MTI MINISTRY OF TRADE AND INDUSTRY SINGAPORE

PRESS RELEASE

MTI Forecasts GDP Growth of "-6.5 to -6.0 Per Cent" in 2020 and "+4.0 to +6.0 Per Cent" in 2021

23 November 2020. The Ministry of Trade and Industry (MTI) announced today that Singapore's GDP growth is expected to come in at "-6.5 to -6.0 per cent" in 2020 and "+4.0 to +6.0 per cent" in 2021.

Economic Performance in Third Quarter 2020

The Singapore economy expanded by 9.2 per cent on a quarter-on-quarter seasonally-adjusted basis in the third quarter, a turnaround from the 13.2 per cent contraction in the second quarter. On a year-on-year basis, the economy contracted by 5.8 per cent, moderating from the 13.3 per cent contraction recorded in the previous quarter. The improved performance of the Singapore economy came on the back of the phased resumption of activities in the third quarter following the Circuit Breaker that was implemented from 7 April to 1 June 2020, as well as the rebound in activity in major economies during the quarter as they emerged from their lockdowns.

By sectors, the manufacturing sector expanded by 10.0 per cent year-on-year, reversing the 0.8 per cent decline in the preceding quarter. The expansion was largely due to output growth in the electronics, biomedical manufacturing and precision engineering clusters, which more than offset output declines in the transport engineering and general manufacturing clusters. In particular, output increases in the electronics and precision engineering clusters were due to strong global demand for semiconductors and semiconductor equipment respectively. On a quarter-on-quarter seasonally-adjusted basis, the manufacturing sector grew by 12.1 per cent, rebounding from the 9.1 per cent contraction in the previous quarter.

The construction sector shrank by 46.6 per cent year-on-year, extending the 60.0 per cent contraction in the preceding quarter, due to declines in both public sector and private sector construction works. On a quarter-on-quarter seasonally-adjusted basis, the sector grew by 34.5 per cent, a reversal from the 59.5 per cent decline registered in the second quarter.

The wholesale & retail trade sector contracted by 4.3 per cent year-on-year, easing from the 6.7 per cent contraction in the previous quarter. Within the sector, the wholesale trade segment shrank, primarily due to weakness in the fuel & chemicals and machinery, equipment & supplies sub-segments. The retail trade segment also contracted on account of a decline in non-motor vehicular sales. On a quarter-on-quarter seasonally-adjusted basis, the wholesale & retail trade sector expanded by 2.3 per cent, reversing the 1.8 per cent contraction seen in the preceding quarter.

The transportation & storage sector shrank at a slower pace of 29.6 per cent year-on-year, compared to the 39.2 per cent decline in the second quarter. Within the

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sector, the air transport segment was weighed down by the continued slump in air passengers handled at Changi Airport due to ongoing global travel restrictions and sluggish air travel demand, while the water transport segment contracted because of a fall in sea cargo volume handled and container throughput. On a quarter-on-quarter seasonally-adjusted basis, the transportation & storage sector expanded by 15.0 per cent, a reversal from the 33.7 per cent contraction in the previous quarter.

The accommodation & food services sector contracted by 24.0 per cent year-on-year, improving from the 41.8 per cent contraction in the preceding quarter. Within the sector, the accommodation segment shrank in line with the continued plunge in international visitor arrivals, while the food services segment contracted as sales volumes across all sub-segments such as restaurants declined. On a quarter-on-quarter seasonally-adjusted basis, the accommodation & food services sector grew by 32.4 per cent, rebounding from the 23.3 per cent decline in the second quarter.

The information & communications sector expanded by 2.0 per cent year-on-year, a turnaround from the 0.8 per cent contraction in the previous quarter. Growth was largely driven by the IT & information services segment, which benefitted from resilient demand for enterprise IT solutions. On a quarter-on-quarter seasonally-adjusted basis, the sector grew by 5.2 per cent, reversing the 2.6 per cent contraction in the preceding quarter.

Growth in the finance & insurance sector came in at 3.2 per cent year-on-year, higher than the 2.7 per cent recorded in the second quarter, supported in part by healthy expansions in the banking and insurance segments. On a quarter-on-quarter seasonally-adjusted basis, the sector expanded marginally by 0.1 per cent, an improvement from the 2.0 per cent contraction in the previous quarter.

The business services sector shrank by 15.2 per cent year-on-year, extending the 20.6 per cent contraction in the second quarter. Within the sector, the real estate segment contracted due to weakness in the commercial and industrial property space markets amidst the economic downturn, while the "others"[1] segment shrank as tourism-related sub-segments such as travel agencies and event organisers were adversely affected by ongoing global travel restrictions. On a quarter-on-quarter seasonally-adjusted basis, the business services sector grew by 7.0 per cent, a reversal from the 17.9 per cent decline in the preceding quarter.

