NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

Singapore: Market Update

Market Report

17
July
2020

Prepared by the New Zealand High Commission in Singapore, 17 July 2020

Summary

- Singapore is New Zealand's largest trading partner in South East Asia and a gateway to the ASEAN region.
- Singapore has gradually eased its COVID-19 containment measures, with the economy reopening in June, but border control measures are expected to largely remain. Advance estimates of Singaporean economic growth showed a 12.6 percent contraction in the second quarter of 2020, the sharpest since 1975. COVID-19-related fiscal spending now totals 19.2 percent of GDP.
- New Zealand's goods exports to Singapore were up by 20 percent for the first five months of 2020, compared to the same period in 2019. New Zealand food exports to Singapore have held up in 2020, with dairy and fruit exports increasing by 22 percent and 52 percent, respectively, and meat exports holding steady.
- Singapore's food security concerns provide an opportunity for New Zealand food and beverage companies. The city-state's digitalisation agenda also provides opportunities for New Zealand's fast-growing tech sector to expand its presence in-market.

Report

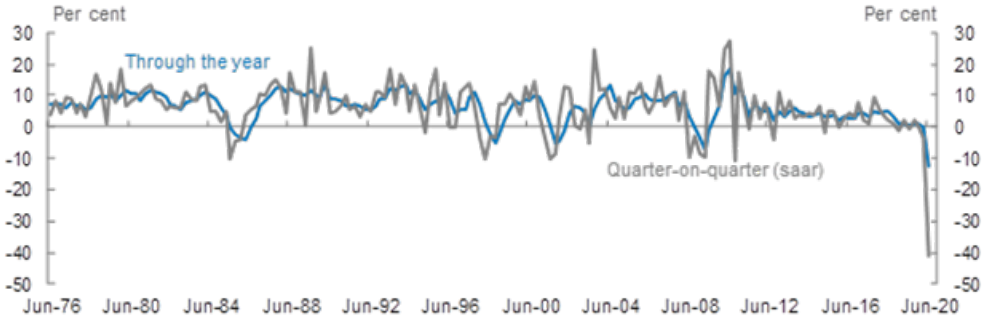
Update on Singapore's Economy

- Over the course of June, Singapore gradually eased its COVID-19 containment measures, with the relaxation on June 19 allowing both restaurants and retailers to operate. Despite the easing in domestic containment, the main features of current border control measures will likely remain in place – weighing on travel, hospitality, and related services, which form a sizable portion of the economy.

- The arrival of COVID-19 in January initially impacted specific sectors before broadening out to envelop much of Singapore's economy as restrictions were progressively introduced, including the circuit breaker lockdown period from 7 April to 1 June. This prompted the Government to draw up the four budgets containing wage subsidies, training assistance, various rebates and rent relief to provide assistance to companies and workers. Overall, announced COVID-19-related fiscal spending totals 19.2 percent of GDP. The total budget deficit is expected to reach 15.4 percent of GDP.

- The Singapore economy shrank 0.7 percent in the first three months of 2020 compared with a year earlier, but the April-June second-quarter has borne the brunt of the COVID-19 hit. Advance estimates from the Ministry of Trade and Industry showed GDP in the June quarter contracted by 12.6 percent compared with 2019, which is the sharpest fall since 1975 (Chart 1 refers).

Chart 1: GDP Growth, 1975 to 2020



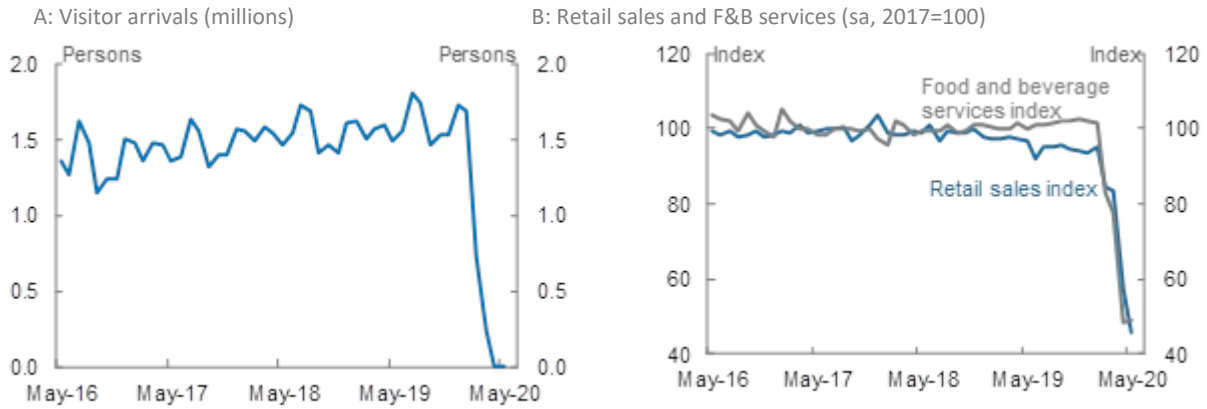
Source: CEIC and Ministry of Trade and Industry

- The largest contribution to the result came from services producing industries, with a contraction in the sector of 13.6 percent through the year and 37.7 percent quarter on quarter (seasonally adjusted annualised rate). In 2019, the services sector represented around two-thirds of the Singapore economy and around 74 percent of employment.

