Singapore growth slumps in 2Q19

Singapore's economy virtually stopped growing in 2Q19 compared to a year earlier, which makes recent suggestions of an intra-meeting policy easing look highly probable.

A deep water port in Singapore

0.1%YoY

2Q19 GDP growth

-3.4%QoQ annualised

Worse than expected

What went wrong?

The figures say it all: 2Q19 GDP was 0.1%YoY, or -3.4%QoQ (annualised). This was worse than even our own sub-consensus forecast of 0.8%YoY and -0.2%QoQ.

So what went wrong?

Manufacturing was the main culprit. A 6%QoQ annualised decline in 2Q19 accounts for much of the damage to 2Q GDP, though services seem also to have taken some collateral damage from this, declining by 1.5%. Quarterly construction activity also shrank by 7.6%, though for both services and construction, the year-on-year figures remained positive and we can put some of their 2Q quarterly weakness down to erratic seasonals.

Outlook not great

Sometimes, when you get a big dip like this, you line up for a subsequent bounce. But this manufacturing dip has strong drivers. Singapore's highly export-driven economy leaves it very exposed to the US-China trade war and the broader slowdown in world trade. Singapore's concentration in the electronics sector during a global tech-slump and technology war also take their toll on the economy.

We don't see any prospect for a substantial improvement in these areas any time soon, though the rate of decline could now be moderating. Nevertheless, the longer the manufacturing sector remains depressed, the more likely this weakness will spill over into services and other sectors.

MAS to the rescue?

In a recent conversation, MAS (Monetary Authority of Singapore) Managing Director, Mr Ravi Menon, noted that there was possibly a case for an intra-meeting change in the MAS policy stance. This currently targets a modest and gradual appreciation in the SGD nominal effective exchange rate (SGD NEER).

We have looked back at previous examples of such policy changes, the last one being January 2015, fully three months before the scheduled April policy meeting. The point of mentioning this is that it is now barely 3 months until the MAS' October meeting. So if this, and ongoing inflation weakness are going to be countered with an off-cycle easing, then unless this happens soon, for example, this or next month, then the MAS might as well wait for October.

Today's data suggest that waiting would put the economy in greater than necessary jeopardy. An imminent move, therefore, looks probable.

What might this look like?

Given the NEER is the main policy target, this leaves a number of options available for the MAS.

1. Change the slope of the NEER from appreciation to flat (the most likely option)
2. Change the slope of the NEER to outright depreciation (a bigger move and contentious given US pre-occupations with currency manipulation which have flagged Singapore recently).
3. Change the breadth of the currency band (would allow for some near term depreciation but leave the longer-term trend intact)
4. Shift the mid-point of the band down (would achieve much the same as the previous option).
5. Or various mixtures of the non-mutually exclusive options above.

We will monitor the short term interest rates as a potential clue for upcoming policy changes, and note a small dip to just below 2.0% from the 3M SIBOR rate today.

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Disclaimer