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Final MAS Tightening in Sight as Growth Slows, Economy to Skirt Recession

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MAS Preview: Tightening via Re-Centering of S$NEER Band

We expect the MAS to tighten by re-centering the S$NEER band to the prevailing level at the mid-April meeting to dampen core inflation, which remains well above the MAS' comfort zone. We do not expect a change to the slope and width of the band. This will be the sixth consecutive tightening move since October 2021, and possibly the final one as the economy is slowing significantly due to weakening external demand. The US and Europe banking turmoil has had limited impact on Singapore's banking system and economy so far. The Fed's liquidity facilities and deposit guarantees are helping to stabilize financial markets and calm depositors at the troubled banks. The S$NEER is trading at around +1.5% above the implied mid-point, or at the upper half of the band, by our estimates. We forecast 3M SORA climbing to 3.7% (from current 3.5%) by year-end, predicated on one more +25bps Fed rate hike. Tightening monetary conditions and rising interest rates are dampening loan demand. System-wide loan growth contracted by -4.2% in Jan 2023, led by business loans.

Core Inflation Sticky, Expect MAS to Raise Core Forecast Range

We raise our forecast for average core inflation to 4.5% (from 4%) given sticky core inflation, but maintain our forecast for headline inflation at 6%. MAS will likely raise its 2023 core inflation forecast to 4% to 5% (from 3.5% to 4.5%) but maintain its headline inflation forecast at 5.5% to 6.5%. Core inflation (+5.5% in Jan-Feb) remains sticky with broad price increases across food, retail, and services. Expansion of the Progressive Wage Model to food services may fan food price pressures. Prices of retail & other goods and services will likely remain elevated with the 1%pt GST hike in Jan 2023 and tight labor market. Headline inflation (+6.5% in Jan-Feb), on the other hand, is easing on the back of slowing private transport costs due to high base effects from last year's surge in COE premiums. Accommodation cost is likely nearing its peak as more supply of HDB flats and condominiums will become available in the market in the second half of the year.

Decoupling from US Recession as China Reopens

The global banking turmoil may exert a deflationary impact on growth and prices. Inflation could fall a lot more quickly in the coming quarters, as tightening global credit conditions and rising short-term interest rates dampen investment and consumer spending. Probability of a US recession has risen to 58% over the next 12 months, by our model estimates based on the 3m-10y Treasury yield curve. Singapore's GDP growth is highly correlated (0.38) with US growth historically. Probability of a Singapore recession has risen to 30%, higher than the 22% in March 2008 (prior to GFC). China's reopening has not had a meaningful impact on manufacturing and exports so far, but we expect a more visible impact on growth from the second quarter onwards, which should help decouple Singapore from a US recession.

Growth to Slow in 1Q, "Two-Sided" Economy

Flash 1Q23 GDP is expected to come in at around +1.1% on a year-on-year basis (vs. +2.1% in 4Q), the slowest pace since 4Q 2020. On a quarter-on-quarter seasonally adjusted basis, GDP is expected to rise by +0.5% (vs. +0.1% in 4Q), avoiding a contraction and a potential recession. Singapore's "two-sided" economy is characterized by the divergence between the external-oriented and reopening sectors. Weaker growth is due to the sharp manufacturing contraction (-5.9% in Jan-Feb) and slowing external-oriented services (wholesale trade, water transport, finance & insurance). Hospitality and consumer-related services (accommodation & food services, retail trade, and air transport) are more resilient. Construction will be the bright spot, extending its double-digit growth with the return of foreign workers. We are forecasting GDP growth at 1.7% in 2023, slightly above the mid-point of MTI's forecast range of 0.5% to 2.5%, and expect Singapore to skirt a technical recession due to China's reopening boost.

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Final MAS Tightening Move in Sight

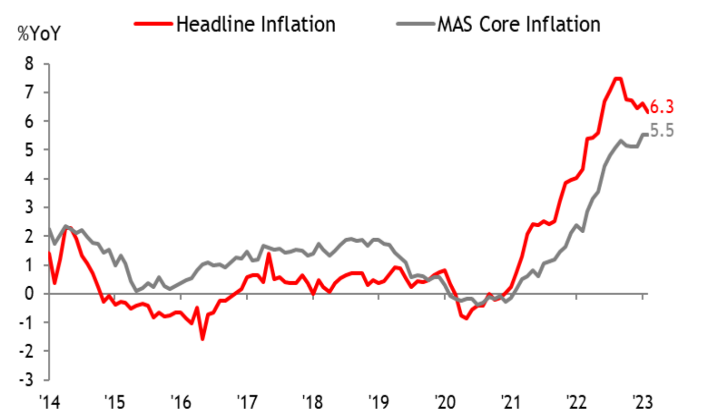
We expect the MAS to tighten by re-centering the S$NEER band to the prevailing level at the mid-April meeting to dampen core inflation, which remains well above the MAS' comfort zone. We do not expect a change to the slope and width of the band. This will be the sixth straight tightening move since October 2021 (see Table 1). The US and Europe banking turmoil has had limited impact on Singapore's banking system and economy so far. The Fed's liquidity facilities and deposit guarantees are helping to stabilize financial markets and calm depositors at the troubled banks. We expect Singapore's economy to slow but avoid a contraction in the first quarter.

Table 1: MAS Monetary Policy Decisions Since 2020

Date	Slope	Width	Level
14 Oct 2022	-	-	Re-centre upwards, at prevailing level of the S$NEER
14 Jul 2022*	-	-	Re-centre upwards, at prevailing level of the S$NEER
14 Apr 2022	Increase slightly	-	Re-centre upwards, at prevailing level of the S$NEER
25 Jan 2022*	Increase slightly	-	-
14 Oct 2021	Increase slightly	-	-
30 Mar 2020	Set at 0%	-	Re-centre downwards, at prevailing level of the S$NEER

**Refers to off-cycle monetary policy decisions.*
Source: MAS

Fig 1: Core CPI (+5.5%) Remained Sticky in February; Headline CPI (+6.3%) Eased to 9-Month Low



Source: CEIC

Table 2: Inflation by Category, %YoY

%YoY	Nov-22	Dec-22	Jan-23	Feb-23	2M23	2022
CPI - All Items	**6.7**	**6.5**	**6.6**	**6.3**	**6.5**	**6.1**
Food	7.3	7.5	8.1	8.1	8.1	5.3
Clothing and Footwear	6.7	6.0	6.9	7.1	7.0	2.8
Housing & Utilities	5.6	5.5	5.4	5.3	5.3	5.2
Household Durables & Services	2.4	2.0	2.8	2.7	2.7	2.0
Health Care	2.7	3.0	4.0	4.0	4.0	2.2
Transport	14.9	12.7	11.9	9.7	10.8	16.4
Communication	-0.7	-0.7	0.6	2.9	1.7	-1.2
Recreation & Culture	5.8	7.5	6.7	6.9	6.8	4.3
Education	1.9	2.1	3.0	2.9	3.0	2.1
Miscellaneous Goods & Services	1.5	1.1	2.1	2.6	2.4	0.5
Core inflation	**5.1**	**5.1**	**5.5**	**5.5**	**5.5**	**4.1**

Source: CEIC

MAS will likely raise its core inflation forecast to 4% to 5% (from 3.5% to 4.5%) but maintain its headline inflation forecast at 5.5% to 6.5% in 2023. We raise our core inflation forecast to 4.5% (from 4%), but maintain our headline inflation forecast at 6%. Core inflation (+5.5% in Feb) remains sticky with broad price increases across food, retail, and services following the 1%pt GST hike in Jan 2023 and a persistently tight labour market. Expansion of the Progressive Wage Model to food services may further fan food price pressures.

MAS expects core inflation to stay above +5% in 1Q23, and slow more discernibly in the second half of the year (see *Singapore Economics - Core Inflation Remains Sticky; Expect MAS to Tighten at April Meeting*, 23 Mar 2023). Headline inflation (+6.3% in Feb), on the other hand, has eased to a 9-month low on the back of slowing private transport costs due to high base effects from last year's surge in COE premiums.

The global banking turmoil may exert a deflationary impact on growth and prices. Inflation may fall a lot more quickly in the coming quarters as tightening global credit conditions and rising short-term interest rates dampen investment and consumer spending. A quicker fall in the inflation rate in the coming quarters may mean that the MAS may not have to tighten at the October policy meeting.

