Singapore: High inflation and slowing trade make for a challenging year

Slowing trade and still elevated inflation could sap growth momentum in Singapore this year

The twin challenges of slowing global growth and stubbornly elevated inflation make for a challenging 2023 for Singapore's economy

Singapore at a glance

Singapore managed to record respectable growth in 2022 (3.6% year-on-year), supported by an improvement in global trade and robust domestic consumption. However, momentum is now clearly fading with first quarter GDP contracting from the previous quarter. First quarter GDP fell on a quarter-on-quarter basis (-0.7%), which managed to eke out a 0.1%YoY expansion but was well below market expectations.

Economic activity was weighed down by softer global demand, forcing exports to contract. Weak export figures in turn resulted in declining industrial production which slowed growth further. Complicating matters further, multi-year high inflation threatened to sap household spending, prompting the Ministry of Finance to roll out additional stimulus measures with enhancements to the assurance package.

All in all, the twin challenges of high inflation and softer global trade all point to a challenging year for Singapore's economy, and we have lowered our growth forecast for the year to 1.9%YoY from 2.1%.

Slowing global trade hitting Singapore's trade sector

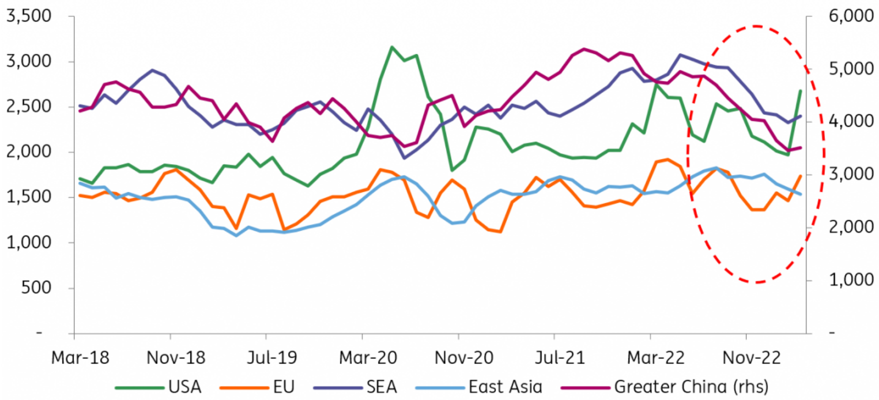
Rapid-fire tightening from central banks around the world has slowed global growth momentum. The International Monetary Fund (IMF) recently trimmed its growth outlook to 2.8%YoY (from 2.9%) in April, as price pressures have remained persistent while fresh challenges on the financial stability front have surfaced. Slowing global growth and softer demand resulted in contracting global trade, causing a six-month slump in Singapore's non-oil domestic exports (NODX).

The protracted downturn of NODX can be traced to sliding exports of electronics and non-electronics shipments. The weakness reported in electronics shipments can be traced to the 28.6%YoY decline of integrated circuits (ICs), which accounted for almost half of the drop in overall NODX. Weak demand for ICs may persist in the near term given the dimming outlook for electronics for regional peers such as Taiwan. Meanwhile, non-electronics shipments were also downbeat, down 4.7% YoY last March with almost all major components posting a contraction except for pharmaceuticals.

In terms of destination, we note that the recent struggles of NODX can be traced to the steep drop off in shipments to the greater China area (China, Taiwan and Hong Kong), East Asia (Japan and South Korea), as well as to economies in Southeast Asia such as Malaysia and Thailand. The drop off in NODX to these economies coincided with the technology sector slump and has yet to recover despite China's reopening in the first quarter. At the start of 2023 there was a brief uptick in shipments to both the EU and the United States, however we remain skeptical that this is sustainable given expectations of slowdowns from the US and to a lesser extent the EU.

We could see an eventual rebound for NODX should China's recovery be sustained, as this could fuel a recovery in the electronics subsector. However, we do note that one of the few bright spots for NODX in recent months has been demand from the US. With expectations that the US economy will likely be facing a downturn before the end of the year, any export recovery induced by China could be capped as increased shipments to China could very well be offset by softer US demand.

