Growth ‘may fall to 3%’ if US goes into recession

THE economy to grow by 5.5 per cent this year. Inflation to stay high — as high as 7 per cent in the first quarter before falling.

That is the general market expectation for the Singapore economy this year, said economists at the Nanyang Technological University (NTU).

But there is a 50-per-cent chance that Singapore’s gross domestic product (GDP) growth may drop to as low as 3 per cent if the United States goes into a recession, they added.

According to Assistant Professor Choy Keen Meng at the Economics Division of the NTU’s Humanities and Social Sciences School, consumer demand here is expected to slow down no matter what happens in the US.

“Consumer spending will definitely be cut back because consumers in Singapore and all around the world are realising that the US economy is slowing, the world economy is slowing, and psychological reaction to that is to be more cautious in spending,” he told a press conference.

If the US goes into a recession, the electronics sector, which tends to be driven by US demand, is likely to be the hardest hit.

NTU economists expect a 1.3-per-cent dip in chip sales then, versus a 6.9-per-cent recovery if the US holds up.

Experts said the construction sector is likely to be Singapore’s main pillar of support in those difficult times.

And while the services sector is more insulated from external pressures, they will not escape the ripple effects of the US recession on regional economies.

A bright spot, however, will be tourism-related services, which will benefit from upcoming projects such as the Formula One night race and the integrated resorts.

Financial services are forecast to see a heavy slowdown, from 12.5-per-cent growth last year to just 6.5 per cent this year.

Meanwhile, inflation is expected to stay high.

“Unfortunately, inflation will remain very high this year. We are forecasting about 7-per-cent inflation in the first quarter and about 6-per-cent inflation in the second quarter,” said Prof Choy.

Inflation is then expected to ease in the second half of this year to 3 to 4 per cent. For the whole year, the NTU expects inflation to come in at 4.5 to 5 per cent.

Last year, the Consumer Price Index grew by 2.1 per cent year-on-year after growing by 1 per cent in 2006.

The wealthy have borne the brunt of the price hikes — with the top-income earners experiencing 2.3-per-cent inflation, compared to 2 per cent for the rest.

In the past, the bottom 20 per cent of the population tended to be hurt most by rising inflation.

Analysts attributed the change to spiralling fuel prices, which started reaching record highs last October.