Table 3: Singapore - Key Macroeconomic Indicators

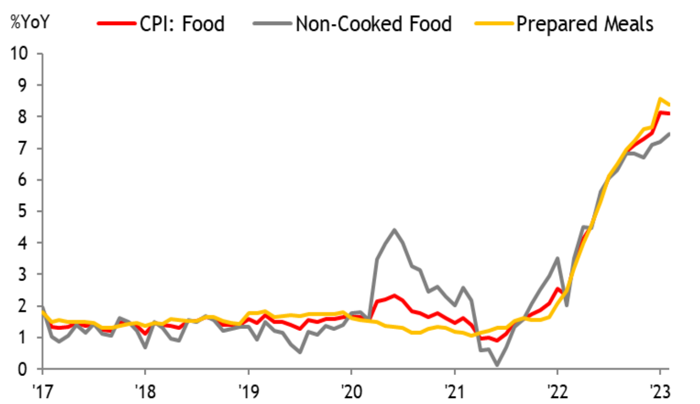
	2020	2021	2022	2023F	2024F
Real GDP (%)	-3.9	8.9	3.6	1.7	2.2
Headline CPI (%, period avg)	-0.3	2.3	6.1	6.0	2.8
Core CPI (%, period avg)	-0.2	0.9	4.1	4.5	2.5
Fiscal Balance (% of GDP)	-10.5	0.3	-0.3	-0.1	0.5
Unemployment Rate (%, period avg)	3.0	2.7	2.1	2.2	2.1
3M SIBOR (%, end-period)	0.41	0.44	4.25	4.80	3.20
3M SORA (%, end-period)	0.13	0.19	3.10	3.70	2.80
10Y Bond Yield (%, end-period)	0.83	1.64	3.09	2.75	2.50
Exchange Rate (per USD, end-period)	1.32	1.35	1.34	1.29	1.27

Source: CEIC, Maybank IBG Research

Food inflation may be peaking, in line with the easing trend in global food prices. Singapore's food inflation rose by +8.1% in Feb from a year ago (see Fig 2), but rose by just +0.1% from the previous month (vs. +1.4% in Jan), the slowest pace in a year. Prices of non-cooked food such as meat (+12.5%), dairy products (+7.1%), oils & fats (+4.8%), and fruits (+2.9%) have eased from the highs in the previous months (see Fig 3).

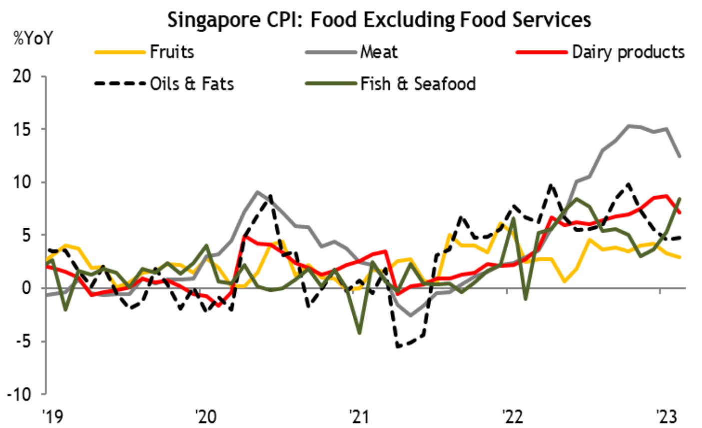
Global food prices fell by -8.1% to a 17-month low in February (see Fig 4), mainly on the plunge in prices of vegetable oils (-32.6%) from last year's high base (with the start of the Russia-Ukraine war). Expansion of the Progressive Wage Model (PWM) to food services starting 1 March may, however, fan food price pressures as higher wage costs may be passed on to final prices. Around 12k full-time food services workers saw their wages rise to at least the entry-level PWM wage level of $1,750, which will be raised by +19% over a 3-year period to $2,080 in 2025.

Fig 2: Food Inflation (+8.1%) Stayed Elevated as the Pickup in Non-Cooked Food Prices Offset Easing in Prepared Meals



Source: CEIC

Fig 3: Non-Cooked Food Including Meat, Dairy Products, Oils & Fats Easing; Fish & Seafood Costs Still Picking Up

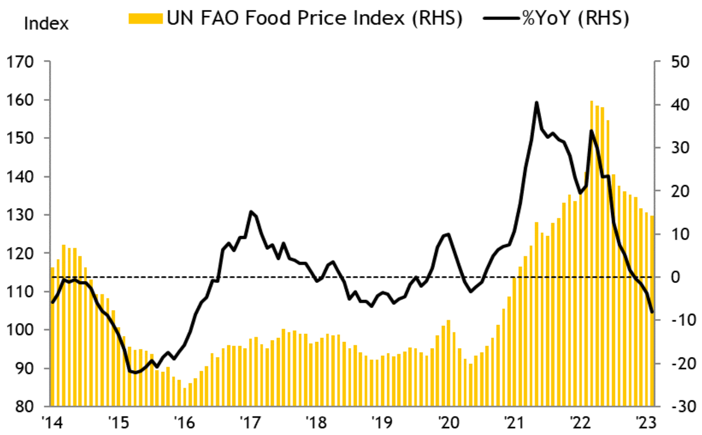


Source: CEIC

Prices of retail & other goods (+3.8% in Feb) will likely inch up on the back of the 1%pt GST hike and 15% increase in excise duty for tobacco on 14 Feb. Prices of clothing & footwear, household durables, alcoholic drinks & tobacco and recreational & cultural goods rose faster since Jan following the GST hike (see Fig 5).

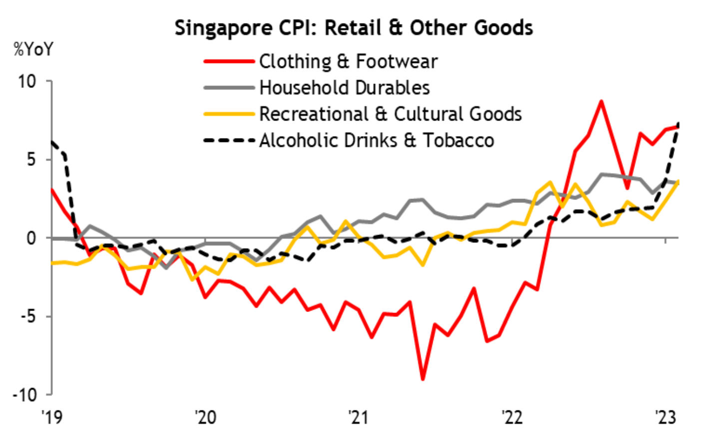
Services inflation (+3.9% vs. +4.2% in Jan) remains elevated due to the continued surge in point-to-point transport services (+15.9%) and holiday expenses (+9.4%), which offset the decline in air fares (-7%) as airline capacity improves (see Fig 6). Electricity costs (+14.2%) are rising at double-digit pace (see Fig 7), but will likely soften in the coming months amid the fall in global oil prices.

Fig 4: UN Food Price Index Fell to 17-Month Low in February, Mainly Due to the Normalization of Palm Oil Prices



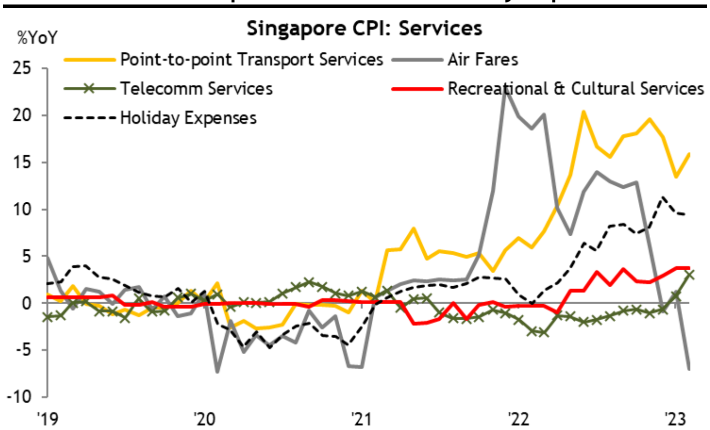
Source: UN Food & Agricultural Organization

Fig 5: Prices of Retail & Other Goods Picked Up Since Jan 2023 with the 1%pt GST Hike



