

Singapore: Heading Into Contraction in 2009

Singapore's 3Q08 GDP growth came in weaker-than-expected at -0.6%/y, compared to -0.5% in the 3Q advance estimates, due mainly to the worsening services sector which grew at a weaker 5.3%/y compared with 6.1% in the advance estimate. On an annualized q/q basis, GDP contracted 6.8% compared to -5.3% in 2Q. The largest contraction came from the manufacturing sector, at -11.4%, but this was within the flash estimates. Electronics and biomedical sciences led the decline in manufacturing, due to tepid global semiconductor demand. Manufacturing is likely to stay weak in the next year, owing to the continued decline in electronics, while the biomedical and chemical sectors, however will get some reprieve from new capacity and plants coming on stream in late 2008 and 2009. Other than manufacturing, the construction sector grew, albeit at a slower pace, to 12.8%, compared to 19.8% in 2Q.

On the services side, there were higher than expected declines coming from sectors such as wholesale and retail, transport and storage, hotels and restaurants, and financial services. Advance estimates for the service industry had come in at 6.1%, but the service industries reported a 5.3% growth in 3Q. This eased from 2Q's 7.1% y/y. However, growth is not likely to continue, as stock market turmoil around the world as well as large scale job cuts in the services industry and falling global demand weigh down heavily on growth.

Weighed down by the continued deterioration and high risk in the external environment, the MTI has revised GDP growth downwards again for this year to around 2.5% from 3%, all within the short space of slightly over a month. However, the forecast implies that the MTI is expecting some upturn in growth in 4Q08 and the 'technical recession' is unlikely to drag into 4Q. The numbers suggest that the MTI is expecting 4Q growth to come in at around 1.5%/y.

As for the outlook, it is not looking rosy, with the probability of a contraction for the whole year. The composite leading index, an indicator of economic conditions fell 0.3% over the previous quarter. 5 of the 9 components within the index-non-oil retained imports, non oil sea cargo handled, stock price, US Purchasing manager's index and wholesale trade-experienced declines. MTI has forecasted a -1 to 2% growth in 2009, stating that the economic downturn is expected to last for several quarters, well into next year, with the Singapore economy confronting a broad-based slowdown. We have revised down our 2008 and 2009 growth forecast to 2.3% (from 2.7%) and -0.4% (from +0.8%) respectively.

Inflation

The MTI has lowered its CPI inflation forecast for next year to 1-2% from 2.5%-3.5%. We expect inflation to come in at 6.5% for this year, due to the preceding 3 quarters of high CPI increases averaging 6.9%, and 1.3% from 2.5% for next year. This comes as housing costs, food and transport all drop significantly due to less demand in a worsening economy and lower commodity prices.

Manufacturing Led the Contraction

The Manufacturing sector contraction accelerated to 11.4% y/y in 3Q, from 5.2% y/y in 2Q. Biomedical manufacturing led the decline, with a 37% contraction, due to a change in the types of active pharmaceutical ingredients manufactured. The domestic biomedical production sector is expected to be boosted next year however, by new capacity from the Abbott nutritional plant and Novartis tableting facility coming on stream.

As for electronics manufacturing, it slowed by 6.3% due to the relocation of some production to other countries, and waning external demand for electronics. And worse is still to come.

The cyclical electronics industry is likely to continue weakening due to softening global demand. Earlier this week, the Singapore economy recorded its lowest non-oil domestic exports (NODX) decline in over 6 years, which came in at -15.3% y/y (UOB: -11.5%, market average: -8.4%) in October. This is the 6th consecutive month of contraction. Today, IE Singapore further lowered its growth forecast for NODX to between -5% and -7%, compared to the previous projection of between -2% and -4%, while next year's NODX is forecasted to come in at between -1% and 1%.

Construction Sector Continued to Grow But at Slower Pace

The construction sector grew by a slower rate, at 12.8% y/y in 3Q08, after surging by more than 19.8% y/y in the preceding quarter.

We see the construction industry easing, growing in the single digits y/y next year. Support for the industry will come from a sizeable backlog of projects awarded in the previous quarters and large scale private sector projects such as the 2 IRs and public civil engineering works will still keep the construction sector occupied till 2010. But demand for residential property, commercial, and industrial space will come be affected as consumers put off committing to buying property and companies halt expansion plans.

Financial Services Sector Growth Slackened, Set to Deteriorate

The financial services sector eased to 6% in 3Q, reflecting deteriorating conditions externally. The financial intermediation cluster still held up, with domestic and offshore banking segments posting growth, and commercial bank lending was propped up by a pipeline of property-related loans.

Activities driven by sentiment declined as investors shied away from risk, resulting in weak turnover in the local stock exchange, debt and forex markets, and wealth advisory services.

Moving into the 4Q and next year, we expect financial services to slow dramatically, going into negative territory in 2009, as severe job cuts in the sector, lower fees generated by banks, and risk aversion by investors, eat into growth.

Other Services Remained Weak

A moderation in growth was seen in the transport and storage sector to 4% y/y in 3Q from 5.8% y/y in the previous quarter. Air and sea transport growth eased, as global trade growth slowed and demand for exports waned. The hotels & restaurants sector also weakened with a drop in tourist arrivals.

