

# Singapore: Brighter Outlook Ahead

**Our heatmap shows some economic recovery, even though there were near-term setbacks**

**Finance Minister Wong maintained the FY2021 Budget overall numbers, with some reallocation**

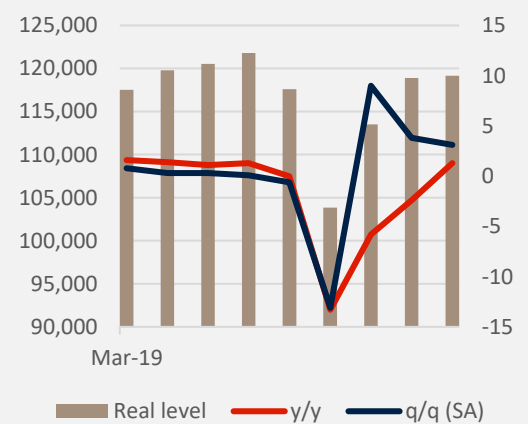
**The Singapore government is planning a roadmap towards normalization, as vaccination rates rise**

## Summary

We believe that the Singapore economy likely grew by 14.6% y/y in 2Q-2021, after a 1.3% increase in 1Q. However, this meant a contraction of 1.8% q/q (seasonally adjusted). Retail sales results confirmed to us that the Phase 2 Heightened Alert will likely to be a temporary setback, after it grew 79.7% y/y in May (inflated by base effects from last year’s circuit breaker). However, retail sales contracted by 6.8% m/m (seasonally adjusted) as activity levels were down from the Phase 2 Heightened Alert in May-June 2021.

Our heatmap on Singapore metrics show that the economy is recovering on some metrics, even as other sectors are likely to stay depressed. For instance, Singapore’s Markit whole economy PMI moderated to 50.1 in May, from 54.4 a month ago. Manufacturing continued to outperform, reflected in the official PMI for the sector. This also bodes well for goods’ exports, although less so for services exports. Unit labour and business costs are rising. The employment situation is gradually improving.

Figure 1: Singapore GDP (SGD mn and %)



Source: Bloomberg, HL Bank

## Heatmap on Key Singapore Economic Metrics

2019							2020												2021					
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May		
-0.3	-1.0	-0.4	-1.0	-1.0	-0.7	-1.5	-1.8	-2.7	-4.7	-4.2	-1.9	-0.3	-0.1	-0.5	-0.3	0.3	0.2	0.0	1.0	1.0	3.8	3.9	Retail Sales	
-1.5	-1.5	-1.8	-1.7	-1.6	-1.5	-1.4	-1.4	-1.1	-1.0	-1.0	-3.7	-3.0	-2.6	-0.6	-0.6	-0.5	0.6	0.7	0.7	1.4	1.4	1.4	Value-add p.worker	
-0.7	-0.6	0.0	0.0	0.0	-0.6	-0.7	-0.7	-2.0	-3.3	-3.6	-3.0	-3.7	-3.4	-3.2	-2.7	-2.1	-1.7	-1.6	-1.2	-1.0	-0.8	-0.6	Unemployment	
0.2	0.2	2.3	2.1	1.9	1.3	1.2	1.1	-2.8	-2.6	-2.4	-4.8	-3.7	-3.1	-0.9	-0.8	-0.8	-0.1	-0.1	-0.1	0.5	0.5	0.5	Employment Chg	
1.6	1.6	2.2	2.0	1.9	0.8	0.7	0.7	0.3	0.3	0.3	-5.3	-3.8	-3.2	-1.6	-1.5	-1.4	-1.4	-1.3	-1.3	-0.6	-0.6	-0.6	Unit Labour Cost	
0.1	0.1	-0.7	-0.6	-0.6	1.2	1.2	1.1	-0.7	-0.7	-0.6	-2.6	-2.4	-2.2	-2.2	-2.0	-1.8	-1.6	-1.6	-1.5	-0.2	-0.2	-0.2	Unit Business Cost	
-2.9	-2.4	-2.5	-2.5	-2.1	-1.9	-2.3	-2.7	-2.5	-2.4	-2.0	-1.9	-2.0	-1.7	-1.4	-1.4	-1.2	-1.3	-1.1	-0.7	-0.3	-0.1	0.1	MAS Core CPI	
-1.2	-1.9	-1.6	-1.5	-1.6	-1.1	-0.1	0.0	-0.9	-2.5	-2.9	-2.0	-1.4	-1.1	-0.9	-1.3	-1.1	-0.5	-1.2	-0.7	0.9	2.6	3.4	Oil Dom. Exports	
-1.3	-1.1	-1.0	-1.4	-0.7	0.1	-0.4	0.2	1.6	0.8	-0.6	1.2	0.5	0.7	0.5	-0.4	-0.5	0.7	1.3	0.4	1.2	0.6	0.9	NODX	
-1.1	-1.5	-0.3	-1.2	-0.5	0.8	-1.0	1.1	-0.8	-2.0	-2.7	0.2	-0.9	-0.4	0.3	-0.1	-0.1	0.4	0.7	-0.1	3.1	3.1	2.5	Re-exports	
-1.8	-1.8	-1.6	-2.2	-1.5	-1.1	-0.9	0.3	-0.7	-2.1	-3.0	-1.3	-1.3	-1.3	-0.4	-1.1	-1.0	-0.4	-0.5	-0.5	1.6	2.2	2.5	Imports	
-0.7	-0.8	-0.9	-1.0	-1.1	-0.5	-0.6	-0.6	-2.6	-2.3	-2.1	-3.5	-2.9	-2.5	-1.9	-1.8	-1.6	-1.5	-1.4	-1.3	-0.8	-0.8	-0.7	Services Exports	
-0.1	-0.2	-0.8	-0.9	-1.0	-1.1	-1.2	-1.2	-2.6	-2.3	-2.1	-4.2	-3.4	-2.9	-2.2	-2.0	-1.8	-1.7	-1.6	-1.5	-0.9	-0.9	-0.8	Services Imports	

