Singapore

# Economics Update

## Strong price pressures into 2023

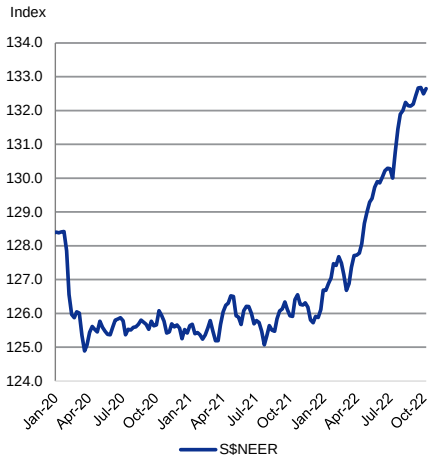
- The MAS tightened its monetary policy for the fifth time since Oct 2021, this time by re-centring the S$NEER slope upwards to the prevailing level.
- Inflationary pressure could be sustained going forward, amid the planned GST increase in 2023. We revise upwards our 2023F CPI to 4.5% yoy.
- Similarly, advance 3Q22 GDP points towards a stronger rebound at 1.5% qoq s.a. We maintain GDP forecasts at 3.8% yoy in 2022F and 2.0% in 2023F.

**GDP forecast**

| | Actual | Forecast | |
|---|---|---|---|
| | 3Q22* | CGS-CIMB | Cons** |
| GDP growth - %yoy | 4.4 | 4.4 | 3.5 |
| GDP growth - %qoq sa | 1.5 | - | 0.7 |

*Advance estimate
**Bloomberg median consensus

**MAS: "The S$NEER has broadly appreciated and is now close to the top of the policy band."**




### Re-centring S$NEER upwards

In today's Monetary Policy Statement (MPS), the Monetary Authority of Singapore (MAS) announced a tightening move by re-centring upwards the mid-point of the Singapore dollar nominal effective exchange rate (S$NEER), with no change to the slope or the width of the band. This is above our expectation as we only predicted MAS to keep the slope of the S$NEER unchanged.

### Inflation to remain high due to domestic factors

In general, MAS saw slightly stronger price pressure compared to its previous assessment in Jun 2022. MAS expects core CPI to average around 4.0% yoy for 2022 (vs. previous assessments of 3.0-4.0%) and headline CPI inflation at around 6.0% yoy (compared to 5.0-6.0% previously). For 2023's inflation outlook, MAS expects core inflation to remain quite high, at between 3.5-4.5%, and headline CPI at 5.5-6.5%, following the impact from the GST increase in Jan 2023. Interestingly, MAS also released its 2023 CPI forecast excluding the GST impact, which, to our surprise, still remains high, at 2.5–3.5% yoy for core inflation and 4.5–5.5% for headline inflation. Given the downward trend in commodity prices, high base effects, and possibility a global slowdown, 2023F inflation should taper lower, in our view. MAS defended its forecasts by saying that "*cost pressures, which have been accumulating along domestic and global supply chains, will continue to pass through to consumer prices*", on top of ongoing pressure from "*tight domestic labour market",* which will *"support robust wage increases*". We also expect potential price pressure from the property market, as 2Q22 residential property prices grew by a 10-year high of 13.9% yoy, despite some property cooling measures taken by the government recently to try to tame prices. Amid guidance by MAS and expectation of domestic price adjustments, we revise upwards our CPI outlook for 2023F to 4.5% in 2023F (from 2.6% previously).

### GDP advance estimates for 3Q22 at 4.4% yoy

Released at the same time, the MAS's GDP advance estimates showed that the economy grew by 4.4% yoy in 3Q22, easing slightly from 4.5% in 2Q22. On a qoq s.a. basis, GDP expanded 1.5%, an improvement from the 0.2% contraction in the previous quarter. The manufacturing sector declined on a qoq s.a. basis by 3.3%. Meanwhile, construction output accelerated, with more pick-up in public and private construction activities, supported in part by the easing of border restrictions on the inflow of migrant workers. In the services sector, growth in wholesale trade was mainly driven by the resilient performance of Singapore's non-oil exports. Growth in the retail trade and transportation and storage sectors was supported by low base effects, as domestic and travel restrictions had weighed on activities in those sectors in 3Q21.

### Slowing momentum for growth ahead

The growth outlook for 2023F is dim, in our view. The possible effects of the GST increase starting Jan 2023 would likely keep private consumption growth muted. Moreover, the global economic outlook is bleak, with the recent IMF forecast highlighting a slowdown in growth in the US and China, with recession in some European countries, including Germany and Italy. Even MAS has stated that the economy is likely to "*grow at a pace that is below trend*" in 2023. Overall, we maintain our real GDP forecast at 3.8% yoy for 2022F, with a moderation in growth for 2023F at 2.0%.

