



# Economics Group

**Jay H. Bryson, Global Economist**  
[jay.bryson@wellsfargo.com](mailto:jay.bryson@wellsfargo.com) • (704) 410-3274  
**Michael Pugliese, Economist**  
[michael.d.pugliese@wellsfargo.com](mailto:michael.d.pugliese@wellsfargo.com) • (212) 214-5058  
**Abigail Kinnaman, Economic Analyst**  
[abigail.kinnaman@wellsfargo.com](mailto:abigail.kinnaman@wellsfargo.com) • (704) 410-1570

## Singapore GDP Growth Downshifts in Q2

*Q2 real GDP growth in Singapore slowed to 3.8 percent year over year as the construction sector remained a drag on economic growth. External demand is a bright spot, but ongoing trade disputes loom ominously.*

### Construction Sector Weighs on Q2 Real GDP Growth

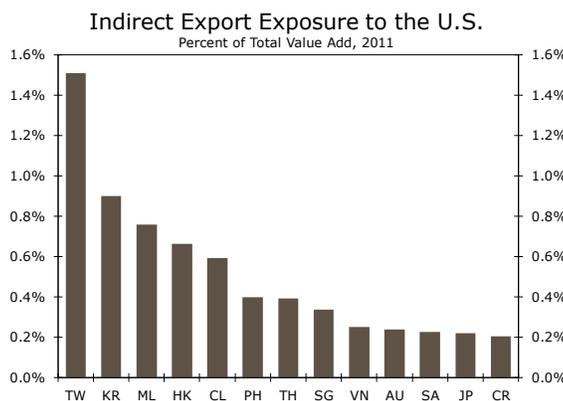
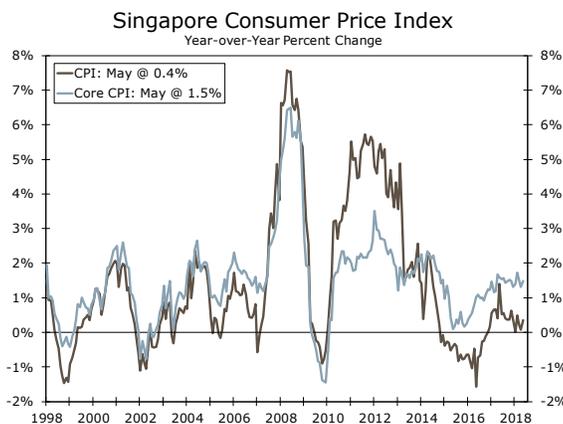
Real GDP in Singapore grew at a 1.0 percent annualized rate in Q2, missing consensus expectations of a 1.3 percent increase. Quarter-over-quarter data in Singapore can be quite volatile; the Q2 print puts year-over-year GDP growth at 3.8 percent, a slowdown from the 4.3 pace registered in Q1 (top chart). Manufacturing output growth slowed slightly to 8.6 percent year over year, but growth in this sector remains higher than it was a few years ago amid a stronger global backdrop. Construction output again remained a laggard, though the year-over-year pace of decline lessened. Construction spending in Singapore has been a major drag on growth in recent years. While private construction spending may remain subdued, the country’s central bank sees public sector efforts to drive more infrastructure spending as a potential tailwind to growth later this year.

Price pressures have moderated slightly, with the core CPI rising 1.5 percent year over year in May. This was lower than February’s 1.7 percent increase, which was the highest since October 2014 (middle chart). With inflation largely in check and households enjoying a solid labor market, consumer spending looks poised to remain a steady source of domestic demand.

### Exports Remain Solid Amid Trade Uncertainties

Singapore’s economic fortunes are largely dependent on global demand due to the open nature of its economy, and the country’s heavy reliance on trade proves a risk given recent trade disputes. Singapore sent roughly 15 percent of its exports to mainland China in 2017, 13 percent to Hong Kong and another 7 percent to the U.S., so recently imposed tariffs between China and the U.S. could provide a roadblock to export growth in the coming quarters. At its April meeting, the Monetary Authority of Singapore (MAS) exhibited a vote of confidence in the economic outlook by slightly increasing the slope of its policy band for its currency, allowing the Sing dollar’s nominal effective exchange rate to gradually appreciate. The MAS acknowledged trade risks in its policy statement at the time, but remained optimistic on future economic conditions and looked for inflation to continue its upward path this year. The trade dispute between China and the United States has escalated markedly since then, however, and the MAS will likely act with caution when it meets again in October. With inflation in check and real GDP growth trading water, policymakers have the flexibility to adopt a wait-and-see approach.

Although we do not explicitly forecast Singapore real GDP, the consensus forecast for real GDP growth of 3.1 percent this year and 2.8 percent next year seems reasonable to us, though the risks are skewed to the downside in our view. Steady growth in the service sector, still-solid global demand and public construction spending will be tailwinds, but risks abound for most relatively small, export-oriented Asian economies (bottom chart).



## Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Vilorio, CFA	Currency Strategist	(212) 214-5637	eric.vilorio@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC. and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2018 Wells Fargo Securities, LLC.

### Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS  
FARGO

SECURITIES