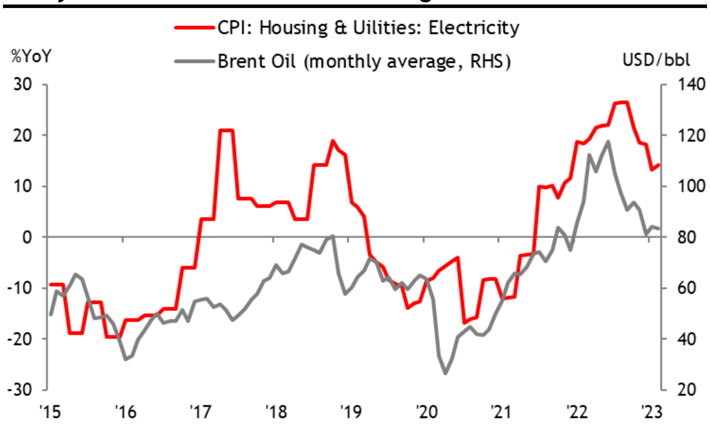
Source: CEIC

Fig 6: Services Inflation - Decline in Air Fares Offset by High Point-to-Point Transport Services and Holiday Expenses



Source: CEIC

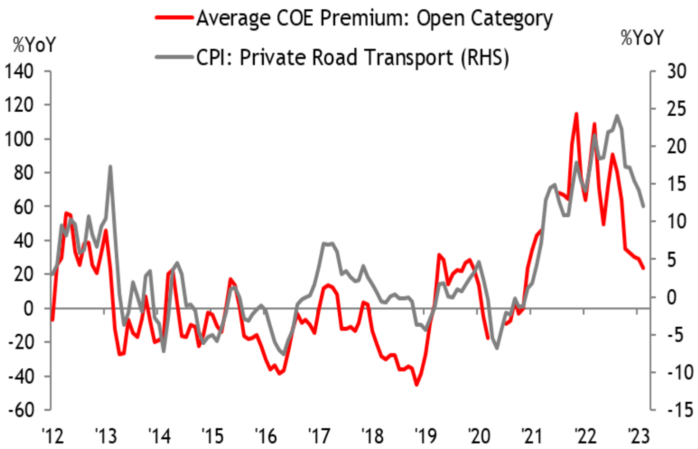
Fig 7: Electricity Costs Rising at Double-Digit Pace, But Will Likely Slow Further on Last Year's High Base



Source: CEIC, Bloomberg

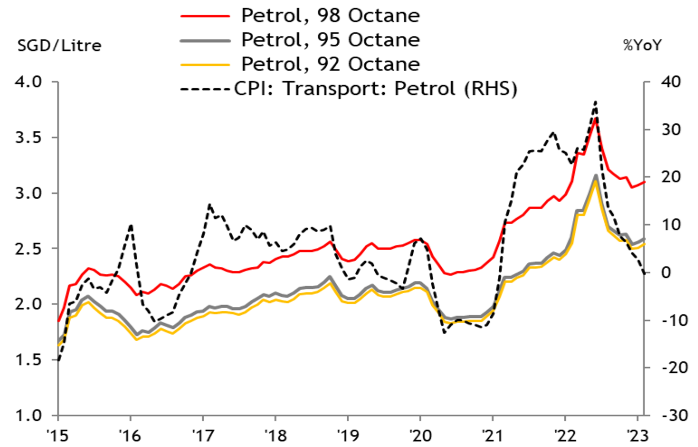
Headline inflation will likely moderate on the back of softening private transport and accommodation costs. Private transport costs (+12.1%) in Feb slowed to the softest pace since Sep 2021 due to the high base for COE premiums and decline in petrol costs for the first time in 2 years. While COE premiums are trading at all-time highs, year-on-year momentum is easing following the sharp surge in 2022 (see Fig 8).

Fig 8: Private Road Transport Costs (+12.1%) Decelerated; COE Premiums Easing From Last Year's High Base



Note: COE auctions were suspended from Apr to Jun 2020.
Source: CEIC

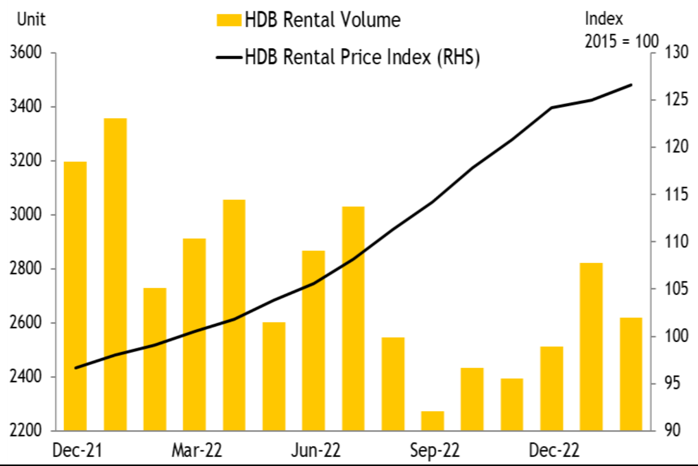
Fig 9: Petrol Costs (-0.2%) Fell for the First Time Since Feb 2021



Source: CEIC, Singstat

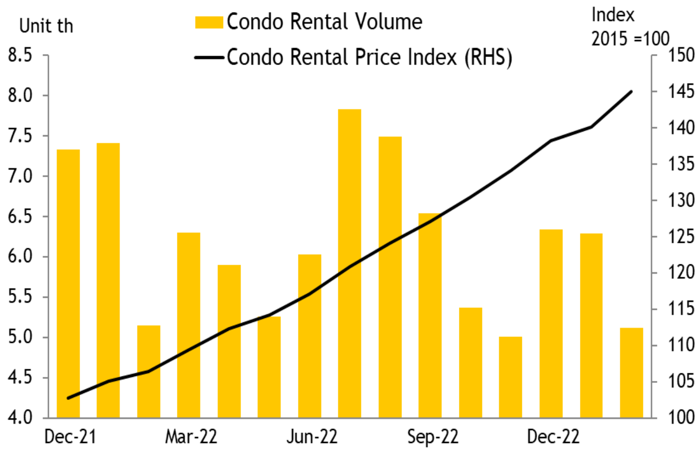
Accommodation cost (+4.9% vs. +5% in Jan) may be nearing its peak as more supply of HDB flats and condominiums will become available in the market in the second half of the year. National Development Minister Desmond Lee recently commented that there are early signs that both the resale and rental markets are slowing down, as sellers are seeing more price resistance from buyers[1]. Still, it could take about two years to clear the current backlog of delayed Build-To-Order (BTO) flats. Rental prices of HDB (+27.7% in Feb) and condos (+36.3%) remained firm even as volumes declined (see Figures 10 & 11).

Fig 10: SRX HDB Rental Price Index Rose by +27.7% in Feb, Slowing from the +28.4% Pace in Dec 2022



Source: SRX

Fig 11: SRX Condo Rental Price Index Continued to Surge by a Strong +36.3% in Feb on Falling Volumes

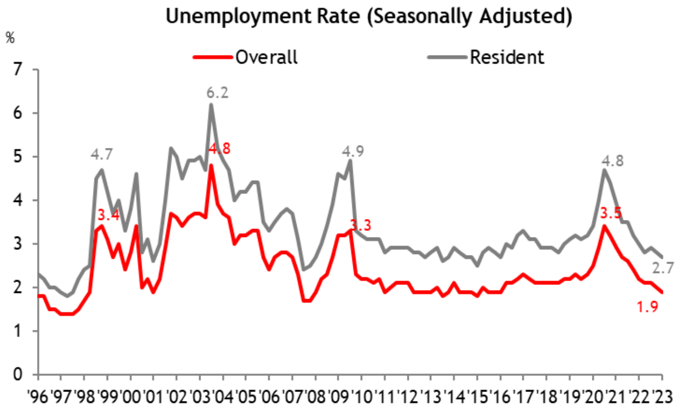


Source: SRX

Wage pressures persist as the job market remains tight, with the unemployment rate having fallen below pre-pandemic levels (see Fig 12). Average monthly earnings rose by +6.8% in 2022 (vs. +3.6% in 2021), the fastest annual pace since 2000 (see Fig 13). The Progressive Wage Model was expanded to larger sectors, including food services, waste management and occupational (administrators, drivers) on 1 March 2023.