NODX slump traced to slower demand from Asia



Source: CEIC

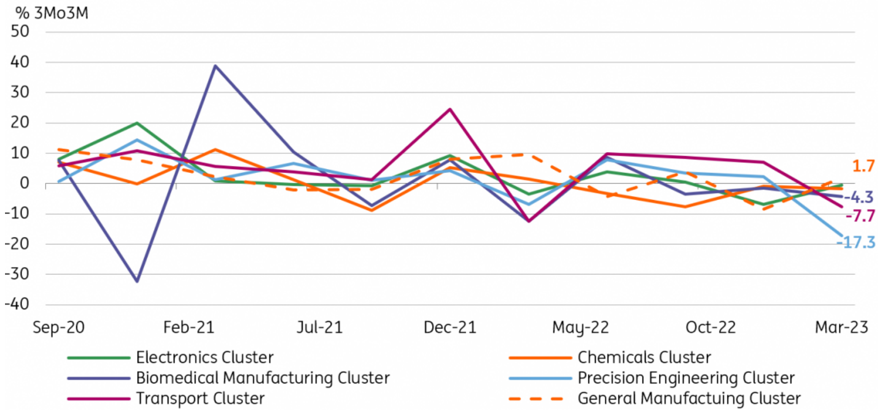
Double trouble: NODX struggles spill over to industrial production

Meanwhile, the struggles of the export sector have spilled over to industrial activity in Singapore with industrial production tracking the sustained drop of NODX. Industrial output is currently down for the sixth consecutive month, likely feeling the heat of slowing global demand, something reflected in NODX's recent slump.

Industrial production is currently down across almost all sectors with only the general manufacturing cluster managing to post a 1.7% gain, which was driven mainly by a pickup in food manufacturing. Meanwhile, all other clusters were in the red with the precision engineering cluster (-17.3%3Mo3M), the transport engineering cluster (-7.7%3Mo3M) and the biomedical cluster down in the first quarter. The electronics cluster managed to stay flat in early 2023 but continued struggles faced by trade partners South Korea and Taiwan suggests that demand (and production) for electronics may be subdued in the near term.

In the coming months, the industrial sector will take its cue from the export sector with the recovery of NODX likely tied to how quickly China's recovery can take shape and whether the projected rebound in China is able to offset the expected weakness from the US economy.

Almost all clusters struggle amid NODX slump



Source: Singapore Department of Statistics

Resurgent demand helping support price pressures?

Price pressures remained evident in Singapore despite a slight moderation for both headline and core inflation readings. Headline and core inflation slowed to 5.5%YoY and 5.0%YoY respectively in April, however core inflation remains well above the target of the Monetary Authority of Singapore (MAS).

The latest round of implementation of the goods and services tax (GST) and the recent uptick in energy prices due to supply cuts are likely factors, with the MAS recently pushing up its inflation forecast for 2023 to 3.5-4.5%, a full percentage point higher than its original forecast. And although elevated global commodity prices and a weaker currency are contributing to price pressures, we believe the 2023 inflation episode is also being fuelled by robust domestic demand.

