



# Economics Group

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## 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

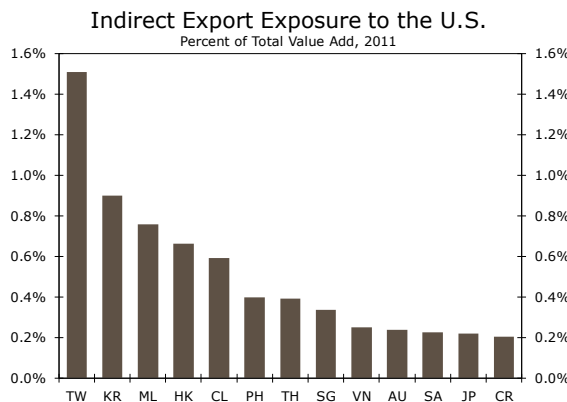
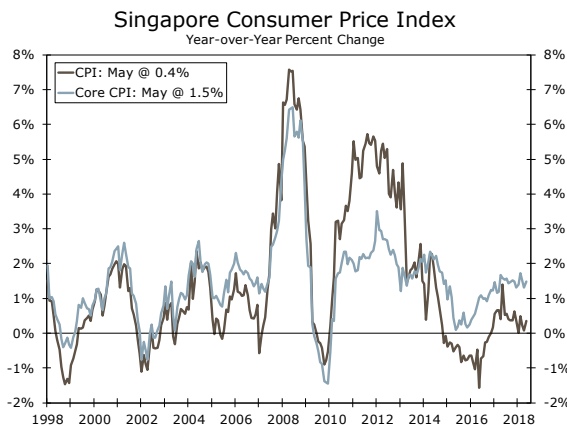
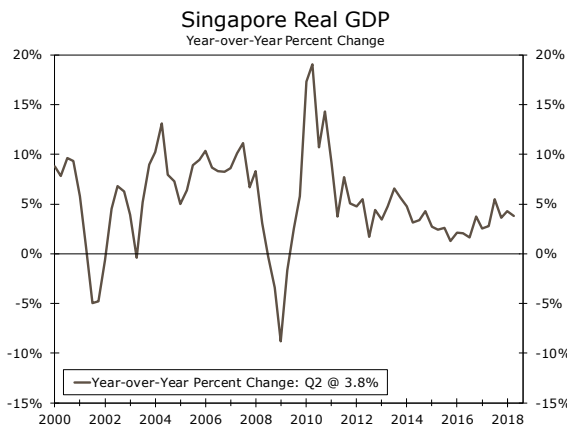
Real GDP in Singapore grew at a 1.0 percent annualized rate in Q2, missing consensus expectations of a 1.3 percent increase. Quarter-over-quarter data in Singapore can be quite volatile; the Q2 print puts year-over-year GDP growth at 3.8 percent, a slowdown from the 4.3 pace registered in Q1 (top chart). 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).



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