Unemployment to Rise

Unemployment rate remained at a seasonally adjusted 2.2 per cent in 3Q, unchanged from 2Q, but higher than 3Q a year ago. About 56,000 residents were unemployed in September. We expect this to go up to at least 3.3 and higher in 4Q, with job cuts in the financial services sector, manufacturing and transportation. During the SARS period in 2003, unemployment rate peaked at 4.8%, implying more unemployment to come this time round.

MTI Cuts Full Year Forecast to 2.5%; Inflation Down

MTI has cut its forecast for this year to 2.5% from 3% in Oct during its advance flash estimate. For next year, the MTI is expecting growth of -1 to 2% growth, with the economic downturn expected to last for several quarters, well into next year, and the Singapore economy confronting a broad-based slowdown. The risk appears to be on the downside with another 'technical recession' likely in 1H09. We expect to see more broad-based weakness in the coming quarters as the global economy as well as Asian economies ease more noticeably. Sectors such as electronics manufacturing, financial services sector, wholesale trade, transport and storage sectors will likely be most affected.



On inflation, the risk has come off significantly following the sharp drop in commodity prices. Furthermore, the expected annual values of HDB properties will remain unchanged from that of 2008.

3Q Growth Was Slightly Weaker than Official Advance Estimates of -0.5%							
	3Q07	4Q07	2007	1Q08	2Q08	3Q-08	3Q-08
	y/y % change						s/adj ann. q/q%
Real GDP	9.5	5.4	7.7	6.9	2.3	-0.6	-6.8
Sectoral Breakdown							
Goods-producing industries	11.6	2.9	7.2	12.6	-2.0	-7.9	-9.8
Manufacturing	11.0	0.2	5.8	12.7	-5.2	-11.4	-10.5
Construction	20.1	24.3	20.3	16.9	19.8	12.8	-10.7
Services-producing industries	8.5	7.7	8.1	7.7	7.1	5.3	-5.6
Wholesale/retail trade	6.8	6.0	7.3	5.5	6.0	4.3	-5.0
Transport & Storage	5.0	5.4	5.1	5.4	5.8	4.0	-6.2
Hotels/restaurants	4.9	2.5	4.4	3.1	2.0	-0.2	-5.6
Information & Communications	6.6	6.1	6.3	6.8	7.8	7.7	8.1
Financial Services	20.1	15.9	16.9	14.0	10.6	6.0	-21.6
Business Services	7.5	8.7	7.8	8.6	7.7	7.3	3.2
Source: MTI							

Also Announced: Government Boosts Credit Access to Local Firms, More Measures to Come in Early Budget

This morning, the Singapore government announced enhancements to its business financing schemes to support an additional S\$2.3 bn of loans w.e.f. 1 December amid the global financial crisis. This will be achieved by increasing the government's risk sharing in the greater credit access to the local companies, higher loan limit and widening of the eligibility criteria. There will also be greater incentives for start-ups and overseas expansion with the enhancements. The enhancements will be valid for a year.

Furthermore, the government announced S\$600 mn spending over the next two years on worker training programs to protect local jobs. Some government ministries such as education, health and the military will also bring forward their hiring plans. The 2009 budget announcement will be brought forward to January 22, nearly one month ahead of usual budget announcements. The budget measures will take effect in 1Q09, even before the beginning of the new fiscal year. Finance Minister Tharman said the budget will announce another set of measures which will help businesses manage their costs and cash flow, mainly on manpower and rental costs. Undoubtedly, there would also be direct cash assistance to the households. Nonetheless, there is currently no plan to cut the GST rate. Against expectation of further monetary policy easing before the next policy statement in April, the MAS said it is maintaining its policy stance. The MAS has shifted its policy stance to a zero percent appreciation of the S\$NEER policy band from 'modest and gradual appreciation' in October.

As a result of the earlier pro-growth measures, inflation package and the newly announced S\$2.3 bn stimulus package, the budget deficit for the current fiscal year could come in significantly higher. Earlier, the government said it estimates the budget deficit at S\$2.4bn (or around 0.9% of GDP), three times higher than initial forecast. In 2007, the government had a budget surplus amounting to 2.5% of GDP.

Business Financing Enhancements Announced Include:

- New Bridging Loan Programme that will allow companies with more than 10 employees to borrow up to S\$500,000. The default risk is shared equally by the government and the financial institutions.
- Small businesses with no more than 10 employees will have access to SPRING's Micro Loan Programme. The limit of this loan will be doubled to S\$100,000.
- The government's risk sharing on SME loan defaults will increase to 80% from 50%.
- The government's investment quantum cap under SPRING's Start-up Enterprise Development Scheme will be raised to S\$1 mn from S\$300,000 and that for SPRING's Business Angel Scheme will be permanently raised to S\$1.5mn from S\$1mn..
- The government will temporarily co-match \$2 for every \$1 for start-up investors, up from 1:1 previously.
- To allow larger companies to tap SME financing such as the Loan Insurance Scheme (LIS) and the Local Enterprise Finance Scheme (LEFS).
- To help firms with overseas expansion, the eligibility criteria under the existing Internationalisation Finance Scheme (IFS) will be widened. Turnover caps will be raised to S\$300 mn for non-trading companies, private non-trading companies and listed trading companies. Government default risk sharing will increase to 80% from 70%. The turnover caps for LIS will be removed for exporter/trading firms.

Source: MTI

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