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Global Economics & Market Strategy

Singapore: 2H24 GDP Momentum Will Still Accelerate

- **We maintain that Singapore's growth momentum will accelerate in 2H24, translating into a full-year GDP growth of 2.5% in 2024.**
- **The delay in global disinflation momentum and a resilient economic backdrop will likely persuade the Monetary Authority of Singapore (MAS) to keep its policy parameters unchanged in 2024.**
- **Singapore's GDP expanded 2.7% YoY (+0.1% QoQ SA), surprising our forecasts for a milder 2.2% YoY growth and market's of 2.5% YoY expansion.**

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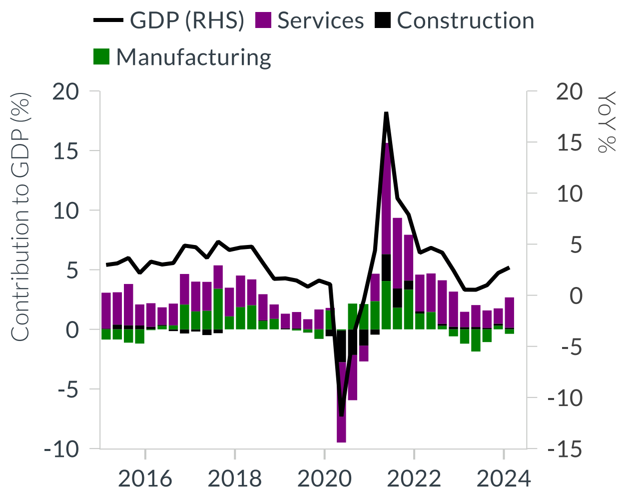
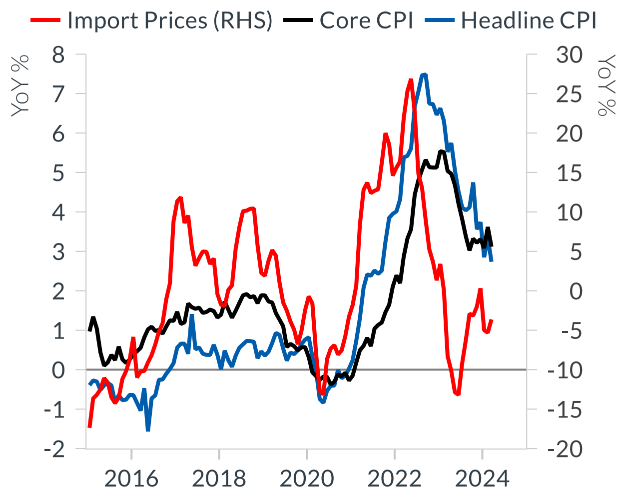
Figure 1: Singapore's GDP growth accelerated in 1Q24, with broad recovery in all key sectors



Source: CEIC, RHB Economics & Market Strategy

Figure 2: However, inflation remains a concern, core inflation may stay supported in coming quarters



Source: CEIC, RHB Economics & Market Strategy

GDP Annual Growth Could Slow in 2Q24

We maintain that Singapore's growth momentum will accelerate in 2H24, translating into a full-year GDP growth of 2.5% in 2024. The RHB Singapore GDP leading index model, which accounts for services-related high-frequency indicators, have materialised nicely by suggesting a 2.7% YoY print for Singapore's 1Q24 GDP. Singapore, arguably ASEAN's most trade-reliant economy by total trade as a percentage of GDP, will benefit from the improving US and China matrices in 2024 and support Singapore's manufacturing and trade-related sectors.

Singapore's services sector will likely underpin growth in 2024. Delving into the details, Singapore's 1Q24 GDP has been supported by the hospitality-related sectors, thus underpinning its services growth over the same period. Singapore's services-producing industries expanded 3.9% YoY in 1Q24, much stronger than the official advance estimates of 3.2% YoY. The above-estimate prints were invariably led by double-digit growth rates in accommodation (+14.4% YoY) and the arts, entertainment & recreation (+22.8% YoY) sectors. We see a healthy pipeline for noteworthy events in 2Q – 3Q24 that could continue to support Singapore's vibrant services backdrop, including Bruno Mars (April), A-mei (July), A R Rahman (August), EXO (September) and Richard Marx (September).

