX
Jan 08	26.6	11.9	36.3	15.8	10.4	34.5	14.9	2.8
Feb 08	6.4	18.6	18.8	7.6	14.5	28.7	18.9	6.3
Mar 08	30.6	23.1	16.5	7.6	5.5	32.5	18.5	-5.9
Apr 08	21.8	15.0	30.1	14.5	20.9	22.5	26.4	5.3
May 08	28.1	20.9	24.7	10.3	22.9	31.6	26.9	-10.5
Jun 08	17.7	21.3	30.5	-0.6	18.6	34.1	16.4	-10.6
Jul 08	26.9	8.0	47.4	11.1	25.3	24.8	35.6	-5.8
Aug 08	21.1	18.0	17.7	1.9	10.7	29.9	18.1	-13.9
Sep 08	21.3	-1.7	22.7	3.6	15.0	30.2	27.6	-5.8
Oct 08	19.1	-8.1	5.2	9.4	-2.6	4.9	7.8	-15.5
Nov 08	-2.2	-23.9	-18.6	-5.3	-4.9	-2.4	-19.5	-17.5
Dec 08	-2.9	-42.2	-	-	-	-	-17.9	-20.8

Source: CEIC, Note: NODX is used for Singapore

2007 Exports (% of GDP)	
Malaysia	94.3
Singapore	70.6
Taiwan	61.1
Thailand	57.7
South Korea	38.3
China	37.1
Philippines	34.9
Indonesia	26.4
Hong Kong	6.8

Source: CEIC
Note: NODX for SIngapore and domestic exports for Hong Kong

Services Sector Takes a Hit

Services, which accounts for 65% of GDP is slowing markedly. Growth in the services industries have declined rapidly in the 4Q08. Last year and even the first half of this year saw pretty strong expansion in services of 8% and 7%, but this quickly plunged to -0.1% in 4Q, dragged down by wholesale & retail trade, transport & storage, and financial services sectors. These sectors registered declines in 4Q08 of -5.4%, -2.1% and -1.8% y/y, following upswings in the previous quarters. Financial services, after seeing a robust 16.9% growth in 2007, moderated to 7.1% in 2008, directly affected by the global financial crisis. Significant decline in fund management and stock broking activities in the second half of 2008, as well as slowing pace of the Asian Dollar Market (ADM) and trading in the foreign exchange market led the decline in financial services. Services will continue to weaken as export-dependent sectors like wholesale and retail trade, transport & storage, take a hit from the collapse in trade. Hotels and restaurants will be adversely impacted by the fall in tourist arrivals and a pullback in consumer spending.

Construction Still Expanding

The only bright spot seems to come from construction which is continuing to expand at a double-digit although, moderating pace. Growth in 4Q08 came in at 14.1% y/y, compared to 20.3% in the prior quarter, bringing about a full year improvement to 17.9% in 2008. This compares with 20.3% in 2007. The healthy level of construction output in 2008 was sustained by robust activity in the residential, industrial and civil engineering building segments. Construction demand was also supported by an upswing in the number of public housing and infrastructural projects committed. We see construction continuing its growth pace, albeit at a slower rate of around 12%, buoyed by government spending on infrastructure works.

Monetary Policy Remains Unchanged

Despite the dismal economic data, and poor growth prospects, MAS did not make any changes to its monetary policy yesterday, as many had expected. They said yesterday that its monetary policy stance for zero per cent appreciation in the SGD remains intact and there's no reason for a persistent weakening in the SGD. Our SGD NEER model shows that the SGD is not breaching the policy band or even trading consistently in the lower half of the policy band to warrant a downward recentre-ing of the mid-point. If there is any monetary policy to be announced, MAS will probably stick to its regular scheduled meeting in April this year.

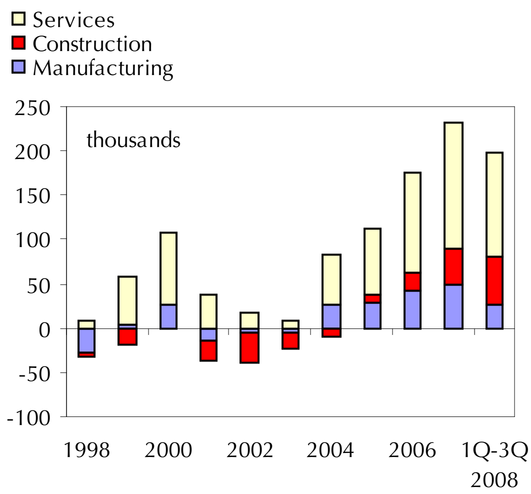
Jobs Market Outlook Should Weaken Further as Downturn Steepens

With GDP expected to fall below the equivalent of 2007's level, the bulk of employment creation last year could be at risk. However, flexible work arrangements such as shorter work week and contract work as well as pay cut could go some way in helping reduce redundancy and save jobs. Conservatively, we are expecting net job losses of 50,000-100,000 this year compared with around 200,000 jobs created in the first three quarters of 2008. This is still significantly larger than the average 23,000 jobs lost during the downturn in 1998 and 2001 respectively and could be partly due to the hefty 795,800 employment creation since year 2004. Besides the private sector, potential avenues for employment include the government agencies and the two integrated resorts. The government has already announced plans to recruit more than 12,000 additional manpower for the Home Affairs, Education, Health and Defence ministries this year which will help to replace some job losses and absorb the 30,000 new job entrants every year.

