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MAS: Prolonged pause mode, flags elevated core CPI for longer but keeps 2024 core CPI forecast at 2.5-3.5%

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Highlights:

- **Premature to expect MAS to signal easing is on the cards**. As widely expected, MAS kept its monetary policy settings unchanged at its first quarterly review today. MAS reiterated that the current monetary policy stance remains appropriate and that a sustained appreciation of the S$NEER policy band will continue to dampen imported inflation and curb domestic cost pressures. However, the MAS statement was revealing in the following points:
    - Core inflation will stay elevated for longer. Instead of the initial expectations that core inflation will ease more significantly in 2H24, it is likely to decline gradually and step down by 4Q before falling further next year. Hence the timing of the significant easing in core inflation has been pushed out. However, there is no change to the official 2024 core CPI forecast of 2.5-3.5% (1.5-2.5% excluding the impact of the 1% point GST hike in January 2024). This coupled with the reiteration of the two-sided inflation risks (both upside and downside risks to the inflation outlook) mitigates some of the potentially perceived hawkishness of the statement that core inflation is tipped to rise in the current quarter due to the 1% point GST hike as well as the carbon tax hike, followed by water price adjustments in 2Q and the selected domestic services price adjustments (namely public transport and healthcare costs). The domestic labour market is still expected to cool and wage growth to ease, hence contributing to a slower growth in unit labour costs, which should be music to the ears of local businesses. The important point is that core inflation remains downward sticky for longer, rather than a re-acceleration in its trajectory.

    - The 2024 headline CPI forecast was shaded lower from the previous 3-4% to 2.5-3.5%, mostly attributable to the larger COE supply and the decline in COE premiums. The external inflationary environment remains one where global energy and food commodity prices are expected to remain broadly stable while imported costs of most intermediate and final goods should also be tempered by more favourable supply conditions as the global demand moderates.

    - The GDP growth picture remains one of gradual and modest improvement from 2023's 1.2% YoY to around 1-3% this year, predicated on a turnaround in the manufacturing and financial sectors, supported by the recovery in the global electronics cycle and the anticipated global monetary policy easing cycle. As such, MAS expects the slightly negative output gap in 2023 to narrow in 2H24.

  - MAS is likely to stay on a prolonged pause mode, at least for the next MPS in April. Ongoing vigilance to risks to inflation and growth imply a data-dependent mode, but this does not preclude the window for a potential pivot to materialise in 2H when the Fed and other major central banks embark on their rate cutting cycle and if core CPI eases more materially towards the year-end.

- Our 2024 headline and core inflation forecasts remain at 3.4% and 3.1% respectively, with 1Q24 likely to come in at 3.8% and 3.4% before easing to 3.1% and 2.6% by 4Q24. Our 2024 GDP growth is intact at 1-3% (midpoint 2%), predicated on a stabilisation in both the global manufacturing/electronics cycle and the Chinese economy.

- The focus now shifts to the upcoming 2024 Budget due 16 February where a more accommodative fiscal stance may set the stage for more assistance on the Cost-of-Living issues and re-employment help while preparing businesses to cope with the current and impending challenges including high business costs, tight labour market, shift to BEPS2.0 from 1 January 2025 etc.

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