Note: Measured in standard deviations from mean over the past three years (June 2018 to May 2021). Positive (negative) number indicates higher (lower) than mean. Source: Bloomberg, HL Bank

### Reallocating Government Expenditure Plans

Finance Minister Lawrence Wong said on 5 July that the Ministry of Finance is planning a reallocation of the planned FY2021 Budget, to finance the SGD 1.2bn Covid-19 support measures during the Heightened Alert period. This will come from capitalisation of development expenditure from SINGA (Significant Infrastructure Government Loan Act) and underutilisation of some development expenditure. The overall FY2021 Budget stands at 2.2% of GDP (SGD 11bn), unchanged from initial plans.

Additional support includes enhanced Jobs Support Scheme support for affected sectors (focusing on small and medium enterprises), rental relief, subsidies and the Covid-19 Recovery Grant (temporary) for individuals (extracted from the Business Times). Bridging loan facilities are also extended for 6 months, until 31 March 2022.

On the reopening of the Singapore economy, Minister Wong struck a similar chord from previous announcements about reopening gradually. He also highlighted that Singapore will announce in due course a roadmap to live with Covid-19, as vaccination rates climb and treatment measures improve. This will mean that outbreaks will not threaten high hospitalization rates and Covid-19 can be regarded more like influenza (in terms of morbidity and mortality).

### Underlying Retail Sales Activity Distorted by Covid-19

Underlying retail sales growth have been dampened by recent restrictions as a result of the Covid-19 outbreak. Only supermarkets and computers/telecommunications equipment spending are higher than 2019 levels. Food and beverage, department stores as well as wearing apparel/footwear have been the worst hit.

However, the situation should reverse in the months ahead, as Singapore's vaccination rates rise. The economy is abler at that time to return to a higher level of economic activity, compared to that of April 2021 (before Phase 2 Heightened Alert).

### Some Divergences in PMIs Trends

Singapore's PMIs for June reflect some divergences among various sectors in Singapore. The manufacturing PMI released by the Singapore Institute of Purchasing and Materials Management showed modest and steady expansion (50.8 in June, compared to a neutral-50 mark), supported by new orders (domestic and exports), output, inventory and employment.

The Markit whole economy PMI was more neutral (50.1, from 54.4 a month ago), dragged by restrictions from Phase 2 Heightened Alert which was perhaps more pronounced in some services and construction sectors. New orders and output signalled much slower increases in June compared to May.

The outlook ahead is broadly more positive, as external demand is supported by major economies, and domestic demand is helped by increases in activity levels.

**Figure 2: Key forecasts**

	2021F	2022F
GDP	6.3%	3.5%
Inflation (avg)	1.7%	0.9%
Core CPI (avg)	0.8%	1.0%
3m SIBOR	0.45%	0.50%
USD/SGD	1.33	NA

Source: HL Bank

## Implications

We think that the economy is in a well-placed position to recover strongly. We forecast GDP growth at an above-trend 3.5% in 2022, after the base-effect inflated 6.3% in 2021. Although the recovery is still likely to be uneven (K-shaped), domestic oriented sectors (construction, domestic services) should pick up as activity levels normalise in 2H-2021.

The focus for the economy will likely turn, from reopening, towards medium-term initiatives. These include improving workers' skillsets to adapt to changing global trends, digitization and addressing climate change (like the Green Plan 2030).

This will also mean that the Monetary Authority of Singapore should be better placed to normalise monetary policy in 2022. We think that the MAS should move to an appreciation stance of the SGD Nominal Effective Exchange Rate (NEER) in April 2022.

This comes as underlying inflation continues to recover from subdued, below-trend levels over 2H-2021. We maintain our core inflation forecast (0.8% in 2021 and 1% in 2022) even as we revise up headline inflation forecasts (1.7% in 2021, from 1.3% previously). This is owing to higher-than-expected oil prices over the past few months that propelled energy (transport) inflation higher.

For interest rates, Singapore interest rates should modestly rise over the coming few years, in line with global central banks' tapering of quantitative easing and tightening of monetary policy. This will likely point towards slightly higher Singapore market rates in SIBOR and SORA.

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