MINISTRY OF TRADE AND INDUSTRY SINGAPORE

PRESS RELEASE

Singapore's GDP Contracted by 2.2 Per Cent in the First Quarter of 2020. MTI Downgrades 2020 GDP Growth Forecast to "-4.0 to -1.0 Per Cent"

26 March 2020. Based on advance estimates[1], the Singapore economy contracted by 2.2 per cent on a year-on-year basis in the first quarter of 2020, reversing the 1.0 per cent growth in the preceding quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy shrank by 10.6 per cent, a sharp pullback from the 0.6 per cent growth in the previous quarter.

Economic Performance in First Quarter 2020

Gross Domestic Product in chained (2015) dollars

	1Q19	2Q19	3Q19	4Q19	2019	**1Q20***
Percentage change over corresponding period of previous year						
Overall GDP	1.0	0.2	0.7	1.0	0.7	**-2.2**
Goods Producing Industries						
Manufacturing	0.0	-2.7	-0.7	-2.3	-1.4	**-0.5**
Construction	1.4	2.3	3.1	4.3	2.8	**-4.3**
Services Producing Industries	1.0	1.1	0.8	1.5	1.1	**-3.1**
Quarter-on-quarter annualised growth rate, seasonally-adjusted						
Overall GDP	2.3	-0.8	2.2	0.6	0.7	**-10.6**
Goods Producing Industries						
Manufacturing	-3.6	-4.1	4.8	-5.9	-1.4	**4.2**
Construction	7.9	-0.3	3.5	5.3	2.8	**-22.9**
Services Producing Industries	1.9	1.2	1.1	2.2	1.1	**-15.9**

*Advance estimates

The manufacturing sector contracted by 0.5 per cent on a year-on-year basis in the first quarter, moderating from the 2.3 per cent contraction in the previous quarter. The performance of the sector was weighed down by output declines in the electronics and chemicals clusters, which more than offset output expansions in the biomedical manufacturing and precision engineering clusters. The weakness of the sector likely reflects a fall in external demand as global economic activity has slowed due to the ongoing coronavirus disease 2019

[1] The advance GDP estimates for the first quarter of 2020 are computed largely from data in the first two months of the quarter (i.e., January and February 2020). They are intended as an early indication of GDP growth in the quarter and are subject to revision when more comprehensive data becomes available.

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(COVID-19) outbreak. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector expanded by 4.2 per cent, a turnaround from the 5.9 per cent decline in the preceding quarter.

The construction sector shrank by 4.3 per cent on a year-on-year basis in the first quarter, a reversal from the 4.3 per cent growth in the previous quarter. The performance of the sector was weighed down primarily by a decline in private sector construction activities. Supply chain disruptions and delays in the return of foreign workers as a result of the lockdowns and travel restrictions implemented by other countries in response to the COVID-19 outbreak have also adversely affected some construction projects. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector contracted by 22.9 per cent, a sharp pullback from the 5.3 per cent expansion in the preceding quarter.

The services producing industries contracted by 3.1 per cent on a year-on-year basis in the first quarter, reversing the 1.5 per cent growth in the fourth quarter of last year. By sectors, the air transport, accommodation, food services and retail trade sectors shrank on the back of a sharp decline in tourist arrivals as well as a fall in domestic consumption as a result of the COVID-19 outbreak. At the same time, the wholesale trade and other transportation & storage (e.g., water transport) sectors contracted due to the fall in external demand and supply chain disruptions. Meanwhile, the information & communications and finance & insurance sectors posted positive, albeit more subdued, growth. On a quarter-on-quarter seasonally-adjusted annualised basis, the services producing industries shrank by 15.9 per cent, a reversal from the 2.2 per cent growth in the preceding quarter.

Economic Outlook for 2020

In February, MTI downgraded the GDP growth forecast for 2020 to "-0.5 to 1.5 per cent" on account of the COVID-19 outbreak. The forecast then was largely premised on the outbreak dampening the growth prospects of China and other regional countries such as Japan, Thailand and Malaysia. It also took into account an expected fall in tourist arrivals, especially from China, as well as a projected decline in domestic consumption in Singapore due to the outbreak.

Since then, the COVID-19 outbreak has escalated, and led to a significant deterioration in the economic situation both externally and domestically.

First, the outbreak has spread rapidly beyond China to many other countries, including the US, UK, France and Germany. With several of these countries implementing strong public health measures to contain the outbreak, including lockdowns and the closure of borders, economic activity has been disrupted, and is likely to lead to a sharp economic slowdown in these countries. The widespread curtailment of economic activity is also likely to cause further

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global supply chain disruptions. The resulting pullback in external demand and supply chain disruptions are, in turn, expected to adversely affect outward-oriented sectors in Singapore, including the manufacturing and wholesale trade sectors.

Second, with the outbreak becoming more widespread, Singapore has tightened its border controls significantly since February to reduce the importation of COVID-19 cases. All short-term visitors are now not allowed to enter or transit through Singapore. This has led to a sharper-than-expected fall in tourist arrivals, which has severely affected the tourism and air transport sectors in Singapore.

Third, to reduce the risk of community spread of COVID-19, safe distancing measures such as the cancellation of all events and mass gatherings and the physical separation of patrons at public places (e.g., eating venues and retail outlets) have been implemented. This will further weigh on domestic consumption, and have an adverse impact on consumer-facing sectors such as retail trade and food services.

As the global COVID-19 situation is still evolving rapidly, there remains a significant degree of uncertainty over the severity and duration of the global outbreak, and the trajectory of the global economic recovery once the outbreak has been contained. The balance of risks, however, is tilted to the downside. Downside risks include a more protracted-than-expected global outbreak; more severe and prolonged disruptions to global supply chains; and the possibility of financial shocks triggered by the economic impact of COVID-19.

Taking into account the weaker-than-expected performance of the Singapore economy in the first quarter, and the sharp deterioration in the external and domestic economic environment since February, **the GDP growth forecast for 2020 is further downgraded to "-4.0 to -1.0 per cent"**. The wider forecast range is to account for heightened uncertainties in the global economy, given the unprecedented nature of the COVID-19 outbreak, including the public health measures taken in many countries to contain the outbreak.

MTI will release the preliminary GDP estimates for the first quarter, including performance by sectors, sources of growth, inflation, employment and productivity, in its *Economic Survey of Singapore* in May 2020.

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