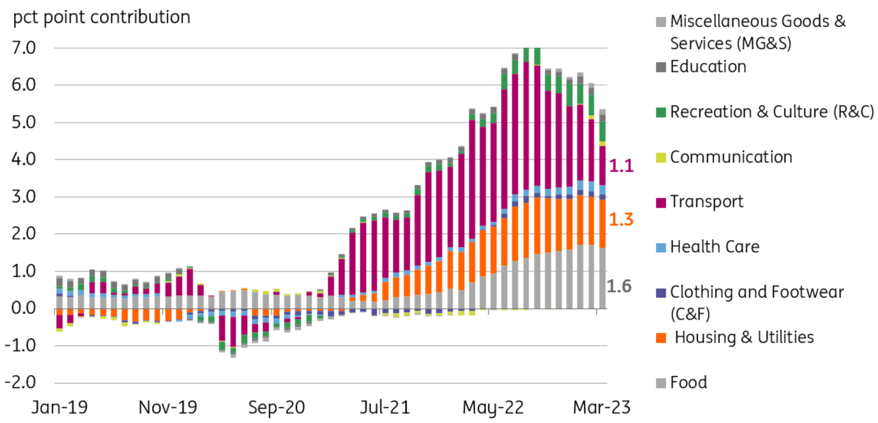
Persistently elevated inflation is driven largely by price pressures for the food, transport and housing, and utilities subsectors, contributing 1.6, 1.1 and 1.3 percentage points respectively to headline inflation. Food inflation rose 7.7%YoY in April, with basic food items seeing high inflation due to high price increases for flour (up 13.2%YoY), cookies (10%YoY), chilled poultry (34.9YoY%) and frozen fish (24.1%YoY).

However, we note that food inflation was also driven by "food servicing services" (7.9%YoY), which accounts for almost two-thirds of overall food inflation and a sizable 15% of headline inflation. Price increases for this subsector were delivered by restaurants (7.7%YoY), fast food (8.4%YoY), hawker centres (8.1%YoY) – which are open-air complexes that house food stalls – and even catered food (8.1%YoY). Rising inflation for these segments suggests that there is a demand element supporting the high inflation environment.

Additional evidence of robust domestic demand supporting price pressures can also be noted in the "recreation and culture" subsector which reported inflation of 6.8%YoY in April. Spending on pets (7.9%YoY), cinema tickets (6.5%YoY) and holiday expenses (9.7%YoY) were the main drivers of high inflation for recreational activities, pointing to strong domestic consumption as one of the factors helping support price pressures this year.

Perhaps the additional stimulus measures provided for in the 2023 budget have helped support spending despite persistent price pressures for food and food services, as items such as the Community Development Council vouchers are eligible for use in supermarkets and hawker centres.

Demand pressures ensuring inflation stays sticky



Source: Singapore Department of Statistics

Rental costs rise as government attempts to cool property market

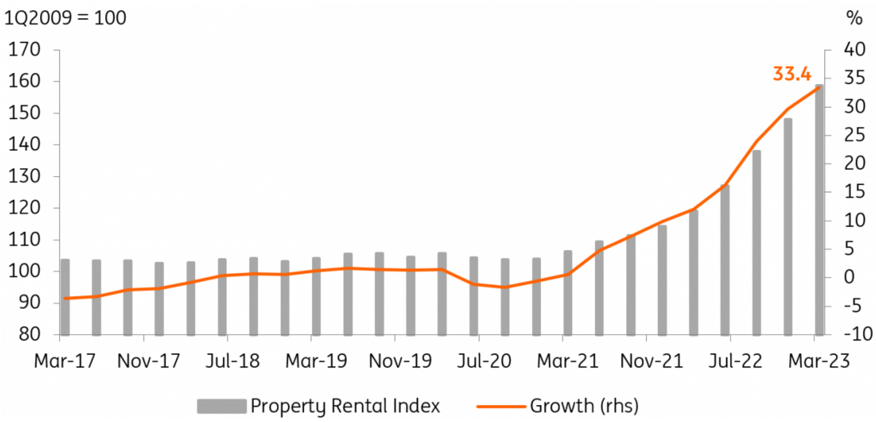
One additional source of high inflation is the persistent pickup in accommodation costs in the CPI basket. The six-month moving average for accommodation inflation is at 4.9%YoY, and despite peaking in January 2023, has only moderated slightly to 4.8% as of March. Accommodation carries a hefty 21.9% weight in the CPI basket and its trajectory is an important factor in getting headline inflation to moderate further.

In a bid to slow the sustained pickup in the property market, the Ministry of National Development (MND) recently announced an increase in the Additional Buyer's Stamp Duty (ABSD). The MND noted the recent strong demand of foreign investors in the property market, which could explain the sustained pickup in accommodation.