The "other services industries" contracted by 8.5 per cent year-on-year, a smaller decline compared to the -18.2 per cent recorded in the previous quarter. The weak performance of the sector was largely due to the arts, entertainment & recreation

[1] The "others" segment of the business services sector consists of (i) rental & leasing, (ii) other professional, scientific & technical services, and (iii) other administrative & support services, including travel agencies and event organisers.

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and “others”[2] segments, which shrank as a result of the slump in visitor arrivals and public health measures in place to control the COVID-19 situation, respectively. On a quarter-on-quarter seasonally-adjusted basis, the sector expanded by 12.7 per cent, an improvement from the 15.2 per cent contraction in the second quarter.

Economic Outlook for 2020

Since the Economic Survey of Singapore in August, the global economic situation has remained subdued. While some economies like China are expected to see a sustained recovery for the rest of 2020 as their domestic COVID-19 outbreaks remain under control, others like the US and Eurozone are experiencing a resurgence in infections, which may dampen their recovery as restrictions are re-imposed to slow the spread of the virus.

Domestically, weak external demand conditions and ongoing global travel restrictions are expected to continue to weigh on trade-related services sectors like wholesale trade, and aviation- and tourism-related sectors like air transport and accommodation. Although consumer-facing sectors such as retail and food services have recovered from their troughs with the phased re-opening of the economy, sales volumes are likely to remain below last year’s levels due to dampened consumer sentiments and capacity constraints imposed by safe management measures. On the other hand, the outlook for the manufacturing sector has improved, driven primarily by the electronics cluster on the back of robust demand for semiconductors from the 5G market, data centres and cloud services.

Taking these factors, as well as the performance of the Singapore economy in the first three quarters of the year (i.e., -6.5 per cent year-on-year), into account, the 2020 GDP growth forecast for Singapore is narrowed to **“-6.5 to -6.0 per cent”**, from “-7.0 to -5.0 per cent”.

Economic Outlook for 2021

For 2021, the major advanced and developing economies are expected to recover from the massive economic disruptions caused by COVID-19 and see a rebound in their GDP from the low base this year. However, the path to recovery is expected to be slow and uneven across economies, with many economies not likely to return to pre-COVID levels until end-2021.

In the US, the resurgence in COVID-19 cases has prompted a pause in, or reversal of, re-opening measures in some states. These developments are likely to weigh on the labour market and dampen the recovery in personal consumption. Similarly, the surge in COVID-19 cases and re-tightening of restrictions in the Eurozone will

[2] The “others” segment of the other services industries consists of (i) membership organisations, (ii) repair of computers, personal and household goods and vehicles, and (iii) other personal service activities such as personal care services, wedding services and funeral services.

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pose a drag on consumer and business sentiments, as well as weigh on the labour market. In Asia, China is expected to maintain a robust pace of growth, supported by strong investment spending as credit levels remain elevated. Meanwhile, GDP growth in the key ASEAN economies of Malaysia, Thailand and Indonesia is expected to pick up alongside the improvement in global economic conditions.

At the same time, uncertainties and risks in the global economy remain. First, notwithstanding positive news on vaccine development, as well as advancements in therapeutics and testing, the risk of periodic resurgence of infections around the world remains. The re-imposition of lockdowns, even in a limited way, could dampen business and consumer confidence, and pose a drag on the global economic recovery. Second, the protracted nature of the economic recovery in many countries could cause renewed pressures on corporate and financial sector balance sheets, which could in turn lead to financial system stresses and financial market dislocations such as capital outflows from emerging market economies. These could then trigger feedback loops and negatively affect the global economy. Excessive private sector indebtedness arising from loose monetary conditions also remains a concern. Third, amidst elevated uncertainty surrounding the COVID-19 situation, there is a higher risk of a miscalibration of policy settings which, together with tightening funding conditions, could result in a premature withdrawal of policy support in the key economies, thereby impeding their recovery. Fourth, there continues to be geopolitical uncertainty involving the major economies, which could in turn weigh on global trade and the global economic recovery.

On balance, given the improved growth outlook for key external economies, as well as a further easing of global travel restrictions and domestic public health measures that is expected in the year ahead, the Singapore economy is projected to return to growth in 2021.

First, trade-related services sectors (e.g., wholesale trade and water transport) are expected to benefit from the pickup in external demand. At the same time, the manufacturing sector is projected to continue to expand, with the electronics and precision engineering clusters boosted by robust semiconductor demand from the 5G market. Likewise, growth in the information & communications and finance & insurance sectors is expected to remain healthy, bolstered by sustained demand for IT and digital solutions, and credit and payment processing services respectively. Second, aviation- and tourism-related sectors (e.g., air transport and accommodation) are projected to see a gradual recovery in air passenger volumes and visitor arrivals. Similarly, consumer-facing sectors (e.g., retail trade and food services) are expected to benefit from the recovery in visitor arrivals, as well as an improvement in consumer sentiments amidst better labour market conditions. However, economic activity in these sectors is not likely to return to pre-COVID levels even by end-2021. Third, the construction sector is projected to recover from the low base this year, although construction activity will continue to be dampened by the implementation of safe management measures.

