



# Economics Group

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## Economic Growth in Singapore Steady in Q2

*Real GDP growth in the Lion City was 2.5 percent year-over-year in Q2, matching the pace from Q1. A budding recovery in global trade has helped drive a gradual firming in economic growth in Singapore.*

### Budding Recovery in Global Trade Aids Singaporean Growth

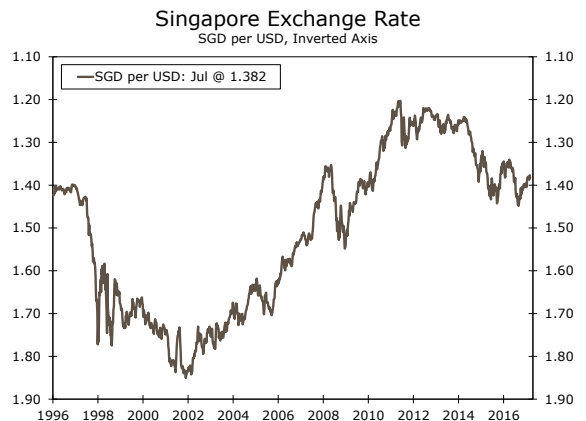
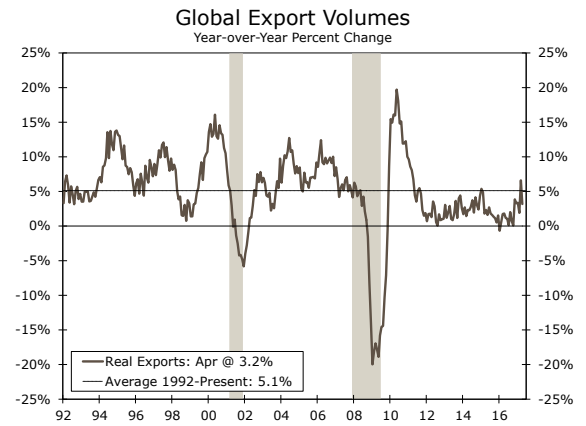
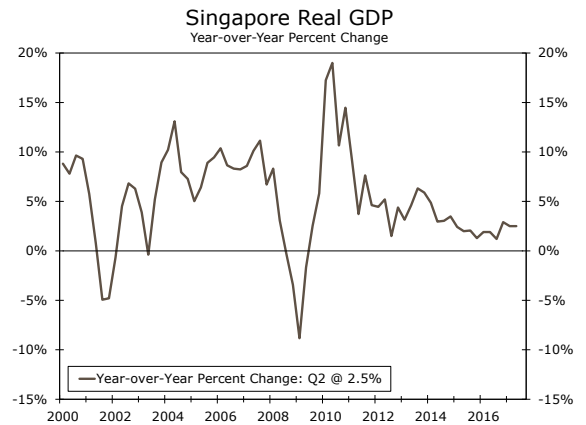
Data released this morning showed Singapore’s economy grew at a 0.4 percent annualized rate in Q2, a bit below the consensus expectation. Real GDP growth in the Lion City is inherently volatile on a sequential basis, so we tend to focus on the year-over-year rate. Over the past 12-months, economic growth in Singapore was 2.5 percent, matching the downwardly revised pace from Q1 (top chart).

A breakdown of the real GDP data into its underlying demand components will not be available until next month. However, sector level data showed a continued recovery in the manufacturing and service sectors. Manufacturing output was up 8.0 percent in Q2, a deceleration from the pace seen over the past two quarters, but a marked improvement for factory sector production relative to the past two years. Output in the services sector accelerated on a year-ago basis for the third consecutive quarter, rising to 1.7 percent. Moreover, construction output rose 4.3 percent annualized over the quarter, however, this gain came on the heels of a sizable 14.4 percent decline in Q1. On a year-over-year basis, the pace of decline in construction lessened in Q2, but at 5.6 percent this marks the largest contraction prior to 2017 in 12 years.

The slowdown in global trade that occurred in 2015-2016 weighed heavily on the trade-reliant Singaporean economy, pulling economic growth in the island nation down to just 2.0 percent in real terms in both years. As we turn to the second half of this year, the nascent recovery in global trade that has occurred more recently has helped spur an improved global economic outlook that bodes well for a continued gradual revival in economic growth in Singapore (middle chart). Although we do not explicitly forecast real GDP in Singapore, we believe the Bloomberg consensus of 2.4 percent real GDP growth for full year 2017 to be a reasonable forecast. If realized, this would mark an improvement in economic growth relative to the past two years. That said, we do not expect global economic activity to return to the supercharged rates seen during the last expansion that would help drive economic growth in Singapore back to its pre-recession pace.

### Sing Dollar Mixed, Outlook Is for Moderate Strength

Because of the open nature of Singapore’s economy, along with the importance of trade, the Monetary Authority of Singapore (MAS) is primarily concerned with the nation’s exchange rate. The Sing dollar has been mixed against the major currencies of the world recently, having strengthened against the U.S. dollar but softened against other currencies, such as the euro. Our currency strategy team looks for the U.S. dollar to depreciate modestly versus the Sing dollar in coming quarters amid generalized greenback weakness (bottom chart).



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