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Global Markets Research

Research Alert

Singapore: Upward revision in 1Q23 GDP growth

1Q23 GDP softened less than initially estimated to +0.4% y/y
MTI maintained 2023 growth forecast at 0.5-2.5%; headline inflation at 5.5%–6.5%
Expect MAS to maintain S$NEER band in October on below trend growth

Background

Singapore's 1Q23 GDP growth was revised upwards to +0.4% y/y (Initial: +0.1% y/y and 4Q: +2.1% y/y), while its q/q contraction was less than it had initially estimated at -0.4% (Initial: -0.7% q/q and 4Q: +0.1% q/q). Both data was better than consensus estimates. The economy continued to be weighed down by trade-related sectors, while activity in the domestic-oriented and travel-related sectors remained firm, supported by relatively strong consumption, investment spending as well as tourist arrivals. At the same time, the Ministry of Trade and Industry (MTI) maintained its 2023 GDP growth forecast at "0.5%-2.5%" but added that growth will likely to come in at around the mid-point of the range.

Broad-based moderation

The manufacturing sector worsened in line with slower export growth, contracting by 5.6% y/y in 1Q (4Q: -2.6% y/y), with contractions seen across all clusters except for the transport engineering. The construction sector grew by 7.2% y/y (4Q: +10.0% y/y), but remained below its pre-pandemic level. The services sector, meanwhile, grew at a much softer pace of +2.0% y/y (4Q: +4.0% y/y), led by the wholesale trade sector which contracted by 2.5% y/y, a reversal from +2.4% y/y in 4Q mainly due to machinery, equipment & supplies. In tandem with this, growth in the transportation & storage sector slowed to 0.7% y/y (4Q: +2.5% y/y), as expansion in air transport and land transport due to recovery in international travel was offset by lower sea cargo volume.

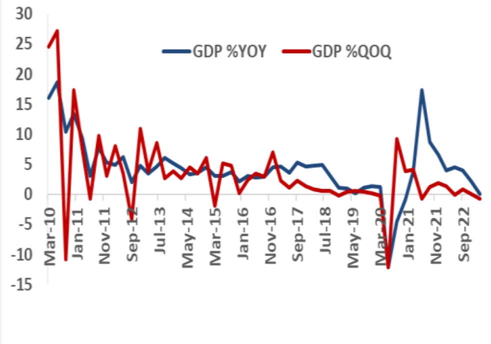
For the domestic-related industries, retail trade sector grew at a softer pace of 2.5% y/y (4Q: +5.1% y/y) mainly due to lower motor vehicle sales volume, while the finance sector shrank 0.9% y/y (4Q: -0.3% y/y) amidst a decline in net fees & commissions and credit intermediation for the banking sector and weak performance in the life insurance segment. In contrast, travel-related services remained robust boosted by a strong recovery in international visitor arrivals. Consequently, growth in the accommodation sector accelerated to +21.9% y/y (4Q: 7.8% y/y) while growth for food & beverages remained double digit at +12.2% y/y (4Q: +19.6% y/y). Robust private residential activities, meanwhile, continue to support the real estate sector (+9.2% y/y vs. 4Q: +15.2% y/y).

Outlook

As mentioned earlier, MTI maintained its GDP growth forecast at 0.5%-2.5% for 2023 (2022: +3.6%) with growth likely around the mid-point of the range. As it is, external demand outlook has weakened on the back of: 1) Electronics downcycle that is likely to be deeper and more prolonged. 2) Spill overs from China's services-led recovery expected to remain weak. 3) Recent banking stress and consequently, tightened global financial conditions. 4) Escalations in the Russia-Ukraine war and geopolitical tensions, leading to renewed supply disruptions.

