

Macro Note

Singapore: 2020 GDP Contracted Less Than Expected at -5.4% While The Outlook For GDP Remains Unchanged, To Expand 5.0% In 2021

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Highlights

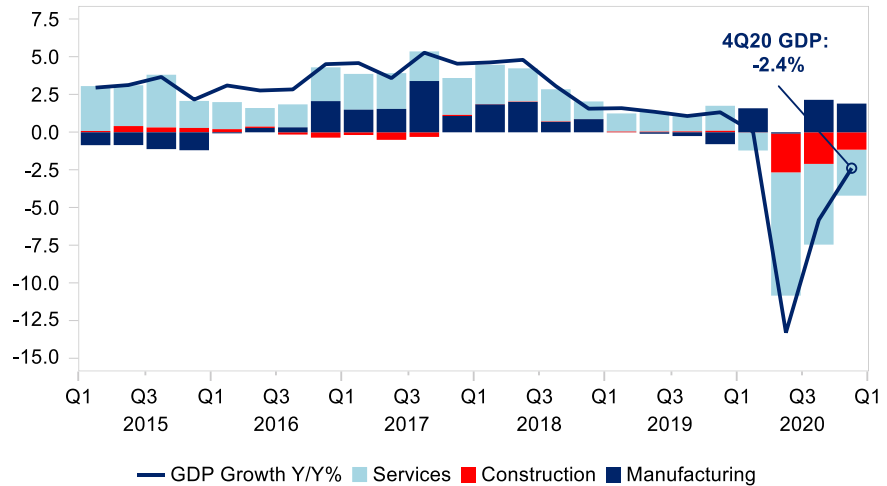
- Based on the final print by the Ministry of Trade and Industry (MTI), Singapore's 4Q20 GDP contracted 2.4% y/y, improving from 3Q20's pace of -3.8% y/y. On a q/q seasonally adjusted basis, the economy expanded 3.8%, extending the +9.0% q/q sa growth in 3Q20.
- The manufacturing sector expanded 10.3% y/y (-1.4% q/q sa) in 4Q20, marking its second quarterly double-digit growth print (3Q20: +11.0% y/y). This also compares with MTI's advance estimates which pencilled manufacturing to expand by a slower 9.5% y/y pace in 4Q20. Overall, growth was underpinned by output expansions in the electronics, biomedical manufacturing, precision engineering and chemicals clusters.
- However, Singapore's services and construction sectors stayed soft in 4Q20. The services sector fell 4.7% y/y in the last quarter of 2020, marking four straight quarters of year-on-year contractions. Specifically, tourism-related sectors continued to stay in the doldrums given the slump in international travel. Similarly, the construction sector continued to fall for its fourth consecutive quarter at -27.4% y/y in 4Q20, led by declines in both private and public construction works.
- Singapore's growth outlook for 2021 will depend on several factors, including (1) how COVID-19 pandemic evolves, (2) geopolitical environment, and (3) global trade dynamics. Uncertainties surrounding COVID-19 and its impact on global (and regional) growth continue to stay elevated to-date. Geopolitical tensions which are seen recently in the Taiwan Strait may pose headwinds to economic recovery. Lastly, hopes for U.S. President Joe Biden to take a more constructive and multilateral approach in trade with other countries coupled with possible ratification of the RCEP agreement towards the end of 2021 could benefit Singapore as a trade-reliant economy.
- On the back of an expected pickup in external demand, coupled with Singapore's relatively well-controlled COVID-19 situation, we keep to our call for Singapore to expand by 5.0% in 2021, against MTI's outlook of between +4.0% and +6.0%. However, the recovery in Singapore's overall economy is expected to be uneven – an uptick in Singapore's outward-oriented sectors should support the manufacturing cluster in 2021, although headwinds against the services and construction sector could persist at least into 1Q21.

Singapore's Economic Performance In 2020

Singapore's GDP contracted 2.4% y/y in 4Q20, improving from 3Q20's pace of -3.8% y/y. On a q/q seasonally adjusted basis, the economy expanded 3.8% in the same period, extending the +9.0% q/q sa growth in 3Q20. The latest data is markedly better compared to the initial advance estimates by MTI which pencilled 4Q20 GDP at -3.8% y/y (+2.1% q/q sa). Accounting for the revised data, Singapore's full-year GDP fell 5.4% in 2020, compared to MTI's advance estimates of -5.8%.

