Singapore to feel impact from slowing trade

The projected global downturn will impact Singapore. Will the return of tourists cushion the blow?

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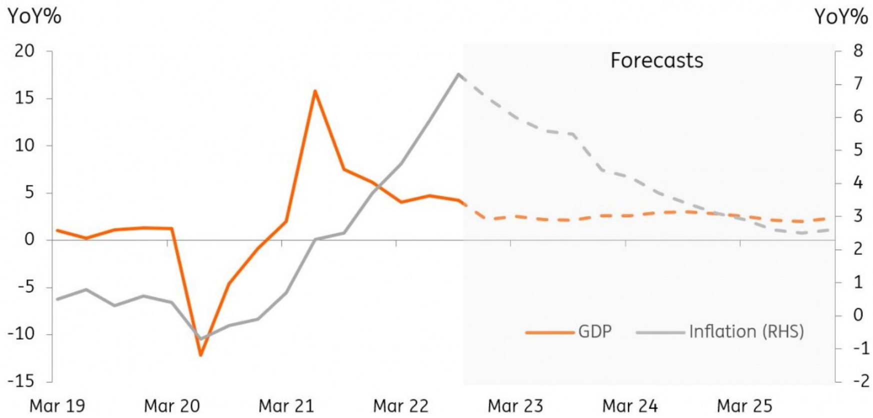
Singapore: At a glance

Singapore managed to record respectable growth in 2022, supported by an improvement in global trade and robust domestic consumption, but momentum is now fading. The sharp uptick in inflation and supply disruptions caused by China's repeated lockdowns due to Covid have been key factors for the moderation in growth momentum.

Surging inflation and rapid tightening from global central banks worked against the economy, which in turn forced aggressive action from the Monetary Authority of Singapore (MAS). The rise in price pressures was so pronounced it warranted tightening from the MAS at two non-policy meetings, on top of action during both scheduled meetings.

Meanwhile, industrial production and exports have been weighed down by softer demand from China and the rest of the world. While multi-year high inflation likely capped household spending, resurgent visitor arrivals may have provided a lift to department store sales.

Growth and inflation outlook



Source: Singapore Department of Statistics and ING estimates

3 Calls for 2023

1 Singapore GST implementation to keep inflation elevated, slow growth

The planned increase in Singapore's goods and services tax (GST) was pushed through on 1 January 2023. Previously delayed due to the pandemic, the GST rises from 7% to 8% in 2023 and should impact both the inflation outlook and growth momentum next year. The latest inflation forecasts from the MAS incorporate the scheduled GST increase, with core inflation expected to settle between 3.5% to 4.5% for the year. Relatively high inflation should cap household consumption next year as overall economic activity is set to slow due to global factors.

Furthermore, given that core inflation will likely stay well above the MAS's core inflation target of 2%, we also believe that the central bank will be forced to retain tight financial conditions to help bring inflation back to target. The backdrop of tight financial conditions coupled with high inflation should weigh on growth, and we expect full-year growth to settle at 2.5% year-on-year in 2023.

2 Slowing global trade to dent growth momentum further

Expectations for a recession in the US and Europe have sparked concern about slowing global trade for the past few months. Rapid fire rate hikes from major central banks and stubbornly high inflation all point to a sharp slowdown in growth around the world which should reduce overall demand for goods and services.

Early signs that this development may be impacting Singapore surfaced late in 2022 with non-oil domestic exports (NODX) falling sharply, by more than 14% YoY last November. Some were pinning their hopes on the much-anticipated economic reopening by China, however, with China's recent surge in cases, we remain sceptical that we will see any benefits from this anytime soon, or on the scale that was previously expected.

What we can be sure of is the projected recession in the US and most of Europe which will definitely send ripples through the ASEAN export supply chain. Singapore will likely feel the impact of the slowdown in global trade and this factors into our modest growth projection for 2023.

3 Return of tourist arrivals to provide counterbalance to global headwinds

Singapore's growth momentum appears challenging given the projected slowdown in global trade. But one brighter spot for the economy is the return of foreign visitor arrivals.

In November, Singapore recorded 816,758 visitor arrivals, a little more than half the number it used to receive prior to Covid-19 but still more than the 330,059 visitors received for all of 2021. The influx of tourists boosted the services sector with hotels, restaurants and department stores benefiting from their return.

With most countries having fully relaxed border controls by now and with more people now more open to travel, we can expect a sustained increase in visitor arrivals for Singapore next year. The recovery in visitor arrivals will be even more pronounced if China can overcome its current Covid surges and its population resumes international travel again in large numbers. The projected global slowdown could blunt the impact of tourism to some extent, but if Singapore were to receive more visitors in 2023 than it did in 2022, we could expect a decent boost from the resurgent services sector to act as a counterweight to softer domestic demand and slowing global trade.

Singapore summary forecast table

	4Q22	1Q23	2Q23	3Q23	4Q23	FY2022	FY2023	FY2024	FY2025
GDP (YoY%)	2.2	2.7	2.2	2.2	2.8	3.8	2.4	2.8	2.2
Inflation (YoY%)	6.6	6.0	5.6	5.5	4.4	6.1	5.4	3.6	2.7
NODX (YoY%)	-10.0	-3.5	-4.0	2.1	4.5	-10.0	4.5	8.5	5.5

	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	4Q24	4Q25
3M bond yields (%)	4.2	4.05	3.8	3.6	3.0	2.5	2.25	2.0	2.0
USD/SGD	1.35	1.35	1.34	1.33	1.33	1.31	1.32	1.3	1.3

Source: Singapore Department of Statistics and ING estimates

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