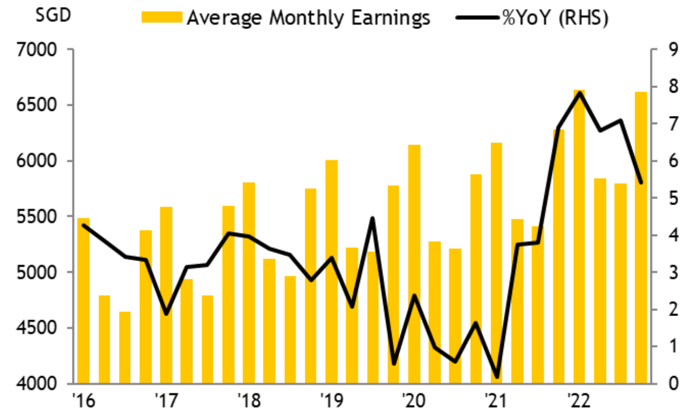
[1] Straits Times, "*Early signs of rental, resale property markets slowing: Desmond Lee*", 26 Mar 2023.

Fig 12: Overall Unemployment Rate Dipped to 1.9% in Jan 2023, the Lowest Since 1Q2016



Source: CEIC, Ministry of Manpower

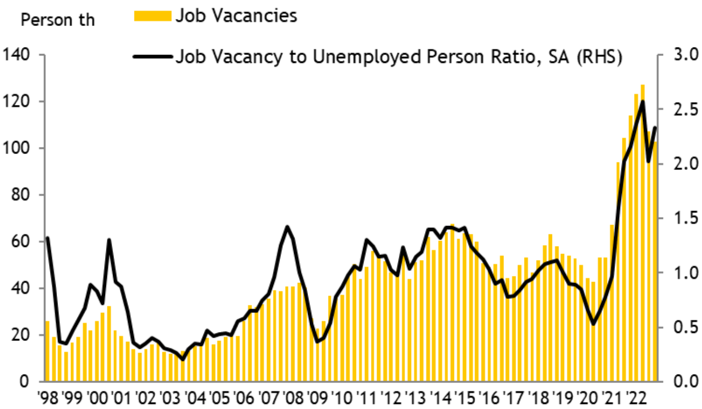
Fig 13: Average Monthly Earnings Accelerated by +6.8% in 2022, the Fastest Pace Since 2000



Source: CEIC

Job vacancies remain high at 102.7k in 4Q, while job vacancy to unemployed person ratio inched up to 2.3 from 2.0 in 3Q (see Fig 14). Sectors with the highest job vacancy rates in 4Q22 include tourism-related services such as accommodation (8.7%), air transport & supporting services (6.3%), retail trade (5.7%), arts, entertainment & recreation (5.4%), and food & beverage services (5.3%) (see Table 4).

Fig 14: Job Vacancy to Unemployed Person Ratio Crept Up to 2.3 in 4Q22



Source: CEIC

Table 4: Top Ten Sectors with Highest Job Vacancy Rates

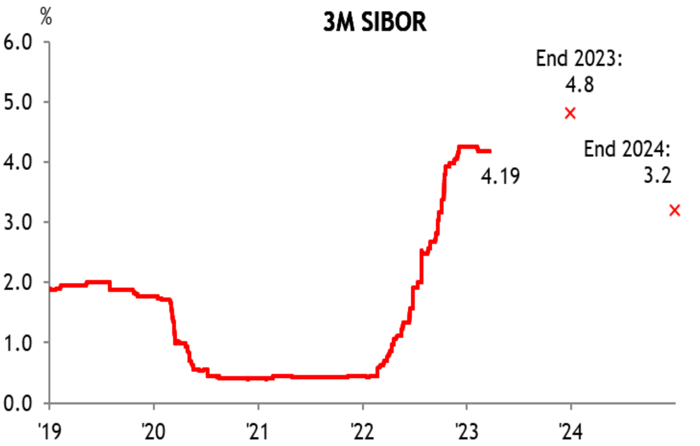
Job Vacancy Rate (%)	4Q22	4Q21
Accommodation	8.7	9.2
Infocomm	6.8	9.9
Air Transport & Supporting Services	6.3	5.0
Clerical, Sales and Service Workers	5.9	5.2
Retail Trade	5.7	6.7
Security & Investigation	5.6	4.2
Health & Social Services	5.6	5.1
Arts, Entertainment & Recreation	5.4	3.2
Food & Beverage Services	5.3	5.9
Community, Social & Personal Services	5.3	4.9

Source: CEIC

We forecast 3-month SIBOR rising to 4.8% and 3-month SORA to 3.7% by end-2023. This is on the assumption of one more +25bps hike by the US Fed at the May meeting, as indicated in the latest FOMC meeting (see *US FOMC Meeting - On +25bps hike mode as terminal rate looms*, 23 Mar 2023). We are expecting a 200bps cut in 2024, which would result in a corresponding decline in the 3M SIBOR to 3.2% and 3M SORA to 2.8% by end-2024 (see Figures 15 & 16).

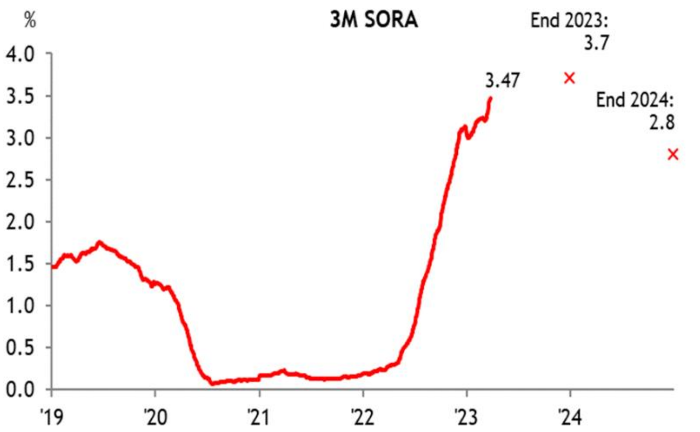
Our FX team expects the SGD to strengthen against the USD to 1.29 by end 2023. The S$NEER is trading at around +1.5% above the implied mid-point, or at the upper half of the band, by our estimates (see Fig 17).

Fig 15: 3M SIBOR Expected to Rise to 4.8% by End 2023



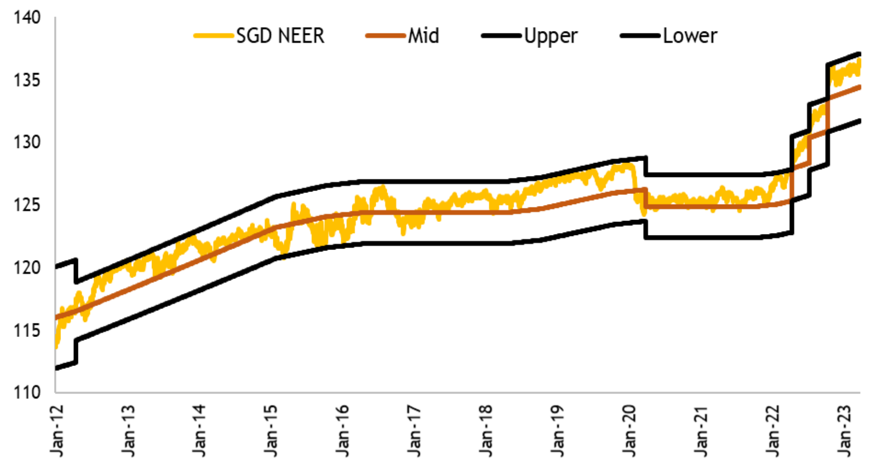
Note: Last data point as of 27 Mar 2023.
Source: Bloomberg, Maybank IBG Research estimates

Fig 16: 3M SORA to Climb to 3.7% by End 2023



Note: Last datapoint as of 27 Mar 2023.
Source: Bloomberg, Maybank IBG Research estimates