Exhibit 1: Singapore GDP Improved Since The Trough In 2Q20

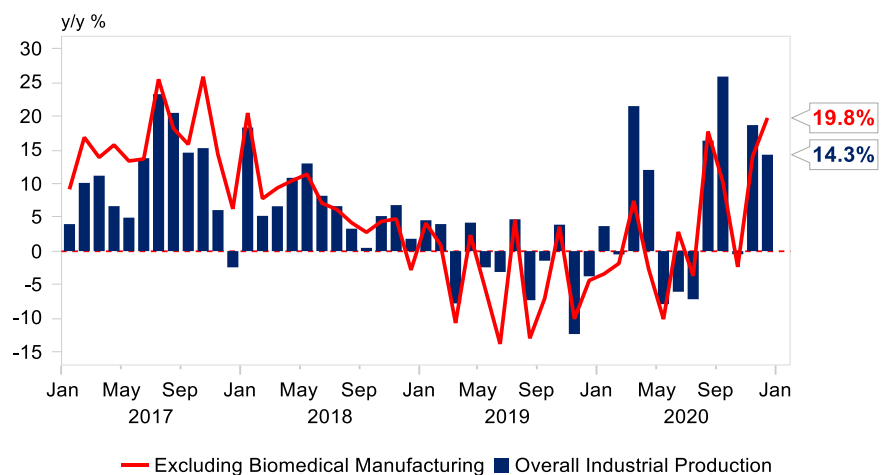
Source: Macrobond, UOB Global Economics & Markets Research



The manufacturing sector grew 10.3% y/y (-1.4% q/q sa) in 4Q20, marking its second quarterly double-digit growth print (3Q20: +11.0% y/y). This also compares with MTI's advance estimates which pencilled manufacturing to expand by a slower 9.5% y/y pace in 4Q20. Overall, growth was underpinned by output expansions in the electronics, biomedical manufacturing, precision engineering and chemicals clusters. On the flipside, output declines in the transport engineering and general manufacturing clusters were observed. Note that industrial production expanded 14.3% y/y in December 2020, and outpaced market estimates of +12.0% y/y, thus setting an optimistic tone for the new year. Into 2021, we expect Singapore's manufacturing momentum to expand by 3.0%. For more details, please read our December 2020 industrial production [report](#).

Exhibit 2: Singapore's Manufacturing Sector Ended Well In 2020

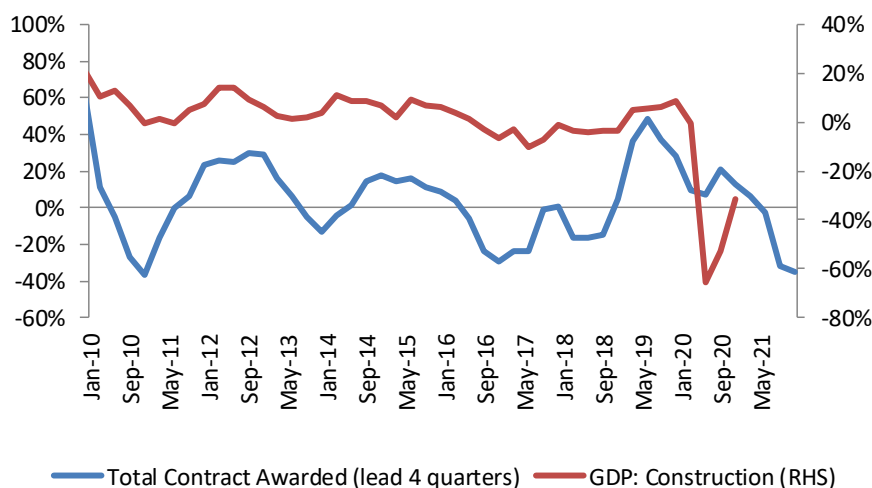
Source: Macrobond, UOB Global Economics & Markets Research



However, Singapore's services and construction sectors stayed soft in 4Q20. The services sector fell 4.7% y/y in the last quarter of 2020, marking four straight quarters of year-on-year declines. Specifically, tourism-related sectors continued to stay in the doldrums given the slump in international travel - the transportation & storage cluster declined 27.4% y/y in 4Q20, followed by accommodation (-19.7% y/y) and food & beverage (-19.0% y/y). Other sectors such as wholesale trade (4Q20: +1.8% y/y, up from 3Q20's -5.0% y/y), information & communications (+2.6% y/y) and finance & insurance (+4.9% y/y) cushioned the overall fall in the services cluster. Similarly, the construction sector continued to fall for its fourth consecutive quarter at -27.4% y/y in 4Q20, led by the declines in both private and public construction works. However, the pace of contraction has improved from 3Q20 which saw the construction sector plunging by -52.5% y/y. This suggested some recovery, albeit slow, has been seen towards the end of 2020. However, construction activity may continue to fall further in 1Q21 while recovery is expected to be slow for the rest of 2021, as Singapore's construction contracts awarded fell 28.7% y/y in 4Q20, clocking five straight quarters of contraction.