We also expect Singapore's manufacturing and trade-related sectors to support overall growth in 2H24. Notwithstanding the negative annual prints in Singapore's industrial production and NODX in recent months, we maintain our positive view of global external demand for the year ahead. Notably, the global external economic environment has remained resilient year-to-date, in line with our above-consensus US and China GDP growth forecasts for 2024. We keep US and China GDP growth forecasts at 2.5% and 5.0%, whereby market estimates have gradually moved towards our quantitative-driven forecasts. Regional economies like South Korea and Taiwan also experienced a global electronics recovery, coupled with Malaysia's recent 1Q24 GDP growth, which surprised the market consensus. Overall, we maintain that Singapore's electronics, precision engineering, machinery, and wholesale trade are key support pillars for Singapore's GDP.

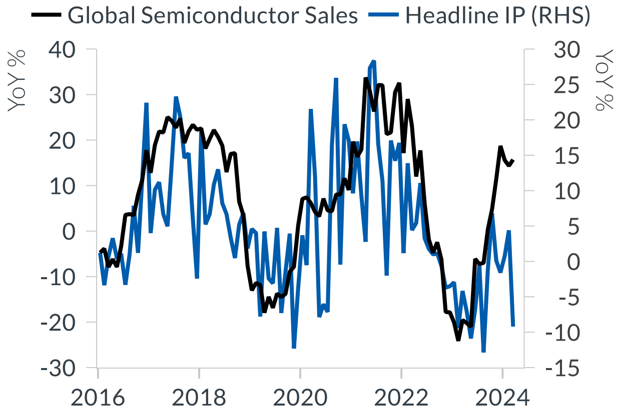
Notwithstanding the relatively positive rhetoric, we see a risk for Singapore's 2Q24 GDP growth to slow to around 1.5% YoY. On the back of Singapore's annual declines seen in high-frequency data, as discussed above, we think that further annual declines are still possible for Singapore's externally oriented sectors for this quarter. Specifically, our model suggests that Singapore's 1Q24 GDP growth should print merely 2.2% YoY, should we exclude the revision in Singapore's services growth in today's final GDP print – Singapore's 1Q24 manufacturing growth has seen a material downgrade to -1.8% YoY, from the previous official advance estimates of +0.8% YoY. We highlight that the above-mentioned 2Q24 GDP forecast of 1.5% did not fully account for the upside bias for Singapore's tourism sector, thus suggesting that empirical growth will be higher.

We see three key caveats to Singapore's relatively rosy growth backdrop in 2024. First, we remain cautious over potential escalations in global geopolitical frictions. Geopolitical tensions remain to be black swan events, albeit hope the current US-China trade tariff risk premiums to be contained. Other tensions surrounding the Middle East and Russia-Ukraine, should they escalate, may inject downside surprises for global and Singapore's trade momentum. Second, the ongoing delay to the global disinflation backdrop may mean that global rates may stay high-for-longer, whereby Singapore's financial conditions could remain tight. Third, our growth assumptions are hinged on China's growth recovery. By that notion, an unexpected slowdown in China's economic numbers may spell downside risks to global trade demand and drag Singapore's externally-facing industries.

The delay in global disinflation momentum and a resilient economic backdrop will likely persuade the Monetary Authority of Singapore (MAS) to keep its policy parameters unchanged in 2024. Our S$NEER assumptions are unchanged – the S$NEER appreciation is perceived at +1.5%, with +/-2.0% band, whereby the S$NEER is at +1.5% above the midpoint at the time of writing. The caveat to our expectations for MAS to stay on its hand this year will centre on an unexpected surge in global inflation, whereby should that scenario occur, we think the balance of risks is tilted towards a policy tightening by the MAS in the quarters ahead.

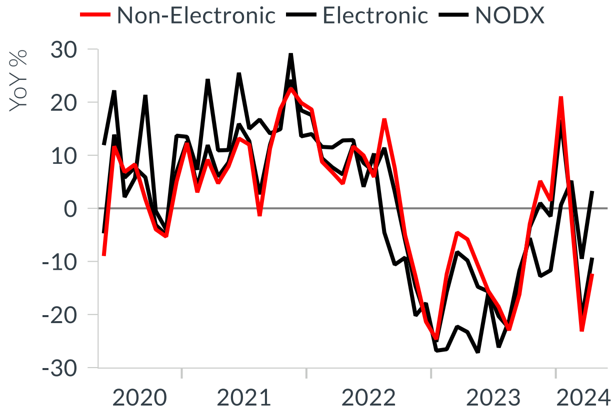
Singapore's GDP expanded 2.7% YoY (+0.1% QoQ SA), surprising our forecasts for a milder 2.2% YoY growth and market's of 2.5% YoY expansion. Singapore's growth was underpinned by its services industry, which has expanded above the official advance estimates. The upside revision in services growth has outweighed the downward revisions in Singapore's manufacturing (-1.8% YoY, vs advance +0.8% YoY) and construction (+4.1% YoY, vs advance +4.3% YoY). Overall momentum, calculated on a sequential three-period moving average basis, was relatively flat at +0.8% (from 4Q23: +0.9%), albeit faster than a year ago.

