Worst case: 3% growth, best case: 5.5% – NTU

Its economists say that S’pore will feel the pain if US goes into a recession

By CHEW XIANG

[SINGAPORE] GDP growth in Singapore could be as little as 3 per cent this year if the US economy tanks, economists from the Nanyang Technological University (NTU) said yesterday.

The Economic Growth Centre at NTU based its forecast on the US suffering a mild period of minus 0.5 per cent month-on-month growth in the first half of 2008, before recovering in the third and fourth quarters. This would result in US GDP growing just 1.3 per cent for the year.

Choy Keen Meng, assistant professor at NTU, noted that industry forecasters were predicting a close to 50 per cent chance of a US recession in the first half of the year.

Earlier this month, Martin Feldstein, president of the US National Bureau of Economic Research, a body which determines business cycles, said that the US economy was already in recession. Last year, the US economy grew 2.2 per cent, the slowest pace since 2002.

If the anticipated downturn does occur, electronics demand is expected to plummet and is likely to be negative for the year, said Prof Choy. This would drag down Singapore’s GDP growth for Q1 to 3.8 per cent.

Growth for Q2 and Q3 could be as low as 2.2 per cent, before it recovers to 3.8 per cent in Q4. Singapore’s GDP would then grow just 3 per cent, the slowest rate since 2003 and a marked drop from over 7 per cent last year.

In the optimistic scenario where the US economy escapes a full-blown recession and manages 1.9 per cent growth for the year, Singapore’s GDP could grow a “very decent” 5.5 per cent, Prof Choy said.

This is in line with the median forecast of 5.6 per cent from an MAS survey of private sector economists conducted in February.

However, if the US does go into a recession, the negative wealth effects in Singapore could be large, hurting consumer confidence and spending, Prof Choy said.

But investment is likely to remain strong due to construction projects in the pipeline. “If there is need, the government could even bring forward its investment projects,” he said, adding that the coming integrated resorts would also boost investment.

On the bright side, Prof Choy said, inflation is likely to moderate once the pass-through of last year’s Goods and Services Tax hike tapers off in Q3 for a projected full-year rate of 3.9 per cent. But inflation may remain above 5 per cent for H1.

“I expect that MAS will again tighten its inflation policy come April” by allowing the Singapore currency to appreciate at a quicker pace, he said.

Randolph Tan, also from NTU, said that employment might grow just 4.3 per cent or 110,000 jobs this year if recession hits the US, more than 50 per cent down from 2007’s record of 235,000. Unemployment would rise slightly to 2.3 per cent in that scenario, he said.

Slowing employment growth may benefit labour productivity, he added. “I think 4.5 per cent is enough to meet the needs of economic growth,” Prof Tan said. He noted that real GDP growth per capita was just 0.08 per cent last year.

The Ministry of Manpower said this month that productivity fell 0.9 per cent, the first drop since 2001. Prof Tan noted, however, that productivity was difficult to measure over short periods.

Separately, the UN Economic and Social Commission for Asia and the Pacific said that Singapore may grow 4.9 per cent in 2008 as a slowdown in the US hurts export demand.

It said that the inflation rate here might rise to 3 per cent this year. Overall, growth in the Asia-Pacific region is forecast to moderate slightly to 7.8 per cent, down from 8.2 per cent in 2007.