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MAS surprises with slight slope steepening

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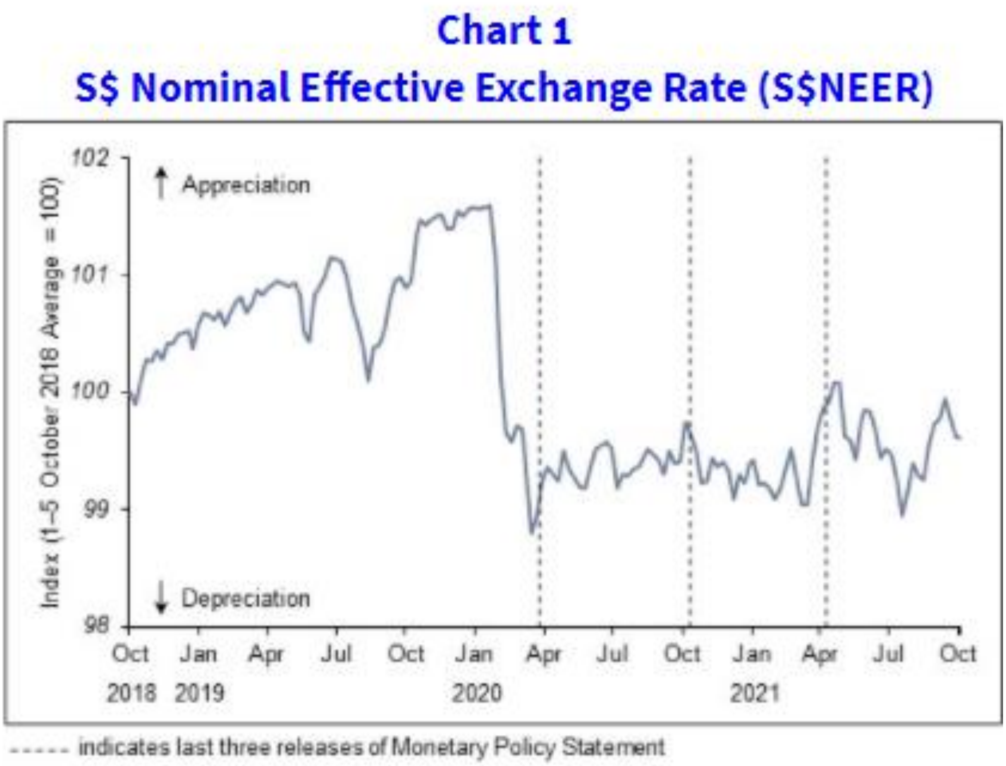
Highlights:

S'pore's 3Q21 GDP growth estimate came in at 6.5% yoy (0.8% qoq sa), close to our forecast of 6.4% yoy (1.1% qoq sa). The growth moderation was expected, given the return to the Phase 2 (Heightened Alert) and tightened Covid restrictions in July. GDP growth was largely driven by manufacturing (7.5% yoy), while both services and construction sectors saw their second consecutive quarter of expansion at 5.5% yoy and 57.9% yoy (due to low base last year). The electronics and precision engineering industries remained key beneficiaries of the improved global demand story, while the construction sector remained mired by the foreign manpower crunch due to border restrictions and the absolute value-add still remains 25% below its pre-Covid levels. For the services sector, growth momentum in the financial services and infocomms also remained resilient.

No change in the official 2021 GDP growth forecast of 6-7% yoy and we maintain our 6.7% yoy forecast as well. The 2Q21 GDP growth was also revised marginally higher to 15.2% yoy (-1.4% qoq sa), versus 14.7% yoy (-1.8% qoq sa) previously. This brought first half growth to 14.7% yoy but will likely slow to around 5.8% yoy in the second half of 2021 as low base effects fade. Still, the Singapore economy is tipped to remain in above trend growth in the quarters ahead, barring a global resurgence of the virus or a setback in the re-opening pace, and output should return to potential next year.

