Economics

DBS Flash

Singapore: Slower growth ahead

Economics/growth/inflation/monetary

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- *Final GDP growth for 1Q22 was in line with expectation at 3.7% YoY and 0.7% QoQ sa*
- *Growth momentum will continue to ease in the coming quarters*
- ***Implications for our forecast** – Our full-year growth forecast for 2022 remains at 3.5%*
- ***Implications for investors** – Slower growth may tilt policy decision in October*

Final GDP figures for the first quarter announced today saw economic growth momentum easing amid increasing external headwinds. The headline GDP growth number registered 3.7% YoY (DBSf: 3.6%), much in line with expectation, but down from 6.1% in the previous quarter. On the margin, growth momentum has eased to 0.7% QoQ sa (DBSf: 0.6%), from 2.3% previously.

Notably, there has been a broad-based slowdown in growth on a YoY basis, which is consistent with our long-held-belief. And more importantly, growth momentum (QoQ sa) in the key manufacturing sector has

GDP growth by sectors

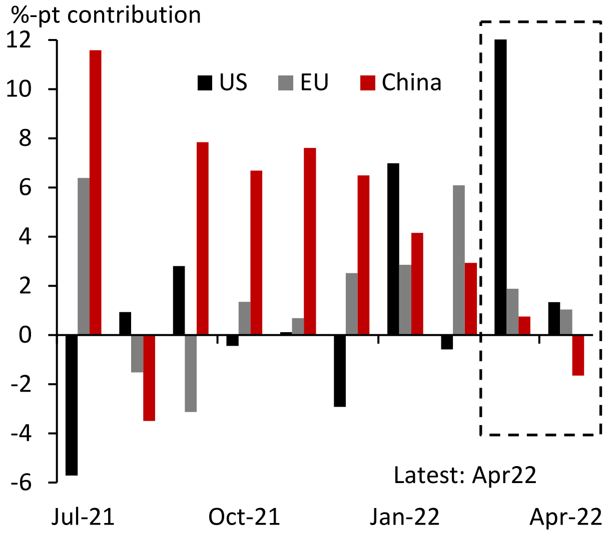
	1Q21	2Q21	3Q21	4Q21	2021	1Q22
% YoY						
Overall GDP	2.0	15.8	7.5	6.1	7.6	3.7
Manufacturing	11.5	18.2	7.9	15.5	13.2	7.1
Construction	-22.2	118.9	69.9	2.9	20.1	2.1
Services	0.2	11.5	6.8	4.4	5.6	4.2
% QoQ sa						
Overall GDP	3.0	-0.8	1.5	2.3	7.6	0.7
Manufacturing	7.9	0.1	0.8	6.3	13.2	-0.2
Construction	3.7	0.1	1.1	-2.1	20.1	3.2
Services	1.9	-0.2	1.3	1.4	5.6	1.7

Source: MTI

dipped marginally into the red (-0.2%), the first decline after four consecutive quarters of expansion. Though this is likely part and parcel of the normalisation process, downside risk is emerging, which could take further toll on this key engine of recovery.

China is the key factor which could pose a drag on the manufacturing sector in the next 1-2 quarters. Amid spikes in domestic infections, the resulting lockdowns in key cities amid its zero Covid policy, domestic demand from within China has softened while supply chains in the region have been severely disrupted. This will have profound implications on the prospects of Singapore's manufacturing sector,

China is becoming a drag on NODX growth

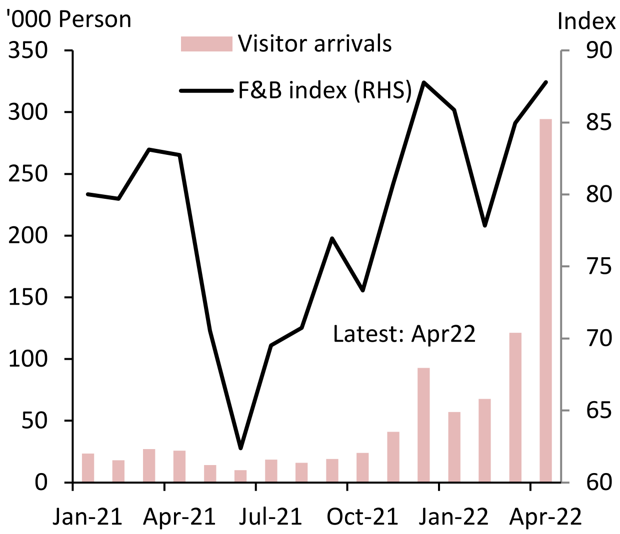


Sources: CEIC, DOS, DBS

which thus far has been the main engine of the recovery. **The second quarter GDP growth may show a QoQ (sa) decline as a result.**

Yet, recovery will become more broad-based on the services sector. The re-opening of the borders and easing of measures will ensure the "quality" of growth will improve in the coming quarters. Barring the risks of COVID resurgence or further mutation of the virus, global travel will steadily pick up. This would prompt a speedier recovery in the hospitality, F&B, aviation and tourism related services industries The number of tourist arrivals and the F&B index are showing early signs of improvement. This will likely be one of the key silver linings in the coming months.

Improvement in F&B and tourist arrivals



Source: STB, DOS

Externally oriented services such as shipping, wholesale trade and financial services will continue to do well. IT services will benefit from the increased investment in digital solutions and further adoption of new technologies, while business services will continue to leverage on the overall improvement in business sentiments, as well as a still resilient real estate activity.

Labour crunch remains the biggest challenge for the construction sector. The continued moderation in growth momentum is a reflection of the manpower crunch within this sector even though project pipeline remains strong. As of 4Q21, there is an unprecedented job vacancy of 12.4K in the industry. Indeed, the sector is still far from a full recovery from the pandemic, as the value-added of the sector is still below pre-COVID level. The reopening of the borders should help but such manpower bottleneck will take time to resolve.

Risks from the Russia-Ukraine war continue to linger. Beyond the overhanging risk to global geopolitical stability, the war has already driven global energy, food and commodity prices significantly higher. Such global inflationary pressure will spill over into Singapore's domestic price dynamics and hurt its medium-term growth outlook. Malaysia's poultry export ban will only exacerbate the inflationary pressure. Juxtaposed with an already tight labour market and an increasingly positive output gap, Singapore's headline number will continue to hover at about 5% level in the coming months. High inflation will surely weigh down on consumer spending. The resulting monetary policy tightening by global central banks to rein in inflation will also imply a weaker global growth outlook, which in turn will have ripple effect on the Singapore economy.

We're maintaining our long-held below-consensus forecast of 3.5% GDP growth for 2022. The Ministry of Trade and Industry (MTI) has also highlighted in today's statement that full year GDP growth will fall in the lower half of the existing official forecast range of 3-5%, which is smack in line with our expectation.

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