- **Tourism related sectors** have been severely affected by domestic and international travel restrictions, with visitor arrivals at a standstill (Chart 2A refers). Singapore recorded a total of 1,630 visitor arrivals in April and May compared to about 1.7 million in January.

- Domestic services such as **retail trade**, **food services** have been affected by the circuit breaker measures, which closed much of the economy other than essential services (Chart 2B refers). Singapore's retail sales index was down by 41 percent through the year in April and 53 percent in May. The online proportion of retail sales value, however, increased to 24.5 percent from the 5.8 percent recorded in January. The lifting of the circuit breaker measures, and the reopening of bricks and mortar retail as well as in-person dining may make for some improvement in June, but travel restrictions will continue to weigh on much of the sector.

Chart 2: Services Sector Indicators



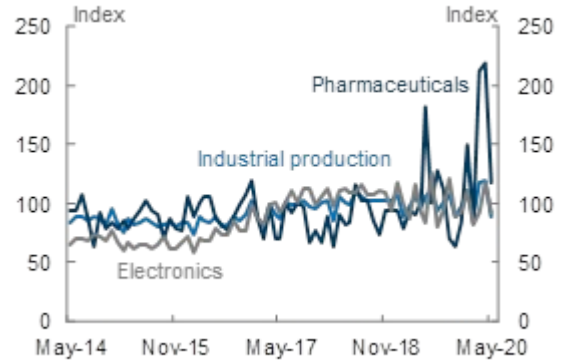
Source: CEIC

- The **construction sector** (around 3.5 percent of GDP) is estimated to have contacted by 54.7 percent in the second quarter of 2020 compared with 2019, and 95.6 percent quarter on quarter (seasonally adjusted annualised rate). Only essential projects were permitted to continue during the circuit breaker period. Additional restrictions to contain outbreaks in foreign worker dormitories were a further disruption. The Singapore Building and Construction Authority has allowed construction work to resume 'in a controlled manner' since early June. The Authority said that around 10 percent of the total construction workforce would be would gradually resume work in June. The sector seems likely to be affected for some time, with the gradual return to work weighing on the pace of the recovery.

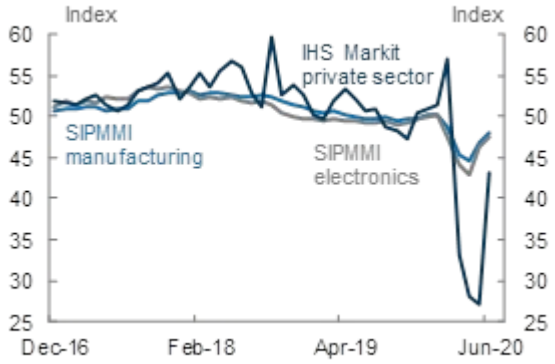
- The advance estimates for the **manufacturing sector** are an expansion of 2.5 percent for the second quarter of 2020, although a quarter on quarter basis shows a contraction of 23.1 percent (seasonally adjusted annualised rate). Growth was primarily in the **biomedical** cluster, but weak global demand, and workplace restrictions during the circuit breaker, weighed on other clusters. Pharmaceutical production has been elevated for the past few months, but slowed down in May (refer to Chart 3A). Industrial production overall contracted by 7.4 percent on a year earlier in May.

Chart 3: Manufacturing Indicators

A: Industrial production indices (2019=100)



B: Purchasing Managers Indices



Source: CEIC

- June Purchasing Managers Indices (PMI) suggested that the deterioration in the private sector slowed in June, with the index recovering to 43.2, from its record low of 27.1 in May (a reading above 50 indicates expansion while below 50 means activity is contracting). The Singapore Institute of Purchasing and Materials PMIs, reflecting **manufacturing and electronics** sectors, also strengthened in June, recovering to 48 and 47.6 respectively, from lows of 44.7 and 42.8 in April (Chart 3B refers), reflecting an easing in supply chain pressures. The indices have now been in the contraction zone for the past five month after ticking up in January.

- The advance GDP estimates were based largely on data from April and May which coincides with the circuit breaker period. They therefore do not capture the loosening of movement restrictions from 2 June, suggesting that the headline results may be revised up in August. While the June quarter probably represents a bottoming for the economy, the recovery is likely to be slow and bumpy amid ongoing domestic COVID-19 restrictions, weak global demand and rising geopolitical tension. Official forecasts are for the Singapore economy to shrink between 4 and 7 percent in 2020 (compared with the 0.5 to 2.5 percent growth predicted at the beginning of the year).