Exhibit 3: Construction Contracts Awarded Continued To Contract In 4Q20

Source: Macrobond, UOB Global Economics & Markets Research



Singapore's 2021 Outlook: Three Factors In Shaping Economic Recovery

We keep to our call for Singapore's economy to expand by 5.0% in 2021, up from 2020's GDP contraction of 5.4%. From a global standpoint, expected economic recovery in both the developed and developing economies will likely lift overall external demand. As seen in the latest MTI [press release](#), "key ASEAN economies are expected to post a recovery this year, supported by a pickup in external demand." Nonetheless, we recognise that the growth outlook for the year ahead will depend on several factors, including (1) how COVID-19 pandemic evolves, (2) geopolitical environment, and (3) global trade dynamics.

First, uncertainties surrounding COVID-19 and its impact on global (and regional) growth continue to stay elevated to-date. While Singapore's COVID-19 situation has stayed under control, the global surge in COVID-19 infections and the emergence of new virulent strains are indeed disconcerting. The COVID-19 situation in Singapore's key trading partners, specifically Indonesia and Malaysia, has worsened given the recent resurgence in infections which subsequently led to renewed partial lockdowns and social restriction measures. Global economic recovery will also depend on the adequacy and efficacy of vaccine supplies, albeit that initial research has surfaced some concern over the inefficacy of a specific COVID-19 vaccine.¹

¹ The Wall Street Journal, [Rollout of AstraZeneca Covid-19 Vaccine Halted in South Africa After Study](#), 7 February 2021

Second, heightened geopolitical tensions seen at the start of 2021 could pose headwinds to the economic recovery. Specifically, pockets of geopolitical tensions had been seen between China-Taiwan at the start of 2021, as well as between China-India since 2020.

Last, hopes for U.S. President Joe Biden to take a more constructive and multilateral approach in trade with other countries, coupled with possible ratification of the RCEP agreement towards the end of 2021, could benefit Singapore as a trade-reliant economy. According to *the recent rhetoric by the U.S. White House, the US-China trade deal is “under review”*, while the Biden administration will be “*coordinating and communicating with our allies and partners about how we’re going to work with China.*”² Elsewhere, Singapore’s position in producing and supplying biomedical products and supplies especially during this COVID-19 pandemic will continue to lift overall manufacturing activities into 2021.

Expounding from the above three factors, Singapore’s tourism and transport sectors are likely to stay soft until more clarity over the recovery in international travel can be seen. As observed from 4Q20’s GDP data, Singapore’s transportation & storage cluster fell 27.4% y/y in 4Q20, marking four straight quarters of year-on-year contractions. Moreover, the weakness in inbound international travel has also injected headwinds to the accommodation and food & beverage services clusters. Retail sales and services exports, as a function of tourism-led demand, declined 15.8% and 12.7% respectively for the whole of 2020. The slow return of international travel suggests that above-mentioned sectors may see a slower-than-expected recovery in 2021.

In the same vein, headwinds against Singapore’s construction sector could continue given “*the requirement for safe management measures*” as stated by the latest MTI [press release](#). As discussed above, the plunge in contracts awarded for construction works in 2020 also suggests a relatively slow recovery in 2021. In a nutshell, the slow restart of the construction sector could mean that time is needed for this sector to return to pre-COVID-19 levels. Separately, weakness in the global oil & gas market also underlines further headwinds against Singapore’s marine & offshore engineering clusters.

Overall, Singapore’s growth outlook is expected to improve on the back of the expected pickup in external demand, coupled with relatively low COVID-19 infections and the timely deployment of the COVID-19 vaccine in Singapore. As stated previously, we keep to our call for Singapore to expand by 5.0% in 2021, against MTI’s outlook of between +4.0% and +6.0%. However, the recovery in Singapore’s overall economy is expected to be uneven – an uptick in Singapore’s outward-oriented sectors should also support the manufacturing cluster in 2021, where we pencil overall industrial production to grow by 3.0% in 2021, although headwinds against the services and construction sector could persist at least into 1Q21.

² Reuters, [White House says U.S.-China trade deal among issues in broad review](#), 30 January 2020

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