

## **Singapore's Growth Slows, Signaling Weaker Expansion in Asia**

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July 10 (Bloomberg) -- Singapore's economy expanded at the slowest pace in five years in the second quarter as inflation accelerated to a 26-year high and U.S. demand slumped, heralding weaker growth across the region.

Gross domestic product increased 1.9 percent from a year earlier, after expanding a revised 6.9 percent in the first three months of 2008, the trade ministry said in a statement today. That was lower than the 3.2 percent median estimate of 18 economists in a Bloomberg News survey.

Asian governments are torn between efforts to rein in surging prices and the need to shore up growth. Singapore Finance Minister Tharman Shanmugaratnam yesterday warned there is a limit to how much the country's dollar can gain to fight inflation, as any "dramatic strengthening" of Asia's third best performing currency this year may hurt exports "badly."

"The sharp decline in Singapore's GDP growth suggests that other Asia ex-Japan economies will likely report declining second-quarter growth in the weeks to come," said Sun Mingchun, an economist at Lehman Brothers Holdings Inc. in Hong Kong. Singapore's policy of allowing the currency to strengthen to cool inflation "is now hurting the export sector."

The benchmark Straits Times Index fell 1 percent to 2,887.4 as of 11:30 a.m. today. The Singapore dollar rose 0.2 percent to S\$1.3605 against its U.S. counterpart.

Philippine Economic Planning Secretary Augusto Santos said yesterday the government may lower its 2008 growth target a second time amid the fastest inflation in 14 years. In Malaysia, Governor Zeti Akhtar Aziz said consumer prices probably gained the most in a decade in June, as the central bank prepares to revise its growth estimates for Southeast Asia's third-largest economy later this month.

### **Fighting Inflation**

Bank Indonesia, which has raised interest rates for three consecutive months, yesterday said it may impose extra non-cash reserve requirements on lenders to slow inflation running at the fastest pace in 21 months.

"Inflation expectations may take the wind out of the still-resilient Asian economies," said Song Seng-Wun, an economist at CIMB-GK Securities Pte. in Singapore, before today's release. "If more is spent on food, there will be less for other economic activities."

Standard Chartered Plc and Oversea-Chinese Banking Corp. reduced their estimates for Singapore's expansion this year after today's report. Standard Chartered expects 2008 growth of 3.5 percent from an earlier prediction of 4.5 percent, while Oversea-Chinese, Singapore's third-largest bank, cut its forecast to 4.8 percent from 5.6 percent.

## Consumer Prices

The economy shrank an annualized 6.6 percent in the three months to June, contracting for the second time in three quarters. It grew a revised 15.6 percent in the first quarter.

"Our export-oriented sectors, especially manufacturing, are being hit by deteriorating economic conditions in the U.S. and Europe," Shanmugaratnam said yesterday. "This is likely to continue in the coming months and the weakness in manufacturing will act as a drag on overall GDP growth."

The island's manufacturing industry contracted 5.6 percent last quarter from a year earlier, compared with a revised 12.7 percent gain in the first three months of the year. Electronics exports have declined for 16 consecutive months, and pharmaceutical shipments slumped in April and May.

The Semiconductor Industry Association last month cut its global semiconductor sales-growth forecast this year to 4.3 percent from 7.7 percent. Companies such as Singapore-based Creative Technology Ltd., which makes accessories for Apple Inc.'s iPod music player, have cut their revenue estimates.

## Export Reliant

Asia's developing nations are almost twice as reliant on exports as the rest of the world, with 60 percent of their sales abroad ultimately destined for the U.S., Europe and Japan.

"The U.S. remains a very important source of demand for Asian economies," said Tai Hui, head of Southeast Asian economic research at Standard Chartered in Singapore. "The risk remains on the downside for the manufacturing sector given that demand remains fairly weak."

The growth figures today are computed from data for April and May. Revised numbers will be released next month.

**Source:** Shamim Adam



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