Economics

DBS Flash

Singapore: Balancing growth and inflation

Economics/growth/inflation/monetary

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- *Advance GDP growth for 2Q22 was in line with expectation at 4.8% YoY and 0.0% QoQ sa*
- *Growth momentum will remain sluggish 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*

Advanced GDP estimates for 2Q22 announced today saw economic growth momentum easing amid increasing external headwinds. Although the headline GDP growth is projected to be higher at 4.8% YoY (DBSf: 4.6%) vs 4.0% in the previous quarter, it is the sequential number that is of concern. Compared to the previous quarter, the economy registered zero growth (DBSf: 0.1% QoQ sa), down from 0.9% previously, and narrowly averted a decline. This is in line with our long-held view that there will be spill-over effects from a slowdown in China and pick-up in global uncertainties and increasingly tighter monetary conditions.

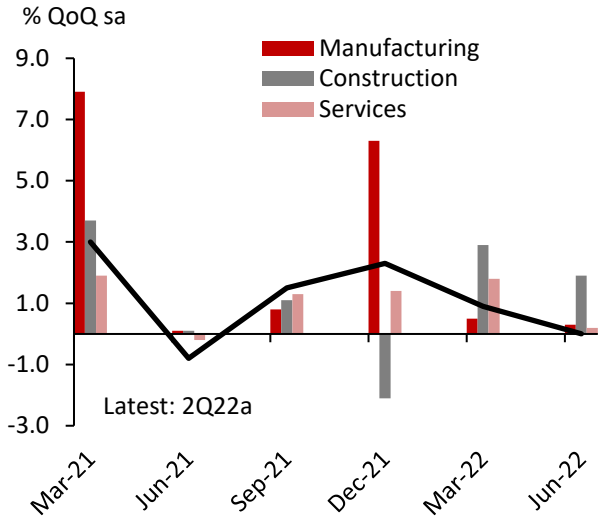
GDP growth by sectors

	2Q21a	3Q21a	4Q21	2021*	1Q22	2Q22a
% YoY						
Overall GDP	15.8	7.5	6.1	7.6	4.0	4.8
Manufacturing	18.2	7.9	15.5	13.2	7.9	8.0
Construction	118.9	69.9	2.9	20.1	1.8	3.8
Services	11.5	6.8	4.4	5.6	4.3	4.7
% QoQ sa						
Overall GDP	-0.8	1.5	2.3	7.6	0.9	0.0
Manufacturing	0.1	0.8	6.3	13.2	0.5	0.3
Construction	0.1	1.1	-2.1	20.1	2.9	1.9
Services	-0.2	1.3	1.4	5.6	1.8	0.2

Source: MTI

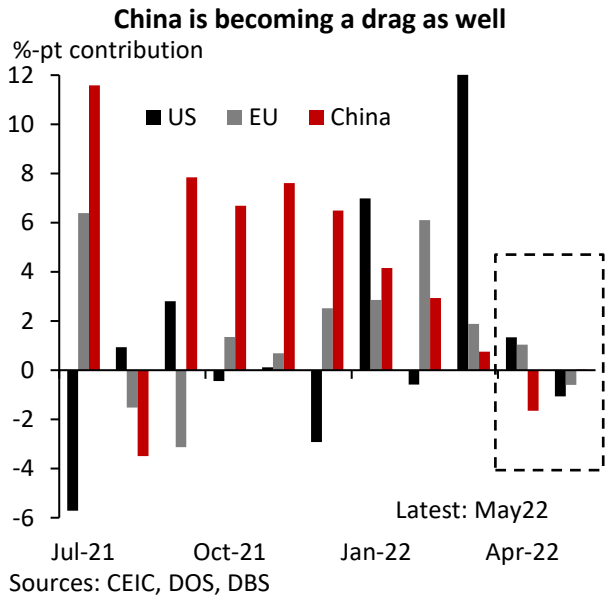
Although the headline YoY figures for all the three major sectors – manufacturing, services and construction – showed an improvement, the sequential numbers are reflecting a unanimous easing in growth momentum.