Fig 17: SGD NEER Trading at Around +1.5% Above Implied Mid-Point

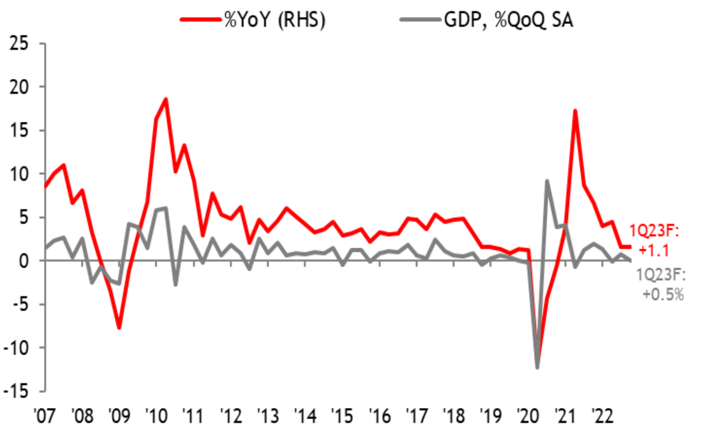


Note: Last datapoint as of 28 Mar 2023.
Source: Maybank GM FX Research

Expect Flash 1Q GDP at +1.1%, Skirting a "Technical Recession"

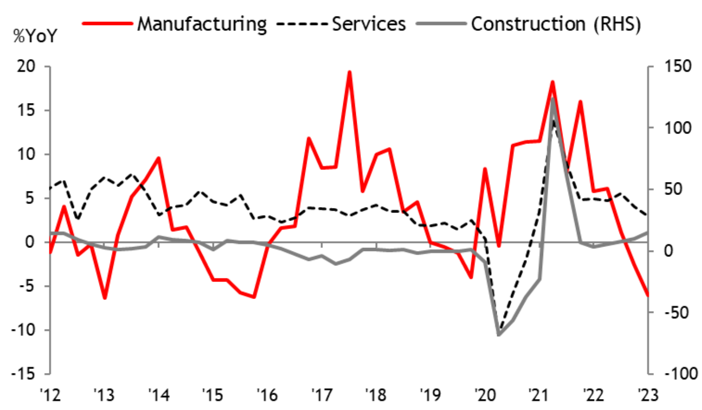
Flash 1Q23 GDP growth estimate is expected to come in at around +1.1% (vs. +2.1% in 4Q), the slowest pace since 4Q 2020 (see Fig 18). On a quarter-on-quarter seasonally adjusted basis, GDP is expected to rise by +0.5% (vs. +0.1% in 4Q), implying that Singapore will likely skirt a technical recession. The weaker growth is mainly due to the sharp manufacturing contraction and slowdown in the external-oriented services sectors.

Fig 18: 1Q GDP Growth Expected to Slow Significantly to +1.1%



Source: CEIC, Maybank IBG Research estimates

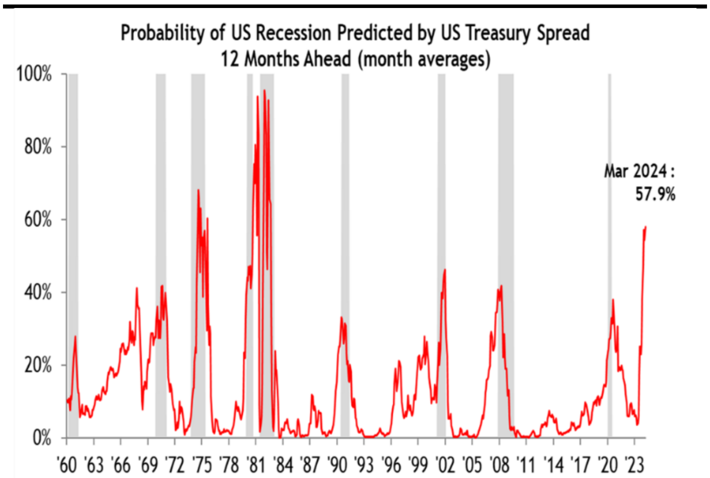
Fig 19: Manufacturing Likely to Post Sharp Decline; Services Growth to Slow



Note: Last datapoints for 1Q23 refer to our estimates.
Source: CEIC, Maybank IBG Research estimates

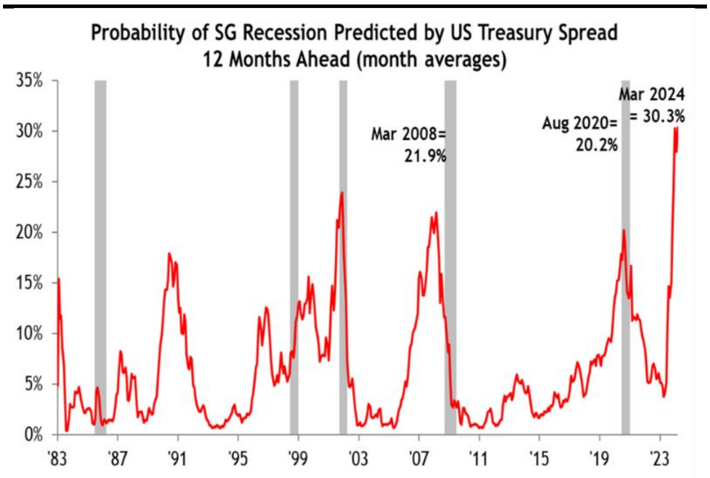
Recession risks in the US have risen significantly with the recent US banking crisis. Probability of US recession has risen to 58% over the next 12 months, according to our model estimates which is based on the 3m-10y yield curve (see Fig 20). Probability of a Singapore recession over the next 12 months has risen to 30%, based on the US 3m-10y yield curve spread (see Fig 21).

Fig 20: US - Probability of Recession in Next 12 Months Jumped to 58%



Source: New York Fed, Maybank IBG Research

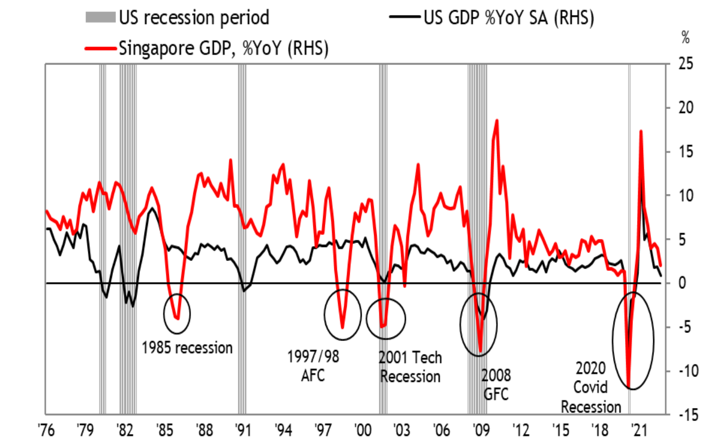
Fig 21: Singapore - Probability of Recession in Next 12 Months Rose to 30% in March



Source: Maybank IBG Research

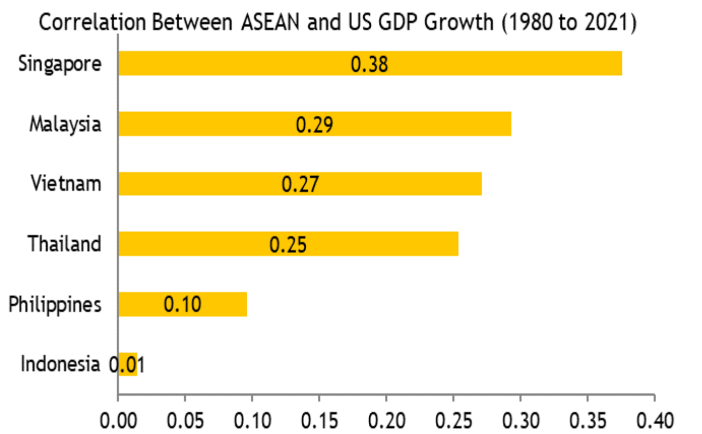
Singapore's GDP growth is highly correlated with US growth historically (see Fig 22). China's reopening has however reduced the odds of recession in this episode and will help to cushion the impact of from the slowing US and EU economies (see *ASEAN Economics - Decoupling from US Recession*, 26 Aug 2022). Export-oriented Singapore has the highest correlation with US GDP growth over the past 4 decades at 0.38 (see Fig 23).