The adjustments to the ABSD make acquiring property more expensive for Singaporean citizens (outside their first property purchase), permanent residents, foreigners and entities. Foreigners and entities will be most impacted, with new stamp duty taxes rising substantially; foreigners will now be asked to pay 60% (up from 30% previously) while entities will be charged 65% (up from 35%).

However, despite the relatively low accommodation costs reported in the CPI inflation numbers, some groups, such as foreigners and entities, may face elevated rental costs which should impact household purchasing power. Rental costs are reported to have surged by more than 30% in early 2023 and rental increases of that magnitude will undoubtedly result in an immediate erosion of spending power. And although the government deployed measures to cool the property sector, it may take time to translate to lower property values and may not give immediate relief to households currently facing such high rental costs. Elevated inflation on top of escalating rental prices will likely impair household consumption and figures in our lower growth outlook for the year.

Rental costs are surging



Source: CEIC

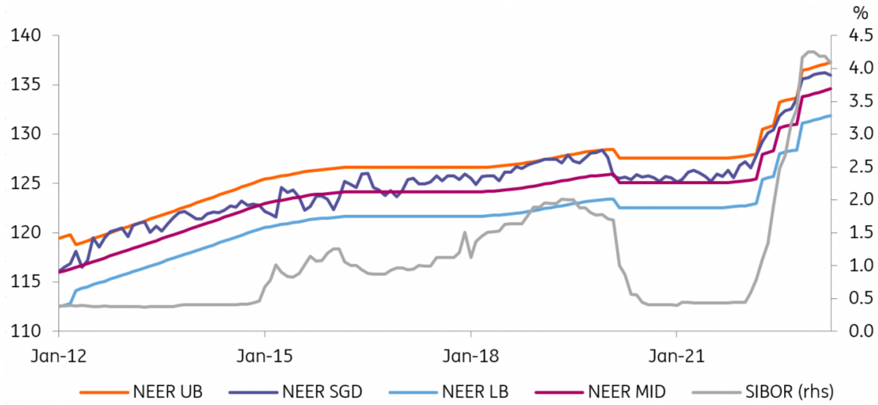
MAS opts to pause after growth disappoints

With the growth outlook dimming, the MAS surprised some market participants by leaving monetary policy settings untouched at its April 2023 meeting. The central bank believes that inflation will continue to edge back towards target, although it acknowledged that price pressures would remain evident after it raised its inflation forecast for the year by a full percentage point.

Gradually slowing inflation coupled with below-trend growth convinced the MAS to retain the slope, mid-point and width of the S$NEER policy band.

Barring any sharp upside surprises for inflation, we believe they could be on hold for the rest of the year. The currency initially reacted to the surprise MAS pause but we expect the SGD to steady and eventually appreciate alongside the projected regional rally towards the end of the year.

MAS paused at its April meeting



Source: ING estimates

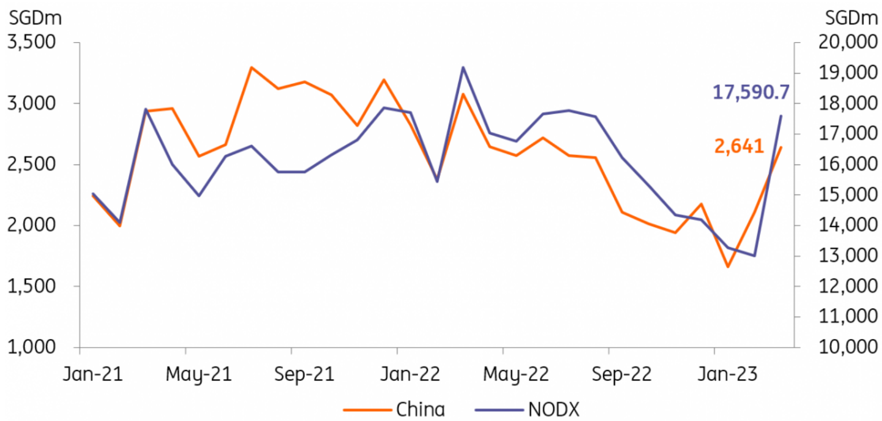
China's revival – the wildcard in Singapore's recovery

