

# Singapore GDP shrinks, recession looms

Reuters in Singapore  
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Singapore's trade-driven economy contracted in the last three months of this year, signalling it may slip into a technical recession as a slump in manufacturing output and slowdown in external demand hurt exports.

The contraction, however, is unlikely to bring about a change in monetary policy which leans towards a gradual and modest appreciation of the Singapore dollar, most economists said.

Advance estimates showed gross domestic product (GDP) fell 4.9 per cent in the fourth quarter compared with the July-September period on a seasonally adjusted, annualised rate.

Manufacturing output plunged 21.7 per cent quarter-on-quarter, the trade ministry said on Tuesday.

"The case for further MAS (Monetary Authority of Singapore) easing in April is less clear cut than in past recessions," said Citigroup economist Kit Wei Zheng, noting inflation remains elevated while the slide in GDP is relatively modest compared to past recessions.

The Southeast Asian country, whose trade is about three times its GDP, is considered a regional bellwether because of its small domestic economy and dependence on global trade and investment.

Singapore reported higher-than-expected inflation figures for November even as industrial production fell, putting pressure on the government to announce new measures to contain prices and keep costs down.

Citigroup's Kit said the government may choose to support the economy by helping businesses keep costs down when it unveils its budget in February.

"But the scale of fiscal stimulus is likely to be modest, as the government may want to conserve fiscal bullets in the first year of its term, or for the contingency that the recession deepens," he said.

Singapore manages monetary policy by targeting the value of its dollar against an unnamed basket of currencies. In October, MAS retained its bias for a modest appreciation of the Singapore dollar, but said it would reduce the pace of increase.

Singapore narrowly averted a technical recession in the third quarter, largely because of a surge in biomedical production.

Most analysts expect the economy to continue contracting in the first quarter of next year, resulting in a technical recession which is defined as two consecutive quarters of negative GDP.

"The outlook for next year remains cautious given Europe's debt crisis, China's slowdown and uncertainty over US tax measures," Bank of America Merrill Lynch economist Chua Hak Bin said in a note to clients.

"Our model shows a slightly higher than even chance of a recession in first quarter next year," he added.

Singapore exports most of what it manufactures to major destinations such as Europe, the United States, Japan and China, among others.

Electronics makes up for 31 per cent of its manufacturing sector, which in turn accounts for about one-quarter of its GDP.

The city-state's economy grew 1.5 per cent in the third quarter on a seasonally adjusted and annualised quarter-on-quarter rate, following a contraction of 5.9 per cent in April-June.

During the third quarter of this year, rival Asian business and financial centre Hong Kong also narrowly averted a recession with quarterly growth of just 0.1 per cent.

Singapore's GDP expanded 3.6 per cent in the fourth quarter from a year ago, slowing from the 5.9 per cent expansion in the third quarter. The fourth quarter data was in line with economists' estimates only because GDP numbers for the first nine months were revised down.

On Tuesday, Singapore said private home prices edged up by 0.2 per cent in the fourth quarter from the third – the smallest increase since the property market began rallying two years ago.

Prime Minister Lee Hsien Loong warned in his New Year's Day message that Europe's debt problems were "far from solved", and Singapore faced an uncertain external environment with growth expected at a much slower 1-3 per cent next year.

DBS economist Irvin Seah said the next six months will be challenging for Singapore, especially for the manufacturing sector.

"Asia itself is also slowing... As such, we foresee a weak first half followed by a gradual pick-up in growth momentum in the second half of next year," he added.