Fig 22: Singapore's GDP Growth Highly Correlated with US Growth Historically



Source: CEIC, Maybank IBG Research

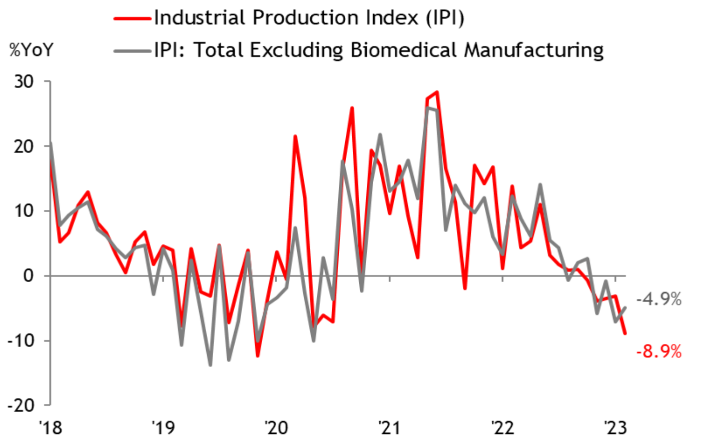
Fig 23: Tighter Correlation for Export-Oriented Countries (SG, MY, VN, TH) with US Growth



Source: Maybank IBG Research estimates

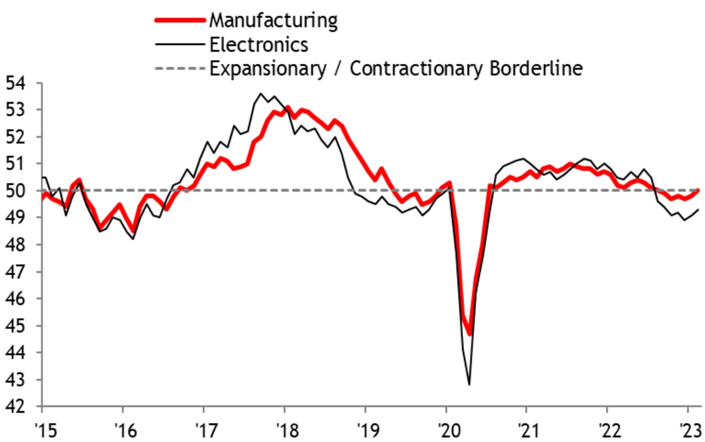
China's reopening has not had a meaningful impact on manufacturing and exports so far. Singapore's manufacturing growth will likely register the sharpest quarterly decline since 2015. Manufacturing fell by -5.9% in Jan-Feb period (vs. -2.7% in 4Q) with all clusters recording declines except for transport engineering. In particular, electronics (-7.4% in 2M23) continued to underperform due to the chip downcycle while chemicals (-14%) plunged due to weak market demand. This was despite the uptick in manufacturing PMI (to 50) in Feb (see Fig 25).

Fig 24: Industrial Production (-8.9%) in Feb Fell by the Steepest Pace Since Nov 2019



Source: CEIC

Fig 25: Manufacturing PMI Rose to the 50-Level in February After 5-Months in Contraction



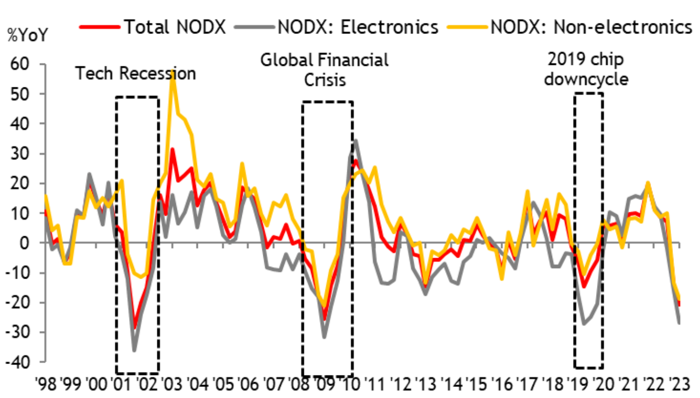
Source: CEIC

Services will likely slow due as weaker momentum in external-oriented services including wholesale trade, water transport, and finance & insurance offset the resilient growth in tourism and consumer-related services including accommodation & food services, retail trade, and air transport. Business services growth may weaken with the sharp fall in property transactions.

Trade-related sectors likely weakened in 1Q23 as deteriorating global demand dampened trade volumes, despite China's reopening (see *Singapore Economics - Exports Weak in Feb Despite China Reopening; Cut NODX Forecast to -7% to -4%*, 17 Mar 2023). Nominal non-oil domestic exports (NODX) plunged by -20.6% in Jan-Feb (vs. -14% in 4Q), while real NODX also fell by -16.7% (vs. -14.4% in 4Q). Both electronics and non-electronics are weighing on growth (see Fig 26).

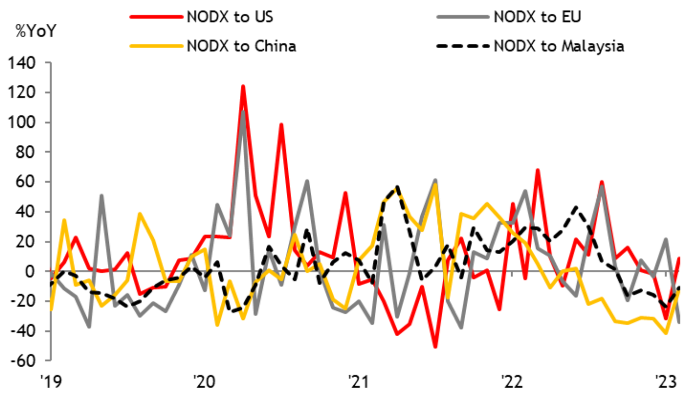
Non-oil re-exports - a proxy for wholesale trade services – continued to contract in both nominal (-4.9% in Jan-Feb vs. -2.4% in 4Q) and real terms (-6% vs. -6.5% in 4Q). Container throughput (-5.2% vs. -1.6% in 4Q) and air freight (-13.8% vs. -16.1% in 4Q) fell to the lowest level in 6 years and 2 years respectively in Feb 2023 (see Figures 28 & 29).

Fig 26: NODX Falling at the Steepest Pace Since the 2019 Chip Downcycle



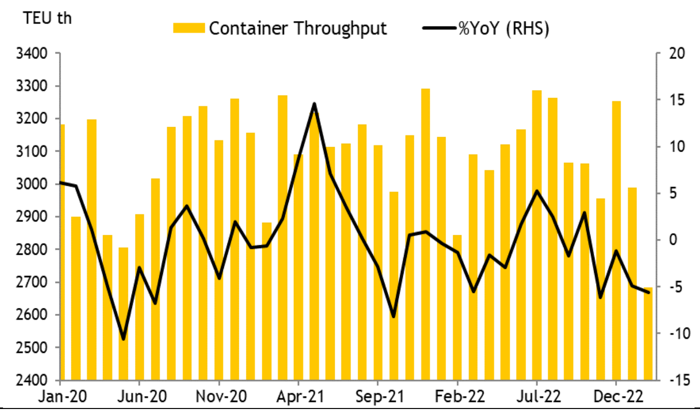
Note: Refers to quarterly NODX growth, while 2023 data point refers to 2M23.
Source: CEIC

Fig 27: NODX to China (-27.5% in 2M23) Continued to Decline Despite Economic Reopening



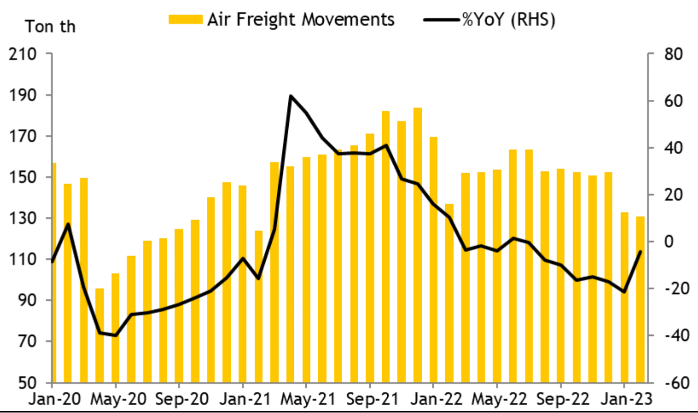
Source: CEIC

Fig 28: Container Throughput Plunged to the Lowest Level in 6 Years in Feb



Source: CEIC

Fig 29: Air Freight Fell to the Lowest Level in 2 Years in Feb



Source: CEIC

The finance & insurance sector may register a second consecutive quarter of decline, after contracting by -0.3% in 4Q for the first time since the Global Financial Crisis. System-wide loan growth (-4.2% in Jan) has been contracting since Nov 2022 (see Table 5), dampened by both loans to residents (-1.9%) – mainly to businesses (-2.9%) – as well as loans to non-residents (-8%). Domestically, consumer loans (-0.2%) fell for the first time in Jan, weighed down by slowing housing loans (+3.3%) and the decline in car loans (-9.7%) and share financing (-21.1%). Only credit card loans is defying gravity, expanding by +16.2% in Jan 2023.

