

Muted Uplift to S'pores 2021 Consensus Growth Forecast

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Highlights:

The latest MAS survey of professional forecasters revealed that consensus 2021 GDP growth forecast had been marginally upgraded to 6.6% yoy, up from 6.5% from a quarter ago, mainly due to improved expectations for manufacturing (11.4% versus 8.3%), finance & insurance (6.8% versus 6.0%), private consumption (5.6% versus 5.2%) and NODX (9.0% versus 7.5%). This is close to our house forecast of 6.7% yoy, and also within the official GDP growth forecast of 6-7% yoy, likely reflecting the progress made in global and domestic vaccination rates and also the recent re-opening of more major economies.

However, the optimism was not unbridled across the sectors. There were downgrades to 2021 growth forecasts for construction (16.6% versus 19.3%), wholesale & retail trade (4.1% versus 4.4%) and accommodation & food services (5.9% versus 6.5%). This rollback in sentiments could probably be attributed to the border closures affecting foreign manpower inflows, especially from the higher risk countries, as well as the concerns over the Delta variants which saw the return to P2(HA).

The 2022 outlook points to more normalization – GDP growth is tipped to subside to 3.9% versus our call for around 3%, but would largely depend on how the Covid virus and vaccination situation evolves from here. Notably, the biggest upside and downside risks pertain to the re-opening of borders versus an escalation of the Covid-19 situation, particularly new virus variants.

The inflation picture is more nuanced, with core inflation lagging behind headline inflationary pressures. 2021 headline inflation is tipped higher at 1.7% (versus 1.4%) but core inflation will dip to 0.7% (versus 0.8%), but the picture will reverse in 2022 – headline inflation is expected to moderate to 1.4% but core inflation will rise to 1.3% yoy. Rising commodity prices like crude oil prices should subside into 2022 as OPEC+ tips a surplus once production quotas are relaxed. Hence other cost drivers would become more important. Incipient cost pressures will likely pick up as the domestic economy gains a firmer footing. Should borders not re-open as expected, then domestic labour constraints are likely to remain binding. As it is, the overall and resident unemployment rates have declined steadily over the past year, and may return to near pre-Covid levels by end-2022.

Our base scenario remains for MAS to maintain the status quo for October 2021 MPS, with any monetary policy recalibration to only come in 2022, possibly as early as April, after factoring in the pickup in core inflation and while keeping an eye on the potential labour cost pressures from 4Q22 with the broadening and ramp up of the Progressive Wage Model from 1 September 2022.

**Table 1
Median Forecasts of Macroeconomic Indicators for 2021**

Key Macroeconomic Indicators Year-on-Year % Change	June Survey	Current Survey
GDP	6.5	6.6
Manufacturing	8.3	11.4
Finance & Insurance	6.0	6.8
Construction	19.3	16.6
Wholesale & Retail Trade	4.4	4.1
Accommodation & Food services	6.5	5.9
Private Consumption	5.2	5.6
Non-oil Domestic Exports	7.5	9.0

**Table 2
Median Forecasts of Other Economic Indicators for 2021**

Indicators	June Survey	Current Survey
CPI-All Items (year-on-year % change)	1.4	1.7
MAS Core Inflation (year-on-year % change)	0.8	0.7
Overall Unemployment Rate (end-period, SA %)	2.7	2.7
Exchange Rate (end-period, S\$ per US\$)	1.313	1.330
3-month S\$ SIBOR (end-period, percent per annum)	0.45	0.44
Bank Loans (end-period, % growth)	2.1	4.0

**Table 6
Top 3 Potential Risks to the Singapore Economy
(Proportion of Respondents, %)**

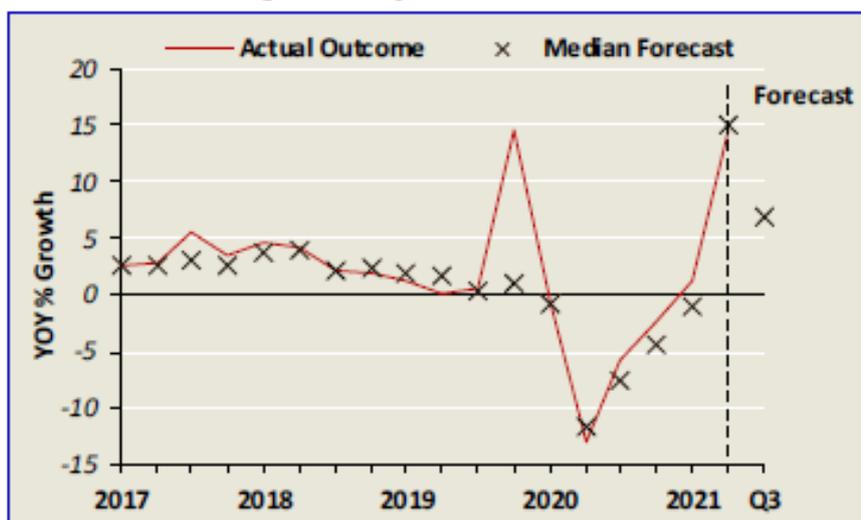
Downside Risk	June Survey	Current Survey	Cited As Top Risk	Upside Risk	June Survey	Current Survey	Cited As Top Risk
COVID-19 Escalation	82.4	100.0	90.0	Re-opening Borders	44.4	70.0	35.0
Supply Chain Disruptions	11.8	35.0	0.0	COVID-19 Containment	83.3	55.0	40.0
China Slowdown	0.0	30.0	5.0	Manufacturing/ Tech Cycle	61.1	40.0	10.0

Table A.5
Forecasts of GDP Growth and CPI-All Items Inflation for 2022

Key Macroeconomic Indicators	Median	Mean	Min	Max
	Year-on-Year % Change			
GDP	3.9	4.2	3.0	7.5
CPI-All Items	1.4	1.4	0.2	2.0
MAS Core Inflation	1.3	1.3	0.8	1.6

Source for Tables 1, 2, 6 and A.5: MAS SPF Report

Quarterly GDP Growth



Source: MAS SPF Report

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