

Singapore's growth could slow to 3% if US enters recession

It should come in at 5.5% if America suffers a slowdown only, say NTU experts

BY ALVIN FOO

SINGAPORE'S economic growth could slow to 3 per cent this year if a recession hits the United States in these few months, said Nanyang Technological University (NTU) economists yesterday.

The growth figure is expected to be 5.5 per cent if the US experiences a slowdown instead.

These predictions by the Econometric Modelling Unit of NTU's Economic Growth Centre were arrived at using models that depict two economic scenarios for the US.

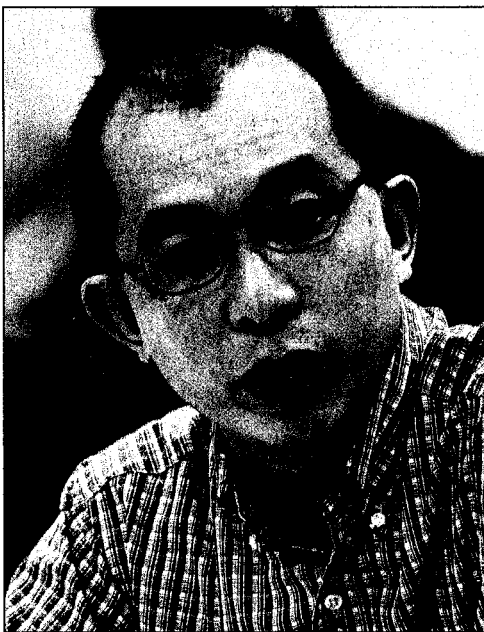
The optimistic outlook assumes a growth slowdown, while the pessimistic one has the US experiencing negative growth over the first two quarters before rallying later this year.

A recession is typically defined as two straight quarters of economic shrinkage in quarter-on-quarter terms.

Assistant Professor Choy Keen Meng, who leads the team responsible for the macroeconomic forecasts, said: "We expect a V-shaped pattern which implies faster recovery in the first scenario, and U-shaped growth if the US sinks into a moderate or severe recession."

Growth forecasts for Singapore this year range between 4 and 6 per cent among government and private-sector economists.

CIMB-GK economist Song Seng Wun said of the NTU prediction: "Three per cent sounds like the worst-case scenario - it implies a sharp global slowdown in the second half of this year."



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COUNTERBALANCE: Dr Choy says growth in India and China should offset US weakness.

He added that "5.5 per cent to 6.5 per cent is still doable because of the growth momentum carried over from last year".

A recent Monetary Authority of Singapore survey found that economists and analysts had lowered growth expectations for this year to 5.6 per cent, from 6.3 per cent in December.

Last year, Singapore's economy grew 7.7 per cent, fuelled by the booming construction and services sectors.

Dr Choy noted that Asian economic growth, most notably in China and India, will provide Singapore with a buffer against a slowdown or recession in the US.

However, consumer confidence and spending could be affected by the negative wealth effects.

Knock-on effects

NTU growth scenario 1

If economy grows by 5.5 per cent:

- » Inflation: 4.6 per cent.
- » Jobs created: 141,000.
- » Unemployment: 1.9 per cent.
- » Growth in monthly wages: 6 per cent.

NTU growth scenario 2

If economy grows by 3 per cent:

- » Inflation: 3.9 per cent.
- » Jobs created: 110,000.
- » Unemployment: 2.3 per cent.
- » Growth in monthly wages: 3.5 per cent.

Nevertheless, investment spending should remain robust because of construction projects, the integrated resorts and Formula One, Dr Choy said.

If Singapore grows at 5.5 per cent, NTU economists predict that overall inflation would hit 4.6 per cent for the year.

Under this scenario, some 141,000 jobs would be created, the unemployment rate would be 1.9 per cent and monthly wages would grow 6 per cent.

However, if Singapore grows at 3 per cent, inflation is forecast at 3.9 per cent.

In this case, 110,000 jobs are expected to be created, the unemployment rate would be 2.3 per cent and monthly wages would grow 3.5 per cent.

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