Deposit growth has eased to +5.9% in Jan 2023, from the peak of +11.8% in Aug 2022 amid the rising interest rate environment (see Table 6). Demand for fixed deposits remains resilient, surging by +71.3% for residents (excluding government and non-bank financial institutions) in Singapore and +108% for residents outside Singapore.

Table 5: Loans to Residents & Non-Residents by Sector

	Dec-22	Dec-22	Oct-22	Nov-22	Dec-22	Jan-23
	SGD bn	% of total loans	%YoY	%YoY	%YoY	%YoY
Total Loans	**1,290**	**100%**	**0.2**	**-2.4**	**-2.6**	**-4.2**
A) Loans to Residents	**814**	**63%**	**2.1**	**0.7**	**-0.3**	**-1.9**
Loans to Businesses	**501**	**39%**	**1.9**	**0.4**	**-0.8**	**-2.9**
Building And Construction	169	13.1%	3.6	2.6	0.7	0.6
General Commerce	101	7.9%	-9.7	-10.5	-11.4	-16.3
Financial And Insurance	124	9.6%	15.5	12.1	12.2	9.0
Consumer Loans	**313**	**24%**	**2.5**	**1.0**	**0.6**	**-0.2**
Housing & Bridging Loans	223	17.2%	4.5	4.0	3.6	3.3
Car Loans	7.6	0.6%	-7.4	-8.3	-8.9	-9.7
Credit Cards	13.2	1.0%	17.7	17.1	17.6	16.2
Share Financing	1.0	0.1%	-7.9	-15.0	-18.8	-21.1
Others	69	5.3%	-4.2	-8.2	-9.3	-11.1
B) Loans to Non-Residents	**476**	**37%**	**-2.8**	**-7.2**	**-6.4**	**-8.0**
Loans to Businesses	**417**	**32%**	**-1.4**	**-5.9**	**-4.8**	**-6.3**
Building And Construction	39	3.0%	1.1	-3.2	-0.1	-3.8
General Commerce	24	1.9%	-7.4	-16.3	-8.0	-12.8
Financial And Insurance	193	15.0%	-0.7	-6.9	-7.6	-7.7
Consumer Loans	**59**	**4.6%**	**-11.5**	**-15.5**	**-16.3**	**-18.1**

Source: CEIC

Table 6: Deposits Rose by +7.3% in 2022; Shift to Fixed from Demand Deposits for Both Residents

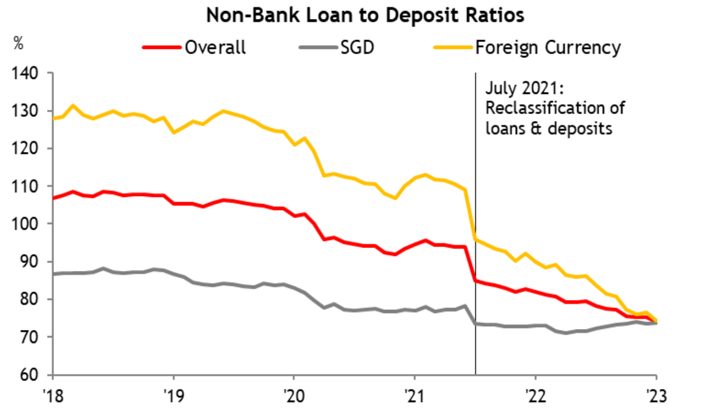
	Dec-22	Dec-22	Oct-22	Nov-22	Dec-22	Jan-23
	SGD bn	% of total	%YoY	%YoY	%YoY	%YoY
Total Deposits & Balances	**1,716**	**100%**	**10.1**	**6.4**	**7.3**	**5.9**
In S$	780	45.5%	2.0	1.0	1.1	0.9
In Foreign Currencies	936	54.5%	17.8	11.2	13.1	10.4
By Non-Bank Customers:						
A) Singapore Government & Statutory Boards	37	2.2%	-12.3	-9.7	-12.1	-15.8
B) Non-Bank Financial Institutions	197	11.5%	21.2	9.8	16.1	10.7
C) Other Residents in SG	955	55.7%	9.6	6.1	6.9	6.1
Demand Deposits	305	17.7%	-11.9	-16.4	-16.9	-18.5
Fixed Deposits	394	23.0%	64.5	61.8	68.1	71.3
Savings & Other Deposits	257	14.9%	-5.4	-9.1	-12.4	-15.6
D) Residents Outside SG	527	30.7%	9.2	6.9	6.8	5.8
Demand Deposits	198	11.5%	-25.9	-32.4	-36.2	-37.6
Fixed Deposits	257	15.0%	89.4	100.4	109.8	107.9
Savings & Other Deposits	72	4.2%	20.4	17.9	18.1	14.7

Source: CEIC

Overall non-bank loan deposit ratio (LDR) has fallen to 74.1% as of Jan 2023, mainly due to the faster decline in foreign currency LDR (74.4%) while SGD LDR (73.9%) has been picking up in recent months (see Fig 30).

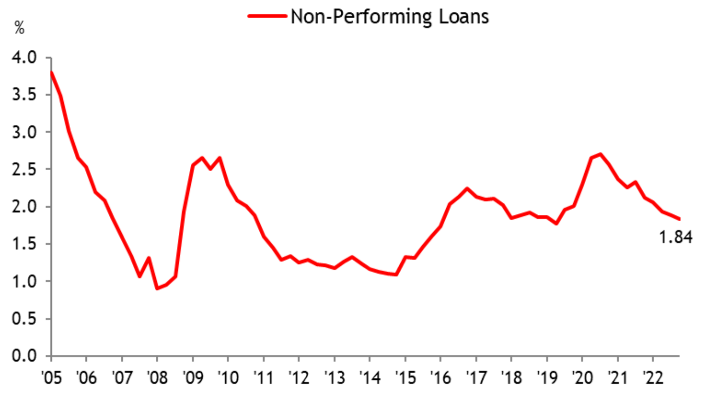
Our bank analyst, Thilan, does not expect the global bank turmoil to create contagion in the broader banking system. The main problem was Silicon Valley Bank (SVB) had a narrow deposit base (startups) and a narrow asset base (largely fixed income securities, which were falling in value as interest rates rose). Banks in Singapore, on the other hand, have diversified deposits, while assets are largely loans that re-price along with interest rates. Non-performing loans ratio as of 4Q22 had fallen to 1.84%, the lowest since 2Q2019 (see Fig 31).

Fig 30: Non-Bank Loan to Deposit Ratio Falling Mainly on Foreign Currency



Source: MAS

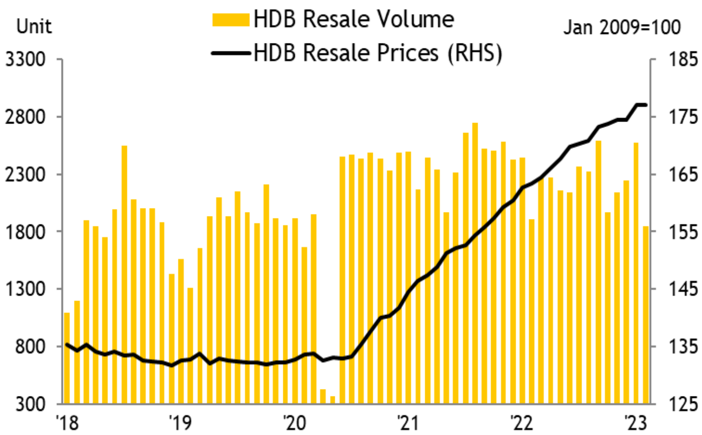
Fig 31: Non-Performing Loans Ratio Has Fallen to 1.84% in 4Q22, Lowest Since 2Q2019



Source: MAS

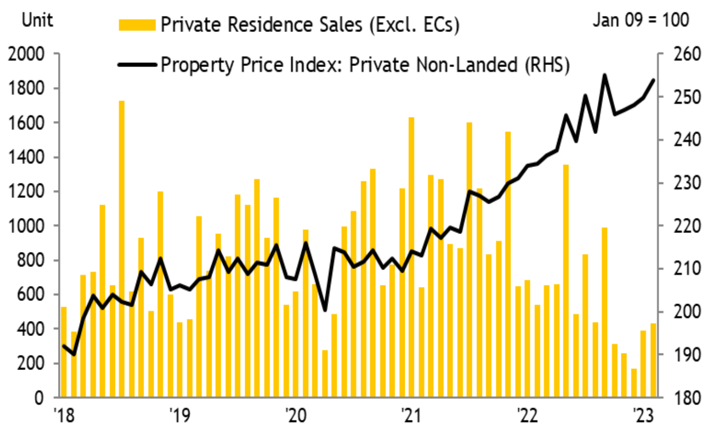
Business services growth, particularly real estate, will likely see slower growth due to falling property transactions amid rising mortgage rates. Private residence sales volume (excl. ECs) plunged by -33% in Jan-Feb, extending the -76% decline in 4Q (see Fig 33). HDB resale volume (+1.8% in 2M23 vs. -15.6% in 4Q) rebounded but stayed muted, with resale price increases easing to +8.3% in Feb, the slowest pace since Dec 2020 (see Fig 32).

