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Global Economics & Market Strategy

Singapore: GDP will Accelerate in 1H24

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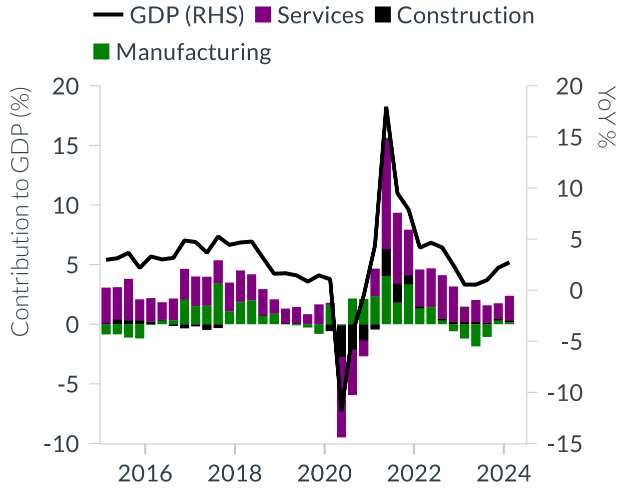
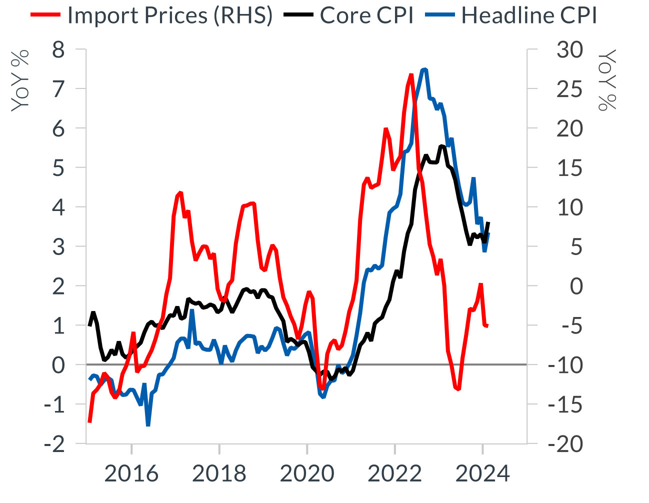
- **Singapore's GDP will continue to accelerate further in 1H24. We forecast 2Q24 GDP at 3.2% YoY, which will bring 1H24 GDP growth to an average of 3.0%.**
- **Inflation risk and a resilient economic backdrop will likely persuade the Monetary Authority of Singapore (MAS) to keep its policy parameters unchanged in 2024.**
- **SG GDP expanded 2,7% YoY (+0.1% QoQ SA), in line with our forecasts indicated in our leading GDP index model, but disappointed Bloomberg's consensus of +3.0% YoY (+0.5% QoQ SA).**

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



Source: Macrobond, RHB Economics & Market Strategy

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



Source: Macrobond, RHB Economics & Market Strategy

Keep Calm, We Are Already At Safe Harbours

Singapore's GDP will continue to accelerate further in 1H24. We forecast 2Q24 GDP at 3.2% YoY, bringing 1H24 GDP growth to an average of 3.0%. Our view for Singapore's GDP to see an acceleration in 1Q24 materialised nicely, as indicated by our proprietary GDP leading index model. Notwithstanding that our model's recent forecast was point-to-point with today's empirical release for 1Q24 GDP, it also suggests that further GDP growth acceleration into 2Q24 is on the cards. Even so, we will not discount upside risks to today's advance estimates, given that (1) the advance GDP estimates likely accounted for only January and February's economic data, while (2) March's influx of foreign arrivals and the subsequent surge in spending, could lift Singapore's 1Q24 GDP to as high as 3.1% YoY (from advance estimates of 2.7%)

We expect Singapore's services sector to underpin growth in 2024. The upside risks to SG's 1Q24 GDP growth will stem from Taylor Swift's March concerts (March), which are estimated to add an estimated S$350 to S$500 million of tourism receipts, while additional tourism revenue can be expected from the recently concluded Bruno Mars concerts (April). In addition, seasonal factors such as the Chinese New Year (February), Hari Raya Aidilfitri (April), Deepavali (October - November) and Christmas (December) will also likely add festive cheers and consumer spending to support Singapore's retail space.

High-frequency data also supports Singapore's GDP growth acceleration backdrop in 2Q24. Singapore's Feb industrial production positively surprised market consensus (and ours) despite the shorter month, thus underpinning producers' confidence and momentum in Singapore's trade prospects. In the same vein, we expect Singapore's semiconductor trade to underpin the overall export segment; the support for Singapore's export momentum is underpinned by our sanguine global economic outlook, whereby our 2024 GDP growth forecasts for the US and China are above consensus at 2.5% and 5.0%, respectively. We are not concerned over Feb's NODX decline of 1.0% YoY – exports of top five electronic products remain supported at +5.6% YoY (highest since July 2022), while shipments of integrated circuits saw their first YoY growth since July 2022. We also notice the acceleration in global semiconductor sales (Figure 3), which will benefit a trade-reliant economy such as Singapore in the coming months.

