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Research Alert

# Singapore's growth momentum slowed

## GDP posted a small quarter-on-quarter contraction in 2Q22

## Retail trade slumped for the first time in four quarters

## SGD should be supported by expected MAS tightening in October

Singapore's final GDP readings for the second quarter were revised down last week, confirming the weaker than expected growth momentum. GDP contracted 0.2% q/q in the second quarter (1Q22: +0.8%), as opposed to the flat reading in the initial estimate. This reflects the substantial pull-back in retail trade (-6.9% q/q) and wholesale trade (-2.7% q/q). Retail trade slumped for the first time in a year as the post-Covid recovery effect waned and consumers grappled with high inflation. Manufacturing posted a small 0.4% q/q rebound while construction output also picked up modestly (+0.9%).

The y/y growth rate was also trimmed from 4.8% to 4.4% (1Q22: +3.8%), although still faster compared to the previous quarter. Manufacturing growth sustained at 5.7% y/y (1Q22: +5.5%) while construction quickened to 3.3% y/y (1Q22: +2.4%). Services sector growth also steadied at 4.8% y/y (1Q22: +4.7%) where retail trade was seen growing 11.5% y/y. This was attributed to increased non-motor vehicle sales volume which was inflated by the low base in 2Q21 when the Phase 2 Heightened Alert measures were imposed.

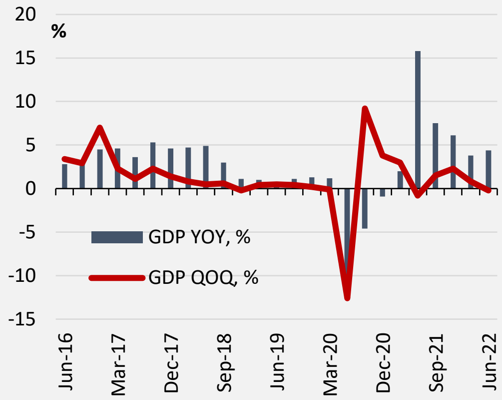
**Weakening external demand countered by tourism revival**

Weakening external conditions stemming from the synchronised slowdown in Western developed countries as well as the sustained weakness in China pose downside risks to Singapore's industrial and external trade sectors. Although supply chain-related issues have improved, inflation in developed countries remained high and may impede overall demand. The global semiconductor demand is also expected to slow down for the remainder of the year as warned by multiple chipmaking giants overseas. China's adherence to strict Covid-19 policy and its real estate/property sector rout suggest that pace of economic growth will be unexciting. On the other hand, the full reopening of international borders continued to bode well for Singapore's tourism and accommodation sectors; official statistics showed that air passengers and international visitor arrivals have continued to recover to about 50% and 34% of pre-pandemic levels as of June 2022. Domestic spending should remain supported by higher wages but could moderate further on the back of high inflation fading reopening effect.

**MAS to proceed with tightening in October**

The Monetary Authority of Singapore (MAS) has re-centred upwards its policy band to prevailing levels in mid-July – an off-cycle move – to allow for further appreciation of the currency. The weaker q/q 2Q22 GDP growth is unlikely to stop the MAS from tightening for the fourth time this year given that inflation remains high. All-item CPI inflation advanced to a

***Figure 1: GDP contracted 0.2% q/q***

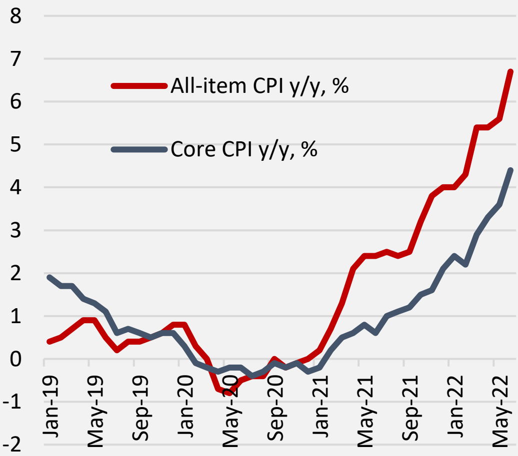



*Source: Bloomberg*

| Sectors | y/y | | q/q | |
|---|---|---|---|---|
| | 2Q22 | 1Q22 | 2Q22 | 1Q22 |
| **TOTAL** | **4.4%** | **3.8%** | **-0.2%** | **0.8%** |
| Manufacturing | 5.7% | 5.5% | 0.4% | -1.7% |
| Construction | 3.3% | 2.4% | 0.9% | 3.5% |
| Services | 4.8% | 4.7% | -0.1% | 2.2% |

*Source: Singstat*

***Figure 2: Inflation hit record high***




*Source: Bloomberg*

record high of 6.7% y/y in June while the core inflation rate also rose to a fresh record of 4.4% y/y. The SGD continued to outperform Asian currencies this year, suffering only a 1.7% YTD loss against the dollar (as at 12 Aug 2022). Regional peers such as THB has lost 5.1% while MYR suffered 6.3% sell-off YTD. SGD will remain supported by expectations of tighter policy in view of an expected retreat in the greenback as the Federal Reserve turns less hawkish.

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