Fig 32: HDB Resale Prices (+8.3%) Softened in Feb, Unchanged from Last Month



Source: SRX

Fig 33: Private Residence Sales Volume Plunged by -33% in 2M23

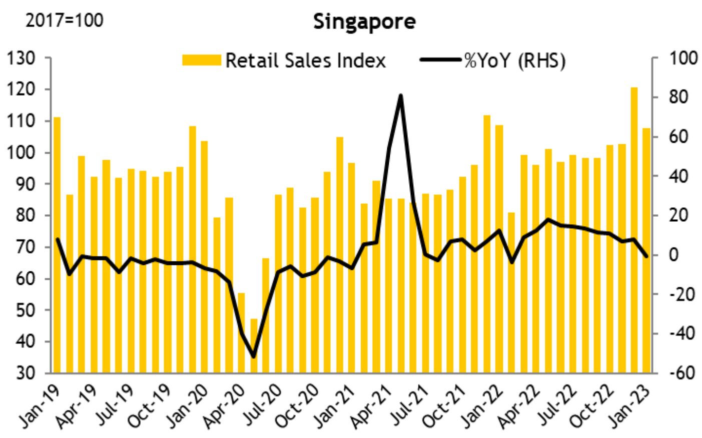


Source: CEIC, URA, SRX

Retail sales fell in January (-0.8%) for the first time since Feb 2022, but this was likely due to the Chinese New Year holidays (which fell in Jan this year vs. Feb last year). While the decline was mainly driven by the plunge in sales of motor vehicles (-23.5%) due to lower COE quota, retail sales excl. motor vehicles also slowed to just +2.1% (vs. +9.8% in Dec). Sales of categories such as furniture & household equipment (-13.5%) and watches & jewellery (-5.6%) declined more sharply in January as there may have been some front-loading on such big ticket items prior to the GST hike to 8%.

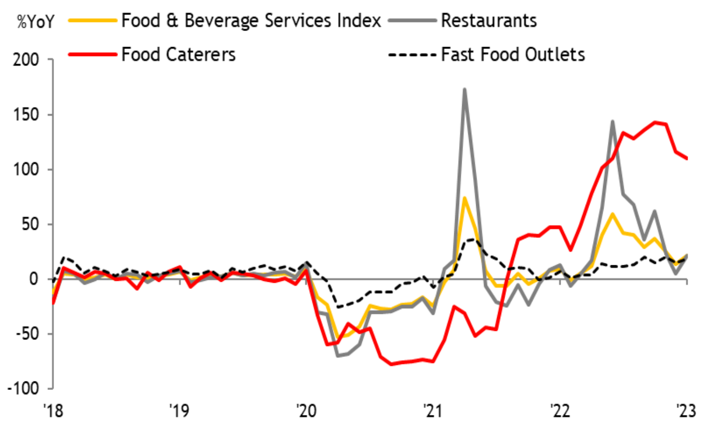
On the other hand, F&B services index jumped by +21.8% in Jan (vs. +13.9% in Dec), as food caterers (+110%) continued to benefit from the resumption of large-scale events and air travel, while sales in restaurants (+21.7%) and fast food outlets (+18.7%) also picked up amid the CNY festival season (see Fig 35).

Fig 34: Retail Sales Index Fell by -0.8% in Jan 2023 Due to Earlier Chinese New Year Timing This Year



Source: CEIC

Fig 35: F&B Services Index Jumped by +21.8% in Jan 2023 with Broad-Based Strength Across All Categories



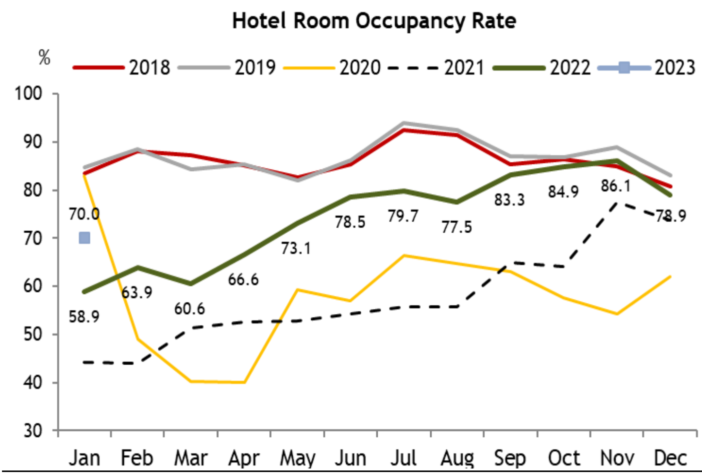
Source: CEIC

Visitor arrivals climbed to 958k in February, or around 64% of pre-pandemic (Feb 2019) levels. Visitors from China picked up to 35.3k (from 28.4k in Jan), but this is still just 10.4% of pre-pandemic levels (see Fig 36). Hotel occupancy rate climbed to 70% in January, an improvement from the 58.9% in Jan 2022 (see Fig 37).

Fig 36: Visitor Arrivals Rose to 958k in Feb, or 64% of Feb 2019 Levels

Source: CEIC

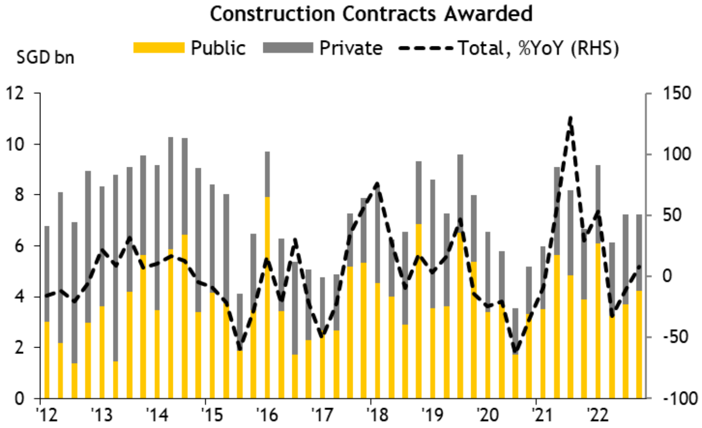
Fig 37: Hotel Room Occupancy Rate Rose to 70% in Jan 2023



Source: CEIC

Construction will likely be the bright spot, extending its double-digit growth with the return of foreign workers and resumption of projects. Construction demand, reflected by contracts awarded, rebounded by +8.1% in 4Q, the first increase in 3 quarters, with the recovery in public (+9.5%) contracts (see Fig 38). The Building & Construction Authority (BCA) projects construction demand to range between S$27bn and $32bn in 2023 (vs. $29.8bn in 2022), supported by a strong pipeline of public housing projects as the Housing Development Board ramps up BTO flat supply (see Table 7).

Fig 38: Construction Contracts Awarded Rebounded by +8.1% in 4Q, Boosted by Both Public (+9.5%) and Private (+6.1%)



Source: CEIC

Table 7: Steady Construction Demand Expected in 2023

Year	Construction Demand (SGD bn)			Construction Output (SGD bn)
	Public	Private	Total	Total
2022	17.9	11.9	29.8	30.2
2023F	16 - 19	11 - 13	27 - 32	30 - 33
2024 - 2027F	14 - 18 per year	11 - 14 per year	25 - 32 per year	-

Note: Refers to BCA's forecasts.
Source: Building & Construction Authority

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