Economics

DBS Flash

Singapore: Strong growth but watch inflation risks

Economics/growth/inflation/monetary

DBS Group Research | February 17, 2022

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- *Final GDP growth for 4Q21 came in in line with expectation at 6.1% YoY and 2.3% QoQ sa*
- *Upward revisions in previous quarters lifted the full-year growth to 7.6%*
- ***Implications for our forecast** – Our full-year growth forecast for 2022 remains at 3.5%*
- ***Implications for investors** – MAS may tighten monetary policy again in April*

The Singapore economy bounced back strongly from the pandemic. GDP growth for 2021 registered 7.6%, up from a revised -4.1% in the previous year. Despite the adjustment, 2020 is still the worst recession on record for the island state since Independence. The headline number is also higher than the original projection in the advance estimate (7.2%) as growth figures for all four quarters last year were revised upwards.

Fourth quarter GDP growth registered 6.1% YoY, in line with our forecast. Though this is lower from 7.5% in the previous quarter, the moderation comes on the back of a higher base in the same period last year. Note Singapore's economic momentum started improving from 3Q20 and gained speed in the fourth quarter that year.

GDP growth by sectors

	2020	1Q21	2Q21	3Q21	4Q21	2021*
% YoY						
Overall GDP	-4.1	2.0	15.8	7.5	6.1	7.6
Manufacturing	7.5	11.5	18.2	7.9	15.5	13.2
Construction	-38.4	-22.2	118.9	69.9	2.9	20.1
Services	-5.1	0.2	11.5	6.8	4.4	5.6
% QoQ sa						
Overall GDP	-4.1	3.0	-0.8	1.5	2.3	7.6
Manufacturing	7.5	7.9	0.1	0.8	6.3	13.2
Construction	-38.4	3.7	0.1	1.1	-2.1	20.1
Services	-5.1	1.9	-0.2	1.3	1.4	5.6

Source: MTI

A high vaccination rate will put the economy firmly on the reopening path in 2022. Furthermore, we believe the recovery will become more broad-based as the country continues to ease restrictive measures and pivot towards living with COVID. That said, economic normalisation remains at work and recovery momentum is expected to slow. Despite the slower pace, the quality of growth will improve. As Singapore pushes to inoculate the remaining population and presses forward with reopening the economy, particularly revitalising the struggling travel-related sector, contributions to GDP growth from the various sectors will become less lop-sided, and the recovery will become more even. **We expect full-year GDP growth to ease to 3.5% in 2022, in line with the official forecast range of 3.0 – 5.0%.**

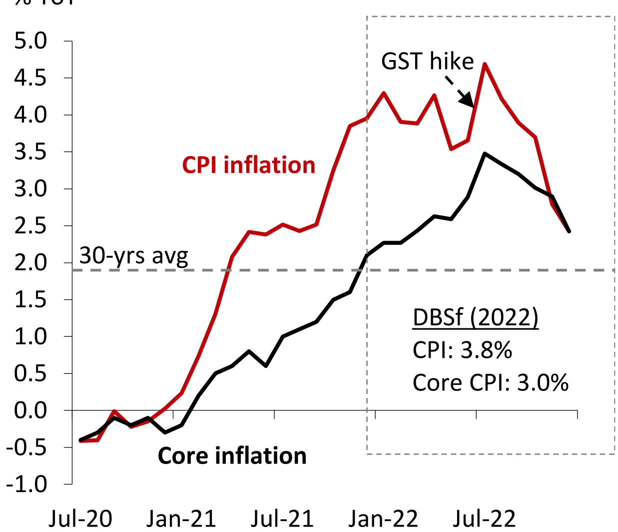
However, there are still headwinds against the medium-term outlook. China is the critical risk to watch on the growth front, which will have profound implications on the prospects for the manufacturing sector, which thus far has been the main engine of the recovery. In the immediate term, monitor the Russia-Ukraine crisis closely because it could further propel oil prices, exacerbate inflation, and potentially derail the recovery.

Indeed, inflation will be a crucial risk. Inflation has continued to surprise on the upside, with December print at 4% YoY, the highest reading since Feb13. Core inflation has also risen to 2.1%, the highest since 2014. Transport inflation was the key driver, registering 13.7% on the back of a combination of higher COE premiums and fuel prices. Beyond that, higher housing and utility prices exacerbated the domestic price pressure.

Externally, energy and commodity prices (e.g., metal), and some agricultural product prices are rising, leading to costlier wholesale prices and higher production and construction costs. Asset inflation is also building up. Property prices in Singapore have remained resilient for most of the pandemic period. The confluence of domestic and external inflationary pressure has significantly altered the trajectory of inflation. With the economy firmly on the recovery path and growth momentum likely to be sustained in the coming quarter, inflation is expected to remain elevated throughout 2022.

We expect headline inflation to average 3.8% in 2022, higher than the new official forecast range of 2.5%-3.5%. The price barometer will likely hover around the 4% level in the coming months before tapering off on a high base effect towards the end of the year. Core inflation is also projected to be higher at 3.0%, up from 0.9% in 2021. And to add to the concern, there is a risk that the upcoming GST hike may take effect as early as July this year. Expect another spike in inflation should the GST be introduced. Hence, there is urgency for policymakers to anchor inflation expectations and to buffer imported inflation.

Inflation set to rise higher



Sources: CEIC, DOS, DBS

The Monetary Authority of Singapore "slightly" increased the slope of the SGD NEER policy band in an inter-meeting on 25 January. The policy band was last returned to a gradual and modest appreciation path at the scheduled meeting in October 2021. Presently, we estimate the band to rise at a pace of 2% a year vs 1% from October. **Amid the inflationary pressure, another tightening at the scheduled policy meeting in April is possible, which in turn have a "cooling" effect on growth.**

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)