

Singapore: Manufacturing holds back recovery in 4Q20

As elsewhere, the city state's economic outlook in 2021 remains clouded by the relentless spread of the coronavirus. While macro policy should continue to be accommodative, we see little room for additional stimulus ahead



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-3.8% 4Q20 GDP contraction
Year-on-year

Lower than expected

4Q20 GDP surprises on the upside

Singapore's Ministry of Trade and Industry has just released an advance estimate of GDP for the fourth quarter of 2020. The data showed the year-on-year GDP contraction moderating to -3.8% in 4Q from -5.6% in 3Q. Quarter-on-quarter growth continued to be positive albeit with a sharp

slowdown (to 2.1% from 9.5%). This outcome was still better than our -5.0% YoY and +0.8% QoQ forecasts for the period.

Unsurprisingly, manufacturing returned as a weak link in the economy as it took a beating from renewed export weakness. A -2.6% QoQ manufacturing contraction in 4Q was a sharp reversal from the +12.6% QoQ surge in 3Q. However, this caused only a modest dip in YoY growth to 9.5% from 10.8%, thanks to a low base effect.

Construction output rose by 34.4% QoQ and services by 2.4% QoQ, though year-on-year growth in both remained negative, at -28.5% YoY and -6.8%, respectively.

Virus continues to cloud 2021 outlook

The 4Q GDP print brings the annual contraction in 2020 to -5.8%, just shy of the official view of a contraction between 6-6.5%. This is the steepest annual contraction ever.

However, the economic outlook for the current year is clouded by the continued global spread of Covid-19, now with a new variant. As such, the government's view of a bounce-back by 4-6% in 2021 looks a bit optimistic. We maintain our 3.8% growth forecast for this year.

Indeed, anaemic economic prospects ahead warrant persistent policy accommodation from both the fiscal and monetary sides. This now shifts the focus onto the forthcoming 2021 Budget scheduled on 16 February. We expect it to be more of a normal budget after the extraordinary stimulus unleashed in the last year.

On the monetary side, we expect the Monetary Authority of Singapore to maintain its zero appreciation policy path for the SGD-NEER in the next semi-annual review in April.