

Irvin Seah

Senior Economist



Please direct distribution queries to

Violet Lee +65 68785281 violetleeyh@db.com

- Advance GDP figure for 2Q20 registered -12.6% YoY
- The poor performance was largely due to the circuit breaker
- Expect the headline number to be revised up after June's figures
- Second quarter marks the bottom of the cycle
- **Implication for our forecast** – We are maintaining our full year GDP growth forecast at -5.7%
- **Implications for investors** – Expect an uneven recovery ahead

Advance GDP estimate for the second quarter has indeed turned out to be worse than expected. Headline GDP growth reported a decline of -12.6% YoY (-41.2% QoQ saar). This is largely due to the implementation of the Circuit Breaker (CB) measures, which has disrupted economic activities and affected a large part of the economy. And this adds to the headwinds on the external front amid a global recession precipitated by the pandemic. Indeed, such dire

GDP growth by sectors

	2Q19	3Q19	4Q19	2019	1Q20	2Q20a
% YoY						
Overall GDP	0.2	0.7	1.0	0.7	-0.3	-12.6
Manufacturing	-2.7	-0.7	-2.3	-1.4	8.2	2.5
Construction	2.3	3.1	4.3	2.8	-1.1	-54.7
Services	1.1	0.8	1.5	1.1	-2.4	-13.6
% QoQ saar						
Overall GDP	-0.8	2.2	0.6	0.7	-3.3	-41.2
Manufacturing	-4.1	4.8	-5.9	-1.4	45.5	-23.1
Construction	-0.3	3.5	5.3	2.8	-12.2	-95.6
Services	1.2	1.1	2.2	1.1	-13.4	-37.7

Source: MTI

economic performance in the second quarter is consistent with what have been seen across many parts of the world during this crisis, where travel bans, lockdowns and safe measures imposed in the quarter have taken a huge toll on global economic growth.

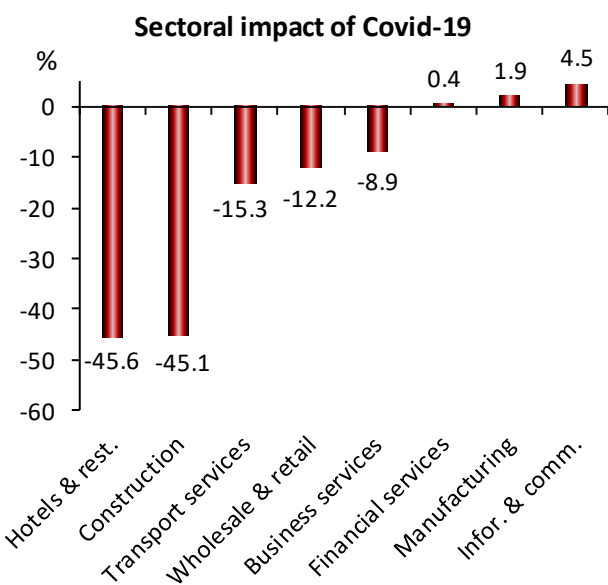
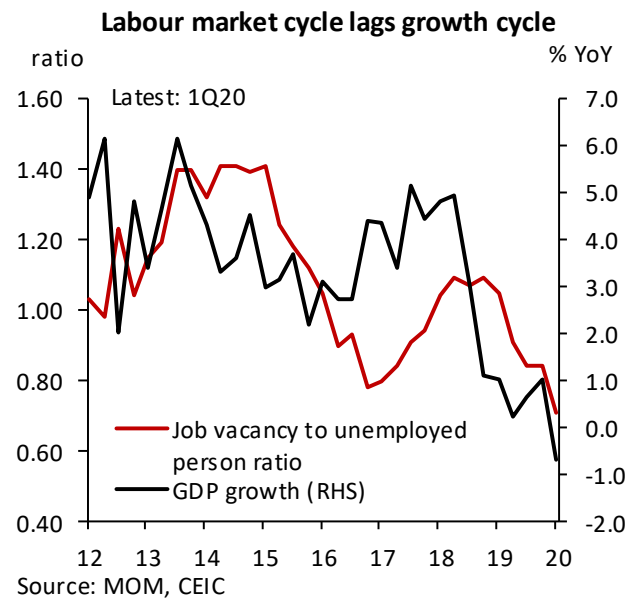
Note also that the advance figures consider mainly the April and May numbers, which coincides with the CB period. Non-essential services and most workplaces had to close during this period. This has exacerbated the decline across the economy on top of the earlier travel ban, which has put the hospitality, tourism and aviation industries under tremendous stress. **With the lifting of the circuit breaker, essentially allowing economic activities to resume, the headline number figure is expected to be revised upward.**