The large number of foreign workers in Singapore complicates the job of forecasting the unemployment rate since returned foreign workers will not be included in the labour force tabulation, thereby will not raise the overall unemployment rate here. Indeed, the resident unemployment rate might be of greater interest now. Based on the Manpower Ministry's report, foreigners formed one-third of the labour force in Singapore at 900,800 end-2007. And assuming that half of the potential 100,000 job losses are from the residents, the seasonally adjusted resident unemployment rate in Singapore could rise to 6% this year (from our estimate of 3.6% end-2008) compared with 5.1% in 2001 and 4.6% in 1998.

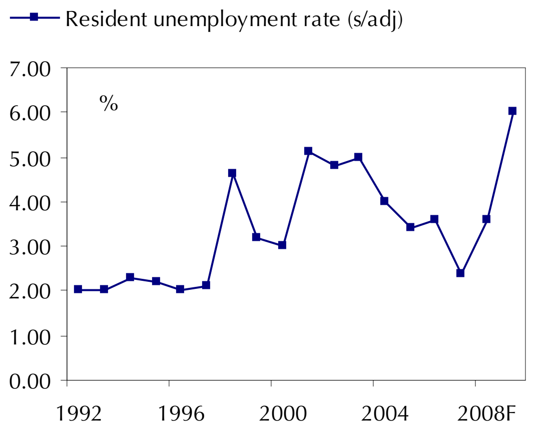
The manufacturing jobs remain more vulnerable than service sector jobs in the current downturn. Since 2005, the total number of retrenchments in the manufacturing sector has consistently outpaced that in the services sector. This was led by ongoing restructuring in the manufacturing sector as investments were targeted at less labour intensive segments such as the pharmaceuticals and lower value-added production was shifting to low-cost centres overseas. Estimates were putting the retrenchment in electronics industry at more than 2,000 in 1Q09 compared with 2,274 in the first three quarters of 2008 as businesses shed headcounts. As a matter of fact, it is easier for the government to replace jobs in services rather than the manufacturing sector. Overall, we estimate that close to 70% of the retrenchments will come from the manufacturing sector this year, compared with 68.6% in 2007.

Significant Employment Creation over the Last Five Years Increase risk of Larger Job Losses



Source: CEIC, UOB

Resident Unemployment Rate Could Rise to 6.0% this Year



Source: CEIC, UOB

Growth Deteriorating Rapidly								
	2007	2008	1Q08	2Q08	3Q08	4Q08	3Q08	4Q08
	y/y% change						s/adj annualized q/q%	
Real GDP	**7.7**	**1.2**	**6.9**	**2.2**	**-0.2**	**-3.7**	**-5.1**	**-16.9**
Sectoral Breakdown								
Goods-Producing Industries	**7.2**	**-1.2**	**12.6**	**-2.0**	**-6.6**	**-7.1**	**-4.5**	**-19.1**
Manufacturing	5.8	-4.1	12.6	-5.5	-10.9	-10.7	-7.5	-23.2
Construction	20.3	17.9	16.9	21.0	20.3	14.1	11.0	2.3
Services-Producing Industries	**8.1**	**5.0**	**7.7**	**7.1**	**5.4**	**-0.1**	**-5.5**	**-14.5**
Wholesale/Retail Trade	7.3	2.6	5.5	6.0	4.4	-5.4	-4.7	-31.9
Transport & Storage	5.1	3.2	5.4	5.8	3.7	-2.1	-7.2	-14.9
Hotels/Restaurants	4.4	1.3	3.2	2.1	-0.1	0.1	-5.6	0.1
Information & Communications	6.3	6.9	6.8	7.8	7.4	5.6	7.0	-0.4
Financial Services	16.9	7.1	14.0	10.6	6.0	-1.8	-21.6	-18.9
Business Services	7.8	7.3	8.6	7.6	7.7	5.5	4.7	0.2
Source: MTI								

Deflation for 2009

We are set to see a period of mild deflation this year with MTI forecasting inflation at -1 to 0%, from a previous estimate of +1 to +2%, on a correction of commodity prices and the deceleration of economic activity. Inflation for Dec eased in line with the slowdown in the Singapore economy, with the Consumer Price Index rising 4.3% y/y in Dec, slightly lower than our estimate (4.7%), and less than Nov's increase of 5.5% y/y. On a m/m basis, inflation declined 0.6%, as transport & communication, and housing expenses became cheaper, which more than offset costlier food and "recreation & others". On a full year basis, the CPI rose 6.5% in 2008 due mainly to higher costs of food, housing and transport & communication.

We expect CPI to continue moderating this year, largely due to basis effect and falling oil price. Cheaper petrol and lowered prices of cars will bring down transport costs, and decreased property prices will also put pressure on accommodation costs. Overall, we expect a mild deflationary environment for Singapore this year, with CPI likely to come in at around -0.7%, in line with MTI's -1 to 0% forecast, based on a continued weakening of commodity prices and global demand.