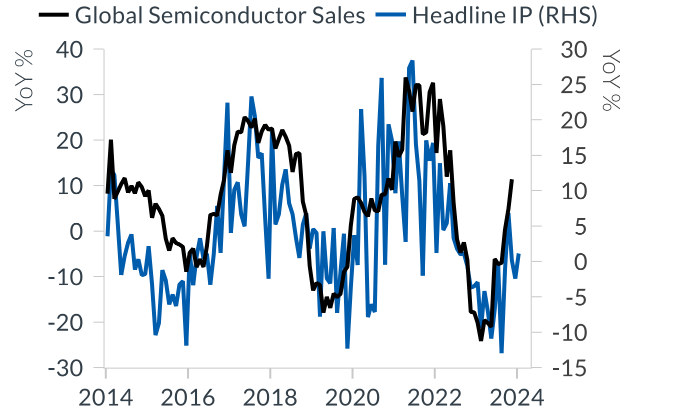
The disconcerting aspect, however, may stem from the inflation perspective, especially given the recent pickup in Singapore's core inflation. In our latest inflation report, we upgraded Singapore's core inflation forecast to 3.5% in 2024 (from 2.8%). Global commodity prices are already on the uptrend (Brent and Base Metals), while we see further upside bias for food prices on the back of El Nino weather conditions. We observe a broad-based increase in all the prices of various sectors. The evidence shows that global food and energy prices will see further upside bias in the quarters ahead, thus suggesting that Jan's slowdown in Singapore's import price momentum is, perhaps, temporal. We maintain the view that Singapore's imported inflation will likely pick up in 2Q24 on the back of our aforementioned discussion for higher commodity prices in the months ahead.

Inflation risk and a resilient economic backdrop will likely persuade the Monetary Authority of Singapore (MAS) to keep its policy parameters unchanged in 2024. In the policy statement, we draw three observations: (1) the S$NEER remains strong at the upper half of the band, (2) inflation is expected to stay elevated in the immediate quarters ahead, and (3) current policy settings are appropriate to ensure medium-term price stability. Our S$NEER assumptions are unchanged – the S$NEER appreciation is perceived at +1.5%, with +/-2.0% band, whereby the S$NEER is at +1.6% above the midpoint at the time of writing. The caveat to our base case 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.

SG GDP expanded 2,7% YoY (+0.1% QoQ SA), in line with our forecasts indicated in our leading GDP index model, but disappointed Bloomberg's consensus of +3.0% YoY (+0.5% QoQ SA). 1Q24 GDP growth was led by services (+3.2% YoY), construction (+4.3% YoY), and manufacturing (+0.8% YoY), albeit services accounted for the lion's share of growth (about 2/3 of the YoY growth is led by services). Sequentially, manufacturing declined 2.9% QoQ SA (albeit we think this is likely a blip as Feb's IP numbers are very strong), while construction fell 1.7% QoQ SA. On the flipside, services sequential growth rose 1.2% QoQ SA, led primarily by finance & insurance and other services.

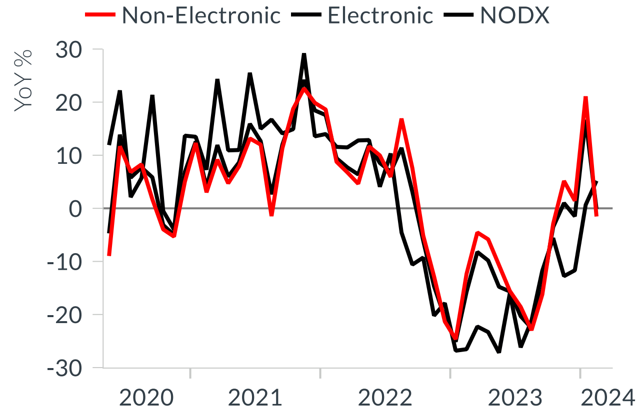
In its latest policy meeting, the MAS kept its policy parameters unchanged. Policymakers cited that the S$NEER has "continued to strengthen in the upper half of the appreciating policy band". MAS kept its positive tone in its latest statement, indicating that "global manufacturing should also remain on its recovery path", while the "prospects for the Singapore economy should improve over the course of 2024". Key drivers for Singapore's growth, according to the MAS, include (1) the recovery of the manufacturing and financial sectors, (2) upturn in the electronic cycle and (3) anticipated easing in global interest rates. As discussed above, MAS cited that "core inflation is forecasted to stay elevated in the immediate quarters ahead, before stepping down more discernibly in 4Q24". Overall, policymakers kept its full-year GDP growth forecast range unchanged at 1 – 3%, and full-year headline and core CPI growth forecast ranges between 2.5 – 3.5%.