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## Figure 1: Advance GDP breakdown by economic activity

| | 2021 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22* | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | %yoy | | | | | seasonally adjusted %qoq | | | |
| **Real GDP** | 7.6 | 7.5 | 6.1 | 3.9 | 4.5 | 4.4 | 1.5 | 2.3 | 0.8 | -0.2 | 1.5 |
| **Goods Producing Industries** | 13.4 | 11.7 | 13.6 | 5.1 | 5.4 | 2.2 | 2.0 | 4.6 | -1.5 | 0.3 | -1.1 |
| Manufacturing | 13.2 | 7.9 | 15.5 | 5.5 | 5.7 | 1.5 | 0.8 | 6.3 | -1.7 | 0.4 | -3.3 |
| Construction | 20.1 | 69.9 | 2.9 | 3.2 | 4.8 | 7.8 | 1.1 | -2.1 | 4.3 | 1.5 | 3.9 |
| **Services Producing Indsutries** | 5.6 | 6.8 | 4.4 | 4.9 | 4.8 | 6.1 | 1.3 | 1.4 | 2.4 | -0.2 | 2.5 |
| Wholesale & Retail Trade and Transportation & Storage | 4.5 | 6.1 | 4.2 | 4.6 | 2.9 | 6.2 | 0.8 | 1.3 | 2.6 | -1.9 | 4.2 |
| Information & Communications, Finance & Insurance, and Professional Services | 7.7 | 9.1 | 6.6 | 6.3 | 4.7 | 4.0 | 2.4 | 2.5 | -1.1 | 0.9 | 1.7 |
| Accommodation & Food Services, Real Estate, Administrative & Support Services, and Other Services | 4.0 | 4.5 | 1.6 | 3.4 | 7.6 | 9.2 | 0.4 | 2.6 | 3.3 | 1.3 | 1.8 |