Just like the rest of the global economy, Singapore's growth prospects hinge largely on China's economic reopening. China is an important trading partner as well as a source of tourism for Singapore. Non-oil domestic exports to China account for 15% of total shipments per month. Furthermore, China's importance to Singapore's trade sector likely moves beyond direct trade between the two countries given that a resurgent China would spur both regional and global trade, a development that bodes well for Singapore's economy should export demand from other trading partners, such as Malaysia and Indonesia, improve as a result.

Meanwhile, China is the second-most important country in terms of visitor arrivals, accounting for roughly 16% of the total prior to Covid-19. We've seen a meaningful jump in visitor arrivals from mainland China in the past month after mobility restrictions were eased considerably.

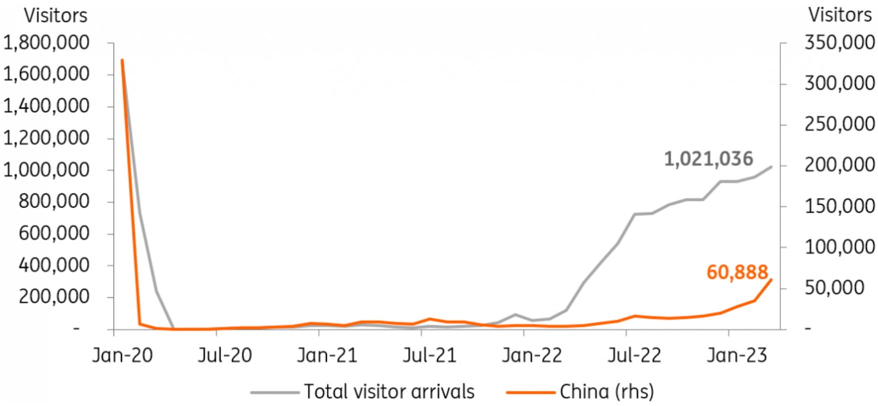
And although the latest monthly tally pales in comparison to pre-Covid arrivals, the more than three-fold increase in tourists from China since the end of 2022 could be an early indication of the return of Chinese tourists to Singapore. The renewed influx of arrivals from China could reinvigorate the services sector via increased spending on recreational activities, hotel accommodation, restaurants and department stores.

A China rebound could help revitalise the slumping NODX



Source: CEIC

Visitors from China are returning



Source: CEIC

Summary: Tough year ahead amid the slow growth and high inflation landscape

The twin challenges of slowing global growth and stubbornly elevated inflation make for a challenging 2023 for Singapore's economy. The export sector is struggling and weighing on industrial output as a result, forcing first-quarter GDP to contract from the previous quarter. Meanwhile, persistently high inflation still threatens to weigh on domestic consumption, although there are clear signs that surprisingly robust demand may be part of the reason for inflation's slow grind lower.

Recognising the imminent slowdown, fiscal and monetary authorities have taken action, with additional support packages rolled out and the MAS opting to retain policy settings at the most recent policy meeting. With the challenging landscape, we have whittled down our GDP growth projection to 1.9%YoY for 2023, down slightly from the previous forecast of 2.1%.

Any upside surprise to this growth expectation hinges on China's economic recovery given the mainland's importance to both global trade and Singapore's tourism sector. However, even if China is able to project an upbeat growth trajectory, any upside surprise may need to be tempered should the previous support provided by the US fade amid its own projected economic downturn.

Forecasts

	2Q23	3Q23	4Q23	1Q24	2023	2024
GDP (%YoY)	2.2	2.1	2.5	3.2	1.9	3.2
Inflation (%YoY)	5.4	5.0	4.4	3.3	5.4	3.2
3M SIBOR	4.00	3.75	3.50	3.50	3.50	2.50
SGD (eop)	1.32	1.31	1.32	1.31	1.32	1.30

Source: ING estimates

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com