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Singapore GDP Unexpectedly Shrinks as Europe Crimps Exports (3)
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(Updates with China GDP in third paragraph.)

By Karl Lester M. Yap

July 13 (Bloomberg) -- Singapore's economy unexpectedly contracted last quarter as manufacturing fell, adding to signs of a deepening slowdown in Asian expansion as Europe's debt crisis curbs demand for the region's goods.

Gross domestic product fell an annualized 1.1 percent in the three months through June from the previous quarter, when it climbed a revised 9.4 percent, the Trade Ministry said in an e- mailed statement today. The median of 14 estimates in a Bloomberg News survey was for a 0.6 percent gain. The economy expanded 1.9 percent from a year earlier.

The Asian Development Bank cut its growth forecast for the region, and a report today showed today China's expansion eased for a sixth quarter to the slowest pace since 2009. Singapore's exports declined in May from the previous month, and a shrinking economy could put pressure on the central bank to ease monetary policy, according to Bank of America Corp.

"The outlook on the growth side looks dim," said Chua Hak Bin, a Singapore-based economist at Bank of America, who accurately predicted today's GDP contraction. "If a technical recession does occur, chances are the Monetary Authority of Singapore may have to ease policy come October."

The Singapore dollar was trading at 1.2699 against the U.S. currency as of 2:25 p.m. local time from 1.2697 earlier. The yield on 3.125 percent notes due September 2022 touched 1.306 percent, Bloomberg E-bond prices show, the least since at least June 1998.

Elevated Inflation

Manufacturing slid 6 percent last quarter from the previous three months, compared with a 20.9 percent gain in the first quarter. Construction rose 0.3 percent, slowing from a 27.9 percent surge. Services added 0.4 percent, down from a 2.7 percent pace.

The central bank, which uses the exchange rate to manage inflation, tightened policy in April by allowing faster currency gains to contain price increases. The nation's 5 percent inflation rate is the fastest in Southeast Asia after Vietnam.

"The likelihood of a nuanced policy easing is now growing," Vishnu Varathan, a Singapore-based economist at Mizuho Corporate Bank Ltd., said in a note after the report.
"Wage gains have moderated and inflation is set to moderate more appreciably in the second half. As such, the risks of a wage-price spiral are significantly reduced, and more importantly, downside risks to growth far outweigh."

China Slowdown

Singapore guides the local dollar against a basket of currencies within an undisclosed band and adjusts the pace of appreciation or depreciation by changing the slope, width and center of the band.

The local dollar is the second-best performer among the 11 most-traded Asian currencies tracked by Bloomberg, gaining about 2 percent against its U.S. counterpart this year.

China, one of the biggest drivers of Singapore's export growth last year, reported today gross domestic product expanded
7.6 percent last quarter from a year earlier, compared with an
8.1 percent gain in the previous period. The Bank of Korea reduced its growth forecast for this year after unexpectedly cutting interest rates yesterday.

"Global uncertainties continue to weigh on manufacturing as well as service driven industries," said Irvin Seah, an economist at DBS Group Holdings Ltd. in Singapore. "The risk towards a shift to a more gradual appreciation stance will increase if we see a continued downside risk to GDP."

Non-oil domestic exports account for about 60 percent of Singapore's economy, he estimates. DBS is Southeast Asia's biggest banking group.

Home Sales

Singapore's export growth held below 4 percent from a year earlier in both April and May, while retail sales rose at a slower pace in April as spending at department stores eased and vehicle purchases fell. Private home sales in May slumped 32 percent from a month ago to their lowest this year.

Temasek Holdings Pte, the state-owned investment company, said this month profit declined 16 percent in the last fiscal year as contributions from units fell amid the global slowdown.

Goldman Sachs Group Inc. and Bank of America cut their 2012 growth forecasts for Singapore today. Goldman Sachs expects expansion of 2.5 percent in 2012, while Bank of America predicts a pace of 1.9 percent from a previous forecast of 2.5 percent.

The city-state added fewer jobs than initially estimated in the first quarter, and the seasonally adjusted unemployment rate for the three months through March rose to 2.1 percent from 2 percent the previous quarter, a report showed last month.

Located at the southern end of the 600-mile (965-kilometer) Malacca Strait and home to one of the busiest container ports, the city state is vulnerable to fluctuations in overseas demand for manufactured goods. The government has boosted financial services and tourism to try and cut reliance on exports.

Today's Singapore GDP report is based on advance estimates that are computed largely from data in the first two months of the quarter. An updated estimate of second-quarter performance will be released in August.

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