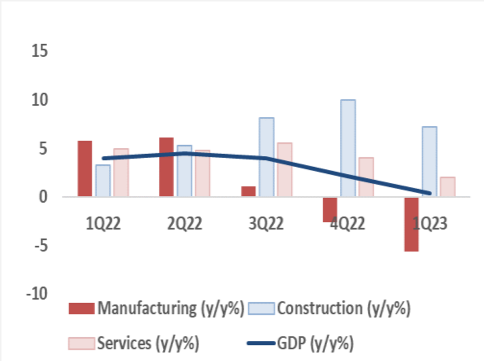
In terms of banking stress, while the domestic banking system is well-insulated at this juncture, consumer and investor confidence could take a hit and could spill-over beyond the current manufacturing-led downturn should other latent vulnerabilities in the global

Figure 1: GDP growth fell q/q on drags from external headwinds



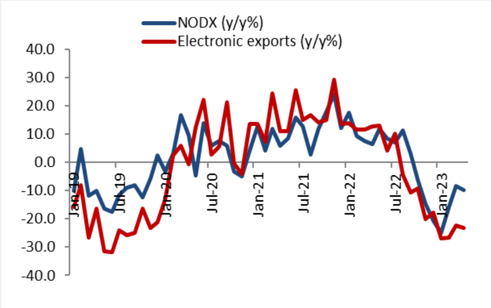
Source: Bloomberg

Figure 2: Sectoral breakdown



Source: Singstat

Figure 3: Export growth remained contractionary



Source: Bloomberg

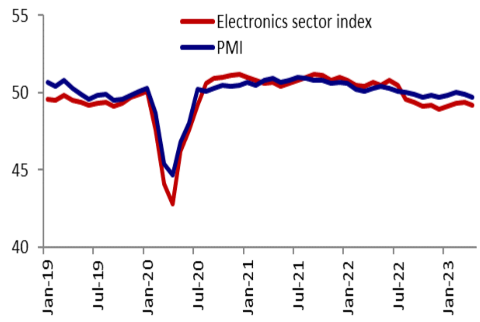
financial system manifest. In terms of the electronic downcycle, we expect growth to stay muted with contraction in global semiconductor sales. Singapore's exports and PMI data has remained sluggish, with the former declining 9.8% y/y in April while the latter remained contractionary at 49.7 in April. The Electronics PMI stood at 49.2, in line with the still soft global chip sales (March: +0.3% m/m and -21.3% y/y vs Feb: -3.9% m/m and -20.7% y/y). In fact, global semiconductor sales are projected to fall 3.1% in 2023, only recovering in 2024 (+8.3% y/y).

Support will emanate from the domestic front in view of a strong tourism sector as well as labour market. Notwithstanding, weakness in trade-related cluster could spill over to this front, but at this juncture, retail sales have held up post GST hike, even for durable goods. Retail sales rose for the second straight month in March, though at a slower pace of +4.5% y/y (Feb: +12.6% y/y). Notably, sales of food and alcohol soared 55.1% y/y (Feb: +70.0% y/y), mainly due to demand for alcoholic drinks, including those sold in duty free shops, as tourism recovered. Accordingly, tourist arrivals hit 2.9m in 1Q, about two-thirds of pre-Covid-19 numbers, and is expected to reach 12-14m in 2023, doubling from 6.3m in 2022. Unemployment rate also edged down to 1.8% (4Q: 2.0%) with expansion in employment offset by higher retrenchments at 4.0k (4Q22: 3.0k).

In terms of inflation. MAS expects inflation to stay elevated before slowing in 2H on moderating global and imported inflation, lower commodity prices, stronger S$NEER, increase in COE quota and ramp-up in the supply of HDBs. Nevertheless, this is subject to upside risks on the back of wage growth. All in, core and headline inflation are projected to average 3.5%–4.5% and 5.5%–6.5% respectively for 2023. Excluding the effects of the GST hike, core and headline inflation are expected to be lower at 2.5%–3.5% and 4.5%–5.5% respectively.

Thus, with expectations of below trend growth this year, coupled with imported inflation turning more negative and core inflation expected to ease, MAS has, and is expected to maintain the slope, width and centre of the S$NEER band going forward for the rest of 2023.

Figure 4: PMI just below 50-threshold



Source: Bloomberg

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