Growth momentum has eased



Sources: CEIC

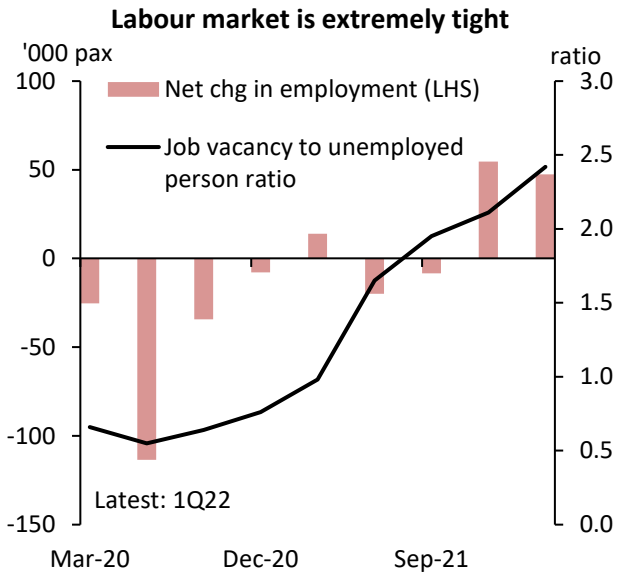
China is the key factor. It has posed a drag on the manufacturing sector in recent months. Amid spikes in domestic infections, the resulting lockdowns in key cities amid its zero-Covid policy, domestic demand from within China has softened while supply chains in the region have been severely disrupted. This has



Sources: CEIC, DOS, DBS

somewhat impacted the performance of the manufacturing sector, which thus far has been the main engine of the recovery. That said, the recent easing of COVID measures in China could potentially lift export sales to China and some much-needed impetus for the manufacturing sector, particularly given the slowdown in global economic outlook.

While the re-opening of borders and easing of measures will prompt better growth performance in the services sector, **manpower crunch could potentially dampen the pace of recovery.** The same situation is occurring in the construction sector as well. Note these are all relatively more labour-intensive industries. Companies are starved of headcounts to fill roles that were vacant during the pandemic. It will take time for these positions to be filled, and for workers to be trained.



Source: MOM, CEIC

Indeed, employment growth in 4Q21-1Q22 hit a multi-year high of 102K, the highest since 2008. Job vacancies to unemployed person ratio posted a record high of 2.42. Such labour market tightness is beginning to weigh on the growth potential of some traditionally labour-intensive sector. As such, constraint from the manpower bottleneck will continue to moderate the pace of recovery in the services and construction sector in the immediate term.

The Monetary Authority of Singapore (MAS) did an off cycle move today. In line with our view, the MAS has announced an upward re-centering of the SGD NEER policy band to the mid-point of the prevailing level, while keeping the slope and width of the band unchanged. Indeed, with inflationary pressure likely to remain elevated, there is strong impetus for the central bank to anchor inflation expectation.

However, it'll be a delicate balancing act ahead for the authority. While the focus of MAS' pre-emptive and decisive monetary actions since last October has been on keeping imported inflation at bay, something which an exchange rate based monetary policy is highly effective against, the challenge in the coming quarters will be somewhat different. Output gap is becoming increasingly more positive. With the labour market being so tight, wage growth will likely stoke a second order impact on inflation. That is, inflation will increasingly become more domestically driven. While an interest rate regime adopted by most central banks around

the world will be effective in directly taming domestic inflation, the impact of an exchange rate based monetary policy on domestic inflation would be less direct. The challenge for the MAS would be maintaining the balance between the slowing growth momentum in the economy and the inflationary pressure built up within. Perhaps an equilibrium will be reached when the economy cools to the point where domestic wage pressure eases. But between then and now, the risk of a wage-price spiral exists, and hence the need to anchor inflation expectation. Whether the latest move will be sufficient to achieve that remains to be seen.

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