

Singapore Economy Slows; Exports to Drop First Time in 7 Years

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Aug. 11 (Bloomberg) -- Singapore said its economy expanded at the slowest pace in five years and predicts exports will decline for the first time since 2001, adding pressure on the central bank to allow the currency to weaken to boost growth.

Gross domestic product increased 2.1 percent from a year earlier in the second quarter, after expanding 6.9 percent in the previous three months, the trade ministry said in a statement today. That compares with the 2 percent median estimate of 13 economists in a Bloomberg News survey, and the government's July estimate of 1.9 percent.

Singapore last week cut its 2008 growth forecast for a second time this year as exports fell and tourist arrivals eased, joining its Asian neighbors in signaling a deeper slowdown. The island's currency, which climbed to its strongest in more than a decade earlier this year, has since slid and is Asia's worst performer this quarter amid concern growth will slow further.

"Things are rapidly shifting," said Kit Wei Zheng, an economist at Citigroup Inc. in Singapore, before today's report. "Growth will be soft for the next 12 months and a recovery may come only in the second half of 2009."

The island's trade promotion agency today lowered its forecast for exports this year, saying they will drop between 2 percent and 4 percent, from an earlier estimate of growth of 2 percent to 4 percent. Shipments fell 5.5 percent last quarter.

The Singapore dollar traded at S\$1.4074 against the U.S. currency at 8:57 a.m. in Singapore, compared with S\$1.3993 on Aug. 8. The currency has dropped 3.4 percent this quarter, after climbing 5.7 percent in the first half.

Forecast Cut

Singapore's government on Aug. 8 cut its forecast for growth this year to between 4 percent and 5 percent, from an earlier estimate of as much as 6 percent expansion. Growth will be at the lower half of the new forecast, the trade ministry said today.

The U.S. housing recession that has roiled financial markets and hurt demand for Asian-made goods is threatening expansion in a region the Asian Development Bank says will account for more than a fifth of global growth this year.

"Singapore's economy has so far been partly buffered, because we have been carried along by the vibrancy of the Asian region," Prime Minister Lee Hsien Loong said Aug. 8. "But Asian economies are starting to feel the impact of America's problems, and so are we. We must therefore prepare ourselves for a bumpy year ahead."

Monetary Policy

The island's economy contracted for the second time in three quarters, slipping an annualized 6 percent in the three months to June, compared with a July 10 estimate of a 6.6 percent drop. It grew a revised 15.7 percent in the first quarter.

A technical recession, or two consecutive quarters of negative growth, is unlikely by the third quarter, though it can't be ruled out, Ravi Menon, a trade ministry official, told reporters today.

The Monetary Authority of Singapore has maintained an appreciation policy on its exchange rate since April 2004, and this year allowed the currency to rise at a faster pace against the U.S. dollar to combat the highest inflation rate since 1982.

The central bank next reviews its monetary policy in October and most economists expect it to refrain from allowing faster appreciation in the currency. It said today that its monetary stance remains "appropriate."

"It's quite clear the central bank won't tighten further and will stay status quo in October," said Selena Ling, head of treasury research at Oversea-Chinese Banking Corp. in Singapore. "After tightening the last two rounds, it's too soon for them to reverse their stance, and inflation this year will still top over 6 percent."

Manufacturing

Singapore's Finance Minister Tharman Shanmugaratnam said last month any "dramatic strengthening" of its dollar may harm exports. Overseas shipments fell 2.4 percent in the first half, its worst half-yearly performance since 2002, as sales to its biggest markets of Europe and the U.S. slumped.

The island's manufacturing industry contracted 5.2 percent last quarter from a year earlier, compared with a 12.7 percent gain in the first three months of the year, according to today's report.

Services climbed 7 percent in the second quarter from a year earlier, slowing from a revised 7.7 percent pace in the previous three months. The number of tourists visiting the city-state fell 4.1 percent in June.

"It's a sign that the strong Singapore dollar has exacerbated the problems for the economy," said Kit at Citigroup. "It's a double whammy."

The construction industry grew 17.4 percent, easing from a rate of 16.9 percent in the earlier quarter, according to today's report.

Source: Shamim Adam and Jean Chua