Taking these factors into account, the Singapore economy is projected to grow by **"4.0 to 6.0 per cent"** in 2021. The recovery of the Singapore economy in the year ahead is expected to be gradual, and will depend to a large extent on how the global economy performs and whether Singapore is able to continue to keep the domestic COVID-19 situation under control.

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ANNEX

SECTORAL GROWTH RATES

	3Q19	4Q19	2019	1Q20	2Q20	3Q20
	Year-on-Year % Change					
Total	0.7	1.0	0.7	-0.3	-13.3	-5.8
Goods Producing Industries	-0.1	-1.3	-0.8	6.3	-9.3	1.5
Manufacturing	-0.7	-2.3	-1.4	7.9	-0.8	10.0
Construction	3.1	4.3	2.8	-1.2	-60.0	-46.6
Services Producing Industries	0.8	1.5	1.1	-2.3	-13.4	-8.4
Wholesale & Retail Trade	-3.5	-1.9	-2.9	-5.6	-6.7	-4.3
Transportation & Storage	0.0	0.8	0.8	-7.7	-39.2	-29.6
Accommodation & Food Services	1.9	2.5	1.9	-23.7	-41.8	-24.0
Information & Communications	4.4	4.5	4.3	2.7	-0.8	2.0
Finance & Insurance	4.1	4.0	4.1	8.2	2.7	3.2
Business Services	1.1	1.7	1.4	-3.4	-20.6	-15.2
Other Services Industries	2.4	3.3	2.6	-3.7	-18.2	-8.5
	Quarter-on-Quarter Growth % (SA)					
Total	0.6	0.2	0.7	-0.8	-13.2	9.2
Goods Producing Industries	1.0	-0.9	-0.8	7.1	-15.3	12.8
Manufacturing	1.2	-1.5	-1.4	9.6	-9.1	12.1
Construction	0.9	1.3	2.8	-3.2	-59.5	34.5
Services Producing Industries	0.3	0.5	1.1	-3.4	-11.0	6.0
Wholesale & Retail Trade	-0.3	-0.1	-2.9	-4.7	-1.8	2.3
Transportation & Storage	-0.8	0.5	0.8	-8.1	-33.7	15.0
Accommodation & Food Services	1.2	1.1	1.9	-25.9	-23.3	32.4
Information & Communications	2.6	2.1	4.3	-2.6	-2.6	5.2
Finance & Insurance	-0.5	0.9	4.1	4.2	-2.0	0.1
Business Services	0.3	0.5	1.4	-4.0	-17.9	7.0
Other Services Industries	0.7	0.8	2.6	-4.9	-15.2	12.7

OTHER ECONOMIC INDICATORS

	3Q19	4Q19	2019	1Q20	2Q20	3Q20
Retail Sales Index* (yoy, %)	-3.0	-5.0	-3.4	-10.1	-40.7	-8.6
Value Added Per Worker^ (yoy, %)	-1.0	-0.7	-0.9	-1.7	-11.9	-2.5
Value Added Per Actual Hour Worked^ (yoy, %)	-2.0	-2.2	-1.9	-3.4	2.4	2.2
Unemployment Rate, SA (%)	2.3	2.3	2.3	2.4	2.8	3.6
Changes in Employment ('000)	27.5	21.6	69.7	-25.4	-113.5	-32.1
Overall Unit Labour Cost (yoy, %)	3.6	2.1	2.8	1.2	-18.9	-10.1
Unit Business Cost of Manufacturing (yoy, %)	-4.6	-3.4	-3.0	-13.1	-23.4	-21.8
Consumer Price Index (yoy, %)	0.4	0.6	0.6	0.4	-0.7	-0.3
Fixed Asset Investments ($ bil)	0.2	6.9	15.2	12.4	1.9	2.1
Total Merchandise Trade (yoy, %)	-6.7	-5.3	-3.2	0.5	-15.3	-6.3
Merchandise Exports	-7.3	-4.3	-4.2	-1.4	-14.0	-5.0
Domestic Exports	-13.1	-11.5	-10.5	-6.4	-21.6	-11.4
Oil	-19.7	-21.5	-12.9	-29.0	-67.7	-48.6
Non-Oil	-9.6	-5.7	-9.2	5.4	5.9	6.5
Re-exports	-1.7	2.8	2.3	3.2	-6.8	0.4
Merchandise Imports	-5.9	-6.3	-2.1	2.6	-16.6	-7.6
Total Services Trade (yoy, %)	0.6	2.5	1.3	-3.3	-22.4	-18.5
Exports of Services	1.9	4.5	2.2	-3.3	-20.8	-17.8
Imports of Services	-0.8	0.6	0.4	-3.3	-24.1	-19.2

* In chained volume terms.

^ Based on GDP at market prices in chained (2015) dollars.