MAS was unexpectedly hawkish and slightly steepened the S$NEER slope from zero percent previously, with no change in the policy band width or level at which it is centred. This is the first slope steepening since October 2018 when MAS moved from +0.5% pa to +1.0% pa. MAS cited a broadening of cost pressures, both external and domestic, as global demand normalises amid ongoing supply chain problems. The policy concerns appear to be more persistent and broader prices pressures from a confluence of supply chain problems, rising energy prices, foreign manpower crunch due to border closures etc, but also some policy driven cost pressures from the expansion of the Progressive Wage Model in September 2022 for instance. In addition, service fee hikes, including those in transport, education and healthcare, also are on the cards, but how much wage growth would also pick up in 2022 remains the crux for end-consumers which are likely to face higher prices for a large swathe of goods and services going ahead. As a small and open economy dependent on many goods imports and also migrant workers, the pass-through to end-consumers may be fairly immediate. Hence the S$NEER slope steepening move today would help alleviate some of the broad USD strength and contain imported inflation for goods from regional economies.

MAS tips headline and core inflation to rise to 1.5-2.5% and 1-2% respectively in 2022, with the latter expected to close in on 2% in the medium term. With the S$NEER pushing higher to around 1.25% on the stronger side of its parity band this morning after the MAS announcement, it is likely to approach 1.5% and possibly higher. The next 6 months would be key to watch for growth and inflation to see if the optimism pans out as expected as this would set the tone for the April 2022 MAS policy meeting. Surprisingly, the MAS statement dropped all the caveats about downside risks apart from a brief phrase on the emergence of a vaccine-resistant virus strain or severe global economic stresses, reinforcing the more hawkish tilt. There was also no specific 2022 GDP growth forecast range given apart from alluding it will be slower but still above trend in 2022. This suggests there could be upside risk to our 3% growth forecast, especially it the VTLs take off and the pace of re-opening speeds up in early 2022.



Source: MAS

Gross Domestic Product in Chained (2015) Dollars

	3Q20	4Q20	2020	1Q21	2Q21	**3Q21***
Percentage change over corresponding period of previous year						
Overall GDP	-5.8	-2.4	-5.4	1.5	15.2	**6.5**
Goods Producing Industries	1.1	3.9	0.3	5.8	22.9	**10.8**
Manufacturing	11.0	10.3	7.3	11.2	18.0	**7.5**
Construction	-52.5	-27.4	-35.9	-23.2	117.5	**57.9**
Services Producing Industries	-8.3	-4.7	-6.9	-0.4	10.8	**5.5**
Wholesale & Retail Trade and Transportation & Storage	-11.7	-6.4	-9.5	-1.8	8.5	**5.0**
Information & Communications, Finance & Insurance and Professional Services	0.1	1.4	0.9	3.5	10.1	**7.7**
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services	-14.0	-9.9	-12.8	-3.6	14.5	**3.1**

	3Q20	4Q20	2020	1Q21	2Q21	**3Q21***
Quarter-on-quarter growth rate, seasonally-adjusted						
Overall GDP	9.0	3.8	-5.4	3.3	-1.4	**0.8**
Goods Producing Industries	11.9	1.8	0.3	9.8	-1.9	**1.0**
Manufacturing	9.7	-1.4	7.3	11.3	-2.1	**0.0**
Construction	37.5	55.6	-35.9	4.3	-2.4	**-0.4**
Services Producing Industries	5.5	4.1	-6.9	1.1	-0.3	**0.5**
Wholesale & Retail Trade and Transportation & Storage	2.0	4.1	-9.5	3.3	-1.0	**-1.3**
Information & Communications, Finance & Insurance and Professional Services	3.4	5.1	0.9	-1.0	2.3	**1.2**
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services	12.0	5.7	-12.8	-1.1	-2.2	**0.8**

*Advance estimates

Source: MTI

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