Figure 3: Singapore's industrial production activities has slowed in recent months…



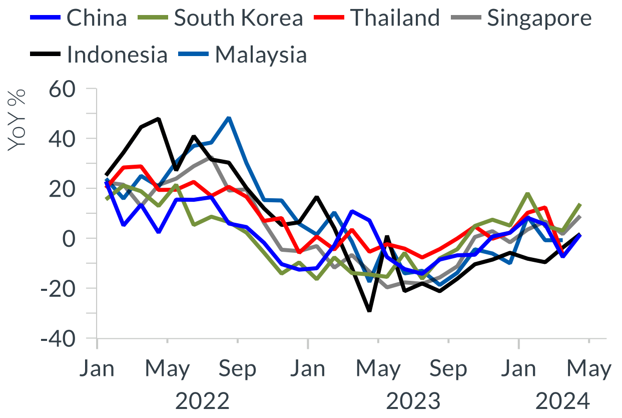
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: … although trade numbers are gradually improving



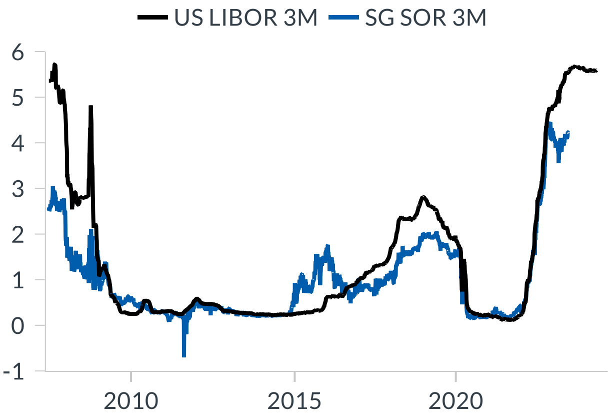
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: Export growth in Asia continued to pick up year-to-date



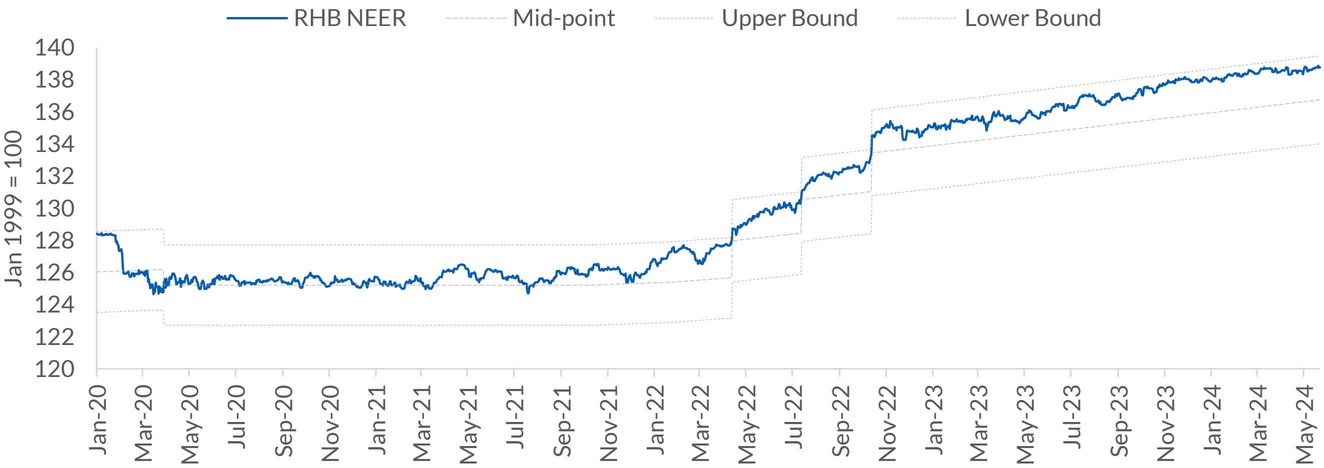
Source: Macrobond, RHB Economics & Market Strategy

Figure 6: SG interest rates may stay elevated on high-for-longer global rates backdrop



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: S$NEER is currently at 1.5% above mid-point, policy is appropriate to ensure medium-term price stability



Source: RHB Economics & Market Strategy

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