*Advance estimates*

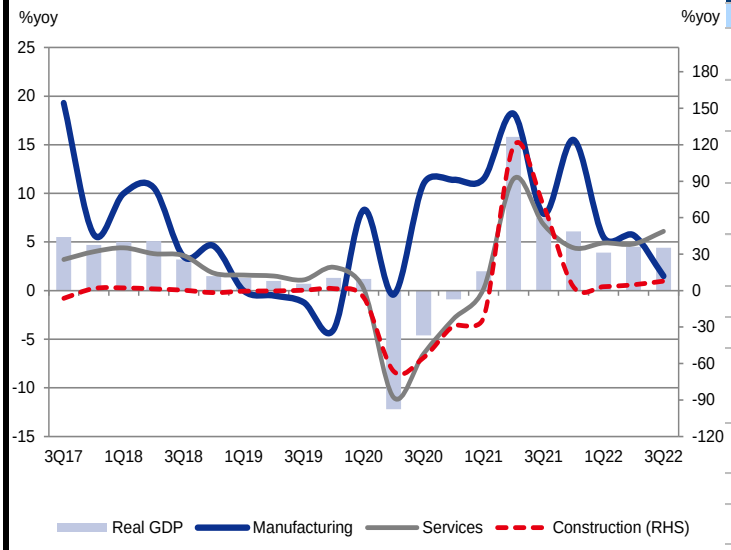
SOURCES: CEIC, CGS-CIMB RESEARCH

## Figure 2: Singapore's inflation

| | Weight | Jun 22 | Jul 22 | Aug 22 | 8M22 | Jun 22 | Jul 22 | Aug 22 |
|---|---|---|---|---|---|---|---|---|
| | % | | %yoy | | | | %mom sa | |
| **Consumer Price Index (CPI)** | **100.0** | **6.7** | **7.0** | **7.5** | **5.7** | **1.0** | **0.6** | **0.5** |
| **MAS Core Inflation** | **65.8** | **4.4** | **4.8** | **5.1** | **3.6** | **-** | **-** | **-** |
| Food | 21.1 | 5.4 | 6.1 | 6.4 | 4.4 | 1.0 | 0.8 | 0.6 |
| Clothing & Footwear | 2.1 | 5.5 | 6.6 | 8.7 | 1.6 | -1.3 | 4.1 | 1.4 |
| Housing & Utilities | 24.8 | 5.2 | 5.9 | 6.0 | 5.0 | 0.6 | 1.2 | 0.1 |
| Household Durables & Services | 4.9 | 2.1 | 1.9 | 2.2 | 1.9 | 0.0 | 0.1 | 0.6 |
| Health Care | 6.6 | 1.9 | 2.7 | 2.7 | 1.8 | 0.7 | 1.1 | 0.1 |
| Transport | 17.1 | 18.8 | 19.0 | 20.2 | 16.9 | 3.0 | 0.1 | 0.8 |
| Communication | 4.1 | -1.1 | -1.3 | -1.1 | -1.6 | -0.5 | -0.4 | 0.5 |
| Recreation & Culture | 7.9 | 5.1 | 4.9 | 5.9 | 3.3 | 1.4 | 0.1 | 1.2 |
| Education | 6.6 | 2.2 | 2.2 | 2.2 | 2.1 | 0.1 | 0.2 | -0.1 |
| Miscellaneous Goods & Services | 4.8 | 0.4 | 0.4 | 0.2 | 0.2 | 0.3 | -0.4 | 0.1 |
| **CPI Less Imputed Rentals on OOA** | **82.5** | **7.1** | **7.5** | **8.0** | **6.1** | **1.1** | **0.6** | **0.5** |
| **CPI Less Accommodation** | **78.0** | **7.4** | **7.7** | **8.2** | **6.3** | **1.2** | **0.5** | **0.6** |

SOURCES: CEIC, CGS-CIMB RESEARCH

## Figure 3: Manufacturing a drag on GDP advance estimate growth




SOURCES: MAS, CGS-CIMB RESEARCH

## Figure 4: Past MPC decisions

| Date | Monetary policy decision | | |
|---|---|---|---|
| | Slope | Width | Midpoint |
| 14-Oct-22 | - | - | Re-centre to prevailing level of S$NEER |
| 14-Jul-22 | - | - | Re-centre to prevailing level of S$NEER |
| 14-Apr-22 | Increase slightly | - | Re-centre to prevailing level of S$NEER |
| 25-Jan-22 | Increase slightly | - | - |
| 14-Oct-21 | Increase slightly | - | - |
| 14-Apr-21 | - | - | - |
| 14-Oct-20 | - | - | - |
| 30-Mar-20 | Adopt a 0% rate of appreciation | - | Recentre to the prevailing level of S$NEER |
| 14-Oct-19 | Reduce rate of appreciation slightly | - | - |
| 12-Apr-19 | - | - | - |
| 12-Oct-18 | Increase slightly | - | - |
| 13-Apr-18 | Increase slightly from 0% appreciation | - | - |