In addition, first quarter GDP growth have also been revised up to -0.3%, from -0.7% previously. If we assume an upward revision to the 2Q20 GDP figure when the final number is out next month, overall growth for the first half of the year will be roughly about -6%, which is not too far off our current full year GDP growth forecast of -5.7%. As such, **we are maintaining our growth projection despite the poor showing in the 2Q advance GDP figures today.**

Moreover, **impact from the stimulus packages has yet to be fully captured in today's figures.** The government has rolled out four separate sets of stimulus measures, worth a total of SGD 92.9bn, equivalent to about 19.3% of GDP, to buffer the economy from the impact of the pandemic. Disbursements of these government only started trickling in from April and will take time for the full multiplier effect to be felt across the economy. Fiscal support will not only help in mitigating against the downside risk on growth but will be crucial in ensuring the recovery ahead.

Second quarter would mark the bottom of the current cycle. Economic growth should improve from hereon, albeit in an uneven manner. Recovery will come to different industries at different pace. While we expect the entire cycle to take about 24 months on average, those sectors that are worst hit by the pandemic, tourism, aviation and construction, could potentially take as long as more than two years to recover back to pre-Covid levels (in terms of real GDP).

In the near term, this could also be a jobless recovery, due to the lag between labour market and the growth cycle. Having gone through a rough patch, employers would want to be sure about business prospects before increasing headcounts, contributing to the slower pace of recovery in the labour market.



The impact on the labour market will also be felt differently. Concern is that the lower waged workers could be worse hit. Due to the nature of the pandemic, many frontline service jobs are affected. Many of these jobs are rank and file positions that command lower salaries. Indeed, employment data during the GFC period also seems to suggest that the lower waged workers are the ones that will bear the brunt of the recession. As such, **an extension of some of the support measures in a more targeted fashion may be warranted.**

Group Research

Economics & Macro Strategy

Taimur Baig, Ph.D.
Chief Economist - G3 & Asia
 +65 6878-9548 taimurbaig@dbs.com

Chang Wei Liang

Strategist
 +65 6878-2072 weiliangchang@dbs.com

Radhika Rao

Economist – Eurozone, India, & Thailand
 +65 6878-5282 radhikarao@dbs.com

Nathan Chow

Strategist - China & Hong Kong
 +852 3668-5693 nathanchow@dbs.com

Irvin Seah

Economist - Singapore, Malaysia, & Vietnam
 +65 6878-6727 irvinseah@dbs.com

Eugene Leow

Rates Strategist - G3 & Asia
 +65 6878-2842 eugeneleow@dbs.com

Samuel Tse

Economist - China & Hong Kong
 +852 3668-5694 samueltse@dbs.com

Chris Leung

Economist - China & Hong Kong
 +852 3668-5694 chrisleung@dbs.com

Duncan Tan

FX and Rates Strategist - Asean
 +65 6878-2140 duncantan@dbs.com

Ma Tieying, CFA

Economist - Japan, South Korea, & Taiwan
 +65 6878-2408 matieying@dbs.com

Philip Wee

FX Strategist - G3 & Asia
 +65 6878-4033 philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

GENERAL DISCLOSURE/ DISCLAIMER (For Macroeconomics, Currencies, Interest Rates)

The information herein is published by DBS Bank Ltd and PT Bank DBS Indonesia (collectively, the "DBS Group"). It is based on information obtained from sources believed to be reliable, but the Group does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation & the particular needs of any specific addressee. The information herein is published for the information of addressees only & is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Group, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Group or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Group & its associates, their directors, officers and/or employees may have positions or other interests in, & may effect transactions in securities mentioned herein & may also perform or seek to perform broking, investment banking & other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Sources for all charts & tables are CEIC & Bloomberg unless otherwise specified.

DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E. DBS Bank Ltd., Hong Kong Branch, a company incorporated in Singapore with limited liability. 18th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong.

PT Bank DBS Indonesia, DBS Bank Tower, 33rd floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000. Company Registration No. 09.03.1.64.96422.