- There were 3,706 **business closures** in the month of May in Singapore. Business cessation numbers have thus far stayed within a tight range of 3,671 to 3,845 over the first five months of the year, but more business closures are expected (business cessation numbers tend to be lagging indicators and the Government's relief measures provide support to some extent). Tourism and hospitality will be worst hit, along with smaller businesses that do not have the capability to digitalise or those that were already weakened by trade tensions in 2019. The pandemic has added impetus to some ongoing structural shifts, such as online shopping. This will add pressure to some in the traditional retail sector.

- For the first quarter of 2020, overall **unemployment** increased slightly from 2.3 to 2.4 percent and foreign employment shrank by 60,000 from January to May 2020. Labour market conditions are expected to deteriorate in the second quarter. Job postings in Singapore have decreased 24 percent at the end of May compared to a year ago and the fall was across most sectors. Some sectors are still hiring, however, including healthcare, software, production and manufacturing, computing and IT. The Government has also signalled its intention to lift its own hiring, and has pledged to create 100,000 jobs.

New Zealand Export Trends and Opportunities

- Singapore was New Zealand's 7th largest trading partner and 5th largest source of Foreign Direct Investment in 2019. Two-way trade in goods and services totalled NZ$5.7 billion, with exports worth NZ$1.6 billion and imports NZ$4.1 billion (year-end December 2019). New Zealand goods exports to Singapore appear to be holding up in spite of COVID-19-related supply chain disruptions. Services exports, which are dominated by tourism and education, however, have felt the full force of the pandemic.

- Prior to the arrival of COVID-19, New Zealand goods exports to Singapore had grown consistently over the last decade, making Singapore New Zealand's 9th largest export market for goods. Exports increased by 35 percent from NZ$0.83 billion in 2010 to NZ$1.12 billion in 2019. While exports had previously reached the height of NZ$1.26 billion in 2018, the slight dip in 2019 can be attributed to fluctuations in New Zealand exports of crude oil. For the first five months of 2020, New Zealand's goods exports to Singapore were up by 20 percent compared to the same period in 2019 (NZ$488 million vs 408 million).

- New Zealand **food and beverage** exports to Singapore were strong prior to the onset of COVID-19, but some product categories have performed better than others in recent years. Dairy, food preparations, fruit and wine have grown consistently over the last decade, but meat and seafood exports have struggled, decreasing by 40 and 30 percent since 2010, respectively. Food and beverage exports appear to have held up well in the first five months of 2020. Of the key export product groups, dairy had grown by 22 percent compared with the same period in 2019, fruit had grown by more than 50 percent and meat was holding steady. Food preparations and wine were, however, down 37 and 38 percent, respectively, compared to the same period in 2019.

- COVID-19 has had a mixed impact on the food and beverage sector thus far. Panic buying in supermarkets saw an uptick in consumer demand earlier in the year. New Zealand companies in the food service sector have been badly hit by the closure of hotels and restaurants. Companies have been exploring deeper relationships in the online space to get back up and running. Those with an existing online presence have fared better, with some seeing a lift in sales through established online retailer partnerships. Larger companies have been more resilient to COVID-19-related shocks and have been able to navigate supply chain disruptions.

- Many New Zealand companies from other export sectors note it is too soon to know what impact COVID-19 will have on their operations in Singapore and the wider region. Restrictions enacted by the Singapore Government during the circuit breaker period have made it more difficult for some to operate, especially for those considered to be "non-essential" businesses by the Singapore Government

- Singapore is a promising market for New Zealand tech companies, which stand to benefit from the Government's digitalisation drive. **FinTech** companies continue to do well in the market. Opportunities for **EdTech** companies in the online education space were accelerated by the COVID-19 restrictions, which saw schools close. Opportunities also exist in Singapore for **AgriTech** companies, given the Singapore Government's focus on increasing domestic food production, specifically in the areas aquaculture and urban farming.

- Anecdotal evidence suggests that New Zealand's overall pandemic response and the support it provided to international students has resulted in increased interest in New Zealand as an **international education** destination, but border restrictions will need to be reduced or removed before the real impact of this sentiment will be known. There is an opportunity to promote New Zealand's specialist degrees, particularly in the areas of agritech and digital technologies, which are priorities for the Singapore Government.

- Prior to the onset of COVID-19, Singapore was in the top 10 source markets for New Zealand and had the highest growth rate within this group. Singapore outbound **tourism** numbers to New Zealand fell by approximately 98 percent in April and with the borders remaining closed the outlook has not changed. There is an opportunity to continue to build brand awareness in the hearts and minds of Singaporean consumers and travel sellers to continue to strengthen New Zealand's appeal when borders re-open.

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