SOURCES: CEIC, CGS-CIMB RESEARCH

## Figure 5: Key macro forecasts

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022F | 2023F |
|---|---|---|---|---|---|---|---|---|---|
| **Real GDP (%yoy)** | | | | | | | | | |
| Malaysia | 5.1 | 4.4 | 5.8 | 4.8 | 4.4 | -5.5 | 3.1 | 7.3 | 5.0 |
| Indonesia | 4.9 | 5.0 | 5.1 | 5.2 | 5.0 | -2.1 | 3.7 | 5.3 | 5.1 |
| Singapore | 3.0 | 3.6 | 4.7 | 3.7 | 1.1 | -4.1 | 7.6 | 3.8 | 2.0 |
| Thailand | 3.1 | 3.4 | 4.2 | 4.2 | 2.2 | -6.2 | 1.6 | 3.3 | 3.5 |
| **Headline inflation, average (%yoy)** | | | | | | | | | |
| Malaysia | 2.1 | 2.1 | 3.8 | 1.0 | 0.7 | -1.1 | 2.5 | 3.1 | 3.2 |
| Indonesia | 6.4 | 3.5 | 3.8 | 3.2 | 2.8 | 2.0 | 1.6 | 5.0 | 5.5 |
| Singapore | -0.5 | -0.5 | 0.6 | 0.4 | 0.6 | -0.2 | 2.3 | 5.1 | 4.5 |
| Thailand | -0.9 | 0.2 | 0.7 | 1.1 | 0.7 | -0.8 | 1.2 | 6.0 | 2.7 |
| **Headline inflation, end-period (%yoy)** | | | | | | | | | |
| Malaysia | 2.7 | 1.7 | 3.5 | 0.2 | 1.0 | -1.4 | 3.2 | 3.7 | 2.9 |
| Indonesia | 3.4 | 3.0 | 3.6 | 3.1 | 2.6 | 1.7 | 1.9 | 7.8 | 2.9 |
| Singapore | -0.6 | 0.2 | 0.4 | 0.5 | 0.8 | 0.0 | 4.0 | 4.2 | 3.0 |
| Thailand | -0.9 | 1.1 | 0.8 | 0.4 | 0.9 | -0.3 | 2.2 | 4.9 | 1.2 |
| **Unemployment rate, end-period (%)** | | | | | | | | | |
| Malaysia | 3.4 | 3.5 | 3.3 | 3.3 | 3.3 | 4.8 | 4.2 | 3.7 | 3.3 |
| Indonesia | 6.2 | 5.6 | 5.5 | 5.2 | 5.2 | 7.1 | 6.5 | 5.7 | 5.5 |
| Singapore | 1.6 | 1.9 | 1.8 | 1.9 | 2.0 | 2.8 | 2.1 | 2.1 | 2.1 |
| Thailand | 0.7 | 0.8 | 1.0 | 0.9 | 1.0 | 1.5 | 1.9 | 1.4 | 1.3 |
| **Fiscal balance (% of GDP)** | | | | | | | | | |
| Malaysia | -3.2 | -3.1 | -2.9 | -3.7 | -3.4 | -6.2 | -6.4 | -5.5 | -4.3 |
| Indonesia | -2.6 | -2.5 | -2.5 | -1.8 | -2.2 | -6.1 | -4.6 | -4.2 | -2.9 |
| Singapore | -0.9 | 1.4 | 2.3 | 0.7 | 0.2 | -10.8 | -0.9 | 0.5 | 0.0 |
| Thailand | -2.9 | -2.8 | -3.5 | -3.0 | -3.0 | -5.2 | -4.8 | -4.5 | -3.9 |
| **Current account balance (% of GDP)** | | | | | | | | | |
| Malaysia | 3.0 | 2.4 | 2.8 | 2.2 | 3.5 | 4.2 | 3.8 | 1.7 | 2.1 |
| Indonesia | -2.0 | -1.8 | -1.6 | -2.9 | -2.7 | -0.4 | 0.3 | 0.6 | -0.9 |
| Singapore | 18.7 | 17.6 | 17.3 | 15.2 | 14.5 | 16.8 | 18.1 | 17.5 | 16.7 |
| Thailand | 6.9 | 10.5 | 9.6 | 5.6 | 7.0 | 4.2 | -2.1 | -0.5 | 2.6 |
| **International reserves (US$ bn)** | | | | | | | | | |
| Malaysia | 95.3 | 94.5 | 102.4 | 101.4 | 103.6 | 107.6 | 116.9 | 117.9 | 124.8 |
| Indonesia | 105.9 | 116.4 | 130.2 | 120.7 | 129.2 | 135.9 | 144.9 | 139.2 | 142.4 |
| Singapore | 247.7 | 246.6 | 279.9 | 287.7 | 279.5 | 362.3 | 417.9 | 411.0 | 434.0 |
| Thailand | 156.5 | 171.9 | 202.6 | 205.6 | 224.3 | 258.1 | 246.0 | 230.0 | 242.0 |
| **Policy rate, end-period (%)** | | | | | | | | | |
| Malaysia | 3.25 | 3.00 | 3.00 | 3.25 | 3.00 | 1.75 | 1.75 | 2.50 | 3.00 |
| Indonesia | - | 4.75 | 4.25 | 6.00 | 5.00 | 3.75 | 3.50 | 4.25 | 5.00 |
| Singapore* | - | - | - | - | - | - | - | - | - |
| Thailand | 1.50 | 1.50 | 1.50 | 1.75 | 1.25 | 0.50 | 0.50 | 1.25 | 1.50 |
| **Currency, end-period (per US$)** | | | | | | | | | |
| Ringgit, MYR | 4.29 | 4.49 | 4.05 | 4.13 | 4.09 | 4.02 | 4.17 | 4.60 | 4.40 |
| Rupiah, IDR | 13,788 | 13,473 | 13,568 | 14,390 | 13,866 | 14,050 | 14,253 | 14,700 | 14,400 |
| Singdollar, SGD | 1.42 | 1.45 | 1.34 | 1.36 | 1.35 | 1.32 | 1.35 | 1.35 | 1.32 |
| Thai baht, THB | 36.08 | 35.80 | 32.58 | 32.55 | 29.97 | 29.95 | 33.41 | 34.40 | 33.80 |

**Monetary policy in Singapore is centred on the exchange rate, rather than interest rate*

SOURCES: CEIC, BLOOMBERG, CGS-CIMB RESEARCH

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|---|---|---|---|---|---|
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