Figure 3: Singapore's industrial production activities may stay supported on semiconductor sales…



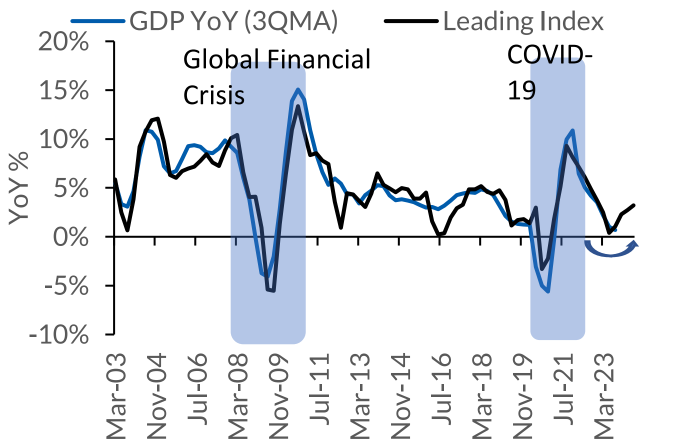
Source: Macrobond, RHB Economics & Market Strategy

Figure 4: … whereby the electronic exports remain supported on global growth trends



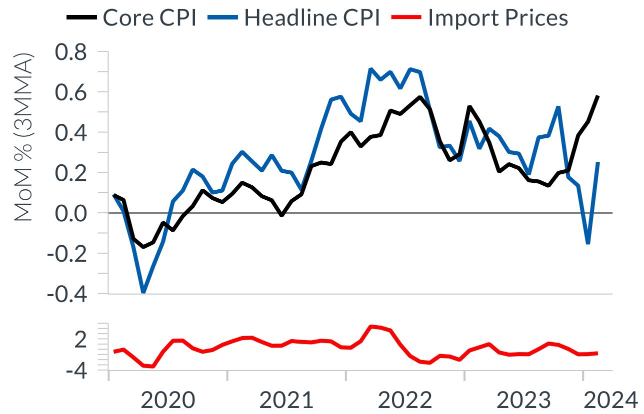
Source: Macrobond, RHB Economics & Market Strategy

Figure 5: RHB GDP leading index model suggests further acceleration in 2Q24 GDP growth



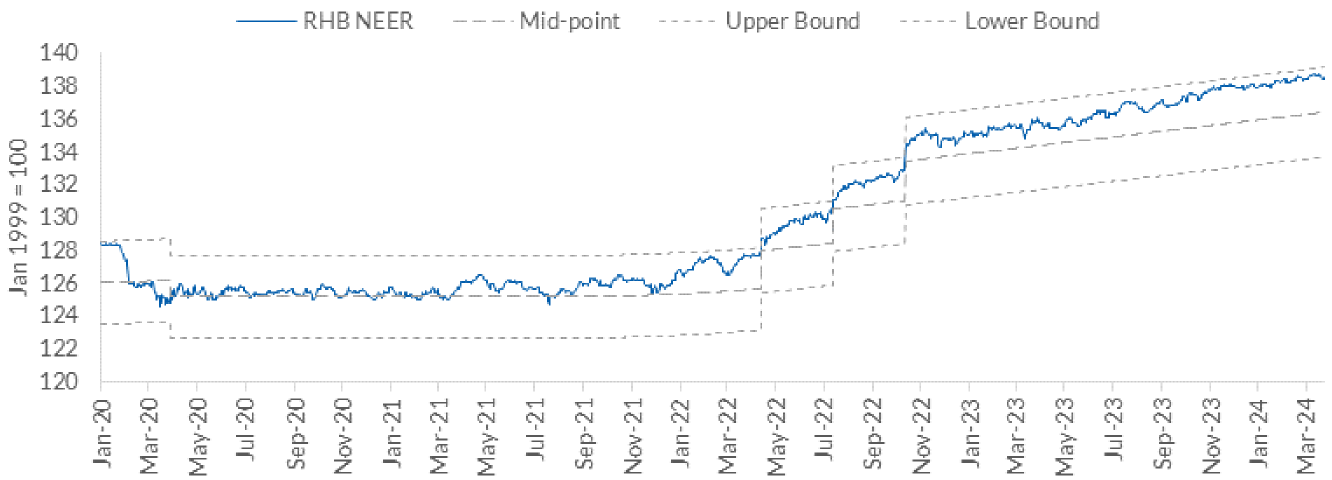
Source: CEIC, RHB Economics & Market Strategy

Figure 6: SG's import and headline CPI indices will pick up on the back of higher global prices



Source: Macrobond, RHB Economics & Market Strategy

Figure 7: S$NEER is currently at 1.6% above mid-point, policy is appropriate to ensure medium-term price stability



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