Singapore

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Advance 3Q24 GDP improved to 4.1% YoY (2.1% QoQ sa) while MAS kept its monetary policy stance static as expected.

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Highlights:

- **Singapore's 3Q24 GDP growth improved to 4.1% YoY (2.1% QoQ sa), close to our forecast of 4.0% YoY (2.0% QoQ sa).** This is higher than the 2.9% YoY (0.4% QoQ sa) seen in 2Q24. The growth acceleration was largely due to the sharp rebound in manufacturing growth at 7.5% YoY (best YoY growth performance since 4Q21) after two consecutive quarters of contraction, mainly aided by electronics. Only the biomedical manufacturing industry was a drag in the manufacturing cluster in 3Q24. Meanwhile, the construction and services sectors also sustained credible growth at 3.1% YoY and 3.3% respectively, albeit this was a moderation from the 4.8% YoY and 3.6% growth respectively seen in 2Q24. Notably, the services sector saw resilient but generally slightly slower growth in the wholesale & retail trade and transportation & storage (3.5% YoY), infocomms, finance & insurance and professional services (4.3% YoY), while the accommodation & food services, real estate, administrative & support services and other services held pace at 1.0% YoY. Given the expectation that the Singapore economy is likely to be sustained by the ongoing upswing in the electronics and trade cycles as well as the easing in global financial conditions, the negative output gap will close in 2H24 and MAS tips full-year GDP growth to come in around the upper end of the 2-3% forecast range. This is in line with our house forecast of 2.9% YoY for 2024 GDP growth, albeit the advance 3Q24 GDP growth estimate could be revised down a tad when the September data is subsequently made available.

- **As expected, there was no change to MAS policy for the 6th policy meeting,** ie. no change to the prevailing rate of appreciation of S$NEER band, width and level at which it is centred as MAS assess that it is still consistent with medium-term price stability. MAS Core Inflation has stepped down but is anticipated to decline further to around 2% by the end of 2024. The inflation outlook risk was cited in the MAS statement as more balanced compared to three months ago. Notably, if GDP growth is stronger-than-expected, this may translate to supported labour demand and wage pressures, and hence it may take longer for unit labour cost growth to moderate and consequently for services price inflation to normalise. An intensification of geopolitical tensions and commodity price shocks could also add to imported costs. However, a significant downturn in the global economy could induce an abrupt easing in cost and price pressures, contributing to materially lower than expected domestic inflation.

- **On balance, we interpret that there is greater comfort that the core disinflation process is continuing apace**, and this is also expressed in the more benign MAS 2025 core inflation forecast of 1.5-2.5% YoY (a step down from the 2.5-3.0% forecast for 2024), which is also in line with our 2025 forecast of 2.0% YoY. The seasonally adjusted three-month/three-month rate of core inflation has declined to an annualised 0.9% rate in August, reflecting slower price increases in food services, including hawker food, as well as a range of retail and household durable goods. This reinforced the easing core inflation trend notwithstanding that core CPI unexpectedly reaccelerated from 2.5% YoY to 2.7% in August. Imported costs should remain stable next year, amid manageable energy production and favourable weather conditions for food supply, whilst domestic unit labour costs should remain moderate as the labour market is cooling. To recap, MAS is forecasting headline CPI at around 2.5% for 2024 and between 1.5-2.5% in 2025 amid slowing accommodation costs as rental demand eases, which partly offsets the expected pickup in private transport inflation and still-firm car demand. Recent COE premiums have been creeping higher to SGD103,799 and SGD116,002 for categories A & B respectively.

- **MAS statement sounds more sanguine on near-term growth, but still flags downside growth risks in 2025 due to external uncertainties including potential increase in tariffs and interest rates being kept high.** Singapore's growth momentum has picked up and the negative output gap is projected to close in 2H24. The global IT and easing global monetary policy cycle are current tailwinds, benefiting the externally oriented sectors of the Singapore economy. Barring a weakening in global final demand, the economy should continue to expand at a steady pace and keep close to its potential path in 2025. Geopolitical tensions remain elevated, including recent developments in the Middle East, while the US election outcome could also have significant implications for trade tariffs and/or future Fed policy intentions if there is pass-through to inflation. On the upside, recent policy stimulus announcements in China may also mean increasing support for the Chinese economy in the near-term, partly offsetting the negative sentiments towards China.

- **Market reactions were muted** post-MAS policy review announcement – the USDSGD traded around the 1.3050 region this morning, with the S$NEER still hovering near +1.9% on higher end of band. With MAS staying pat on its monetary policy stance at this juncture, SGD rates may see higher pass-through from declining USD rates if the Fed continues to ease monetary policy in the coming FOMC meetings. MAS does not appear to be in a hurry to ease monetary policy settings at this point in time, leaving the window open in 2025. Core inflation should dip below the 2% handle as early as 1Q25, and if it materialises, should give MAS more flexibility to ease its monetary policy stance at the upcoming 2025 quarterly policy reviews.

- **Our house view remains intact** – the Singapore economy should expand by 2.3% YoY in 4Q24 to bring full-year growth to 2.9%. Our 2024 headline and core inflation forecast remain at 2.6% YoY and 2.9% respectively before subsiding to around 2% YoY for both in 2025. Our 2025 GDP growth forecast currently stands at 2.7% YoY ceteris paribus, but given the key uncertainties pertaining to geopolitics, including US election outcomes and Chinese-related policy implications, it is plausible that the official 2025 GDP growth forecast (when announced at a later stage) could still be at the familiar 1-3% YoY range. The latest manufacturing, electronics and S&P Global Singapore PMIs remain healthy at 51.0, 51.5 and 56.6 respectively in September. URA private home prices fell 1.1% in 3Q24, but the declining interest rate environment should be mildly supportive ahead. The domestic labour market is cooling, but the unemployment rate also remains restrained. On balance, the Singapore economy is in relatively solid shape despite a highly uncertain geopolitical and external landscape.

Gross Domestic Product in Chained (2015) Dollars

	3Q23	4Q23	2023	1Q24	2Q24	**3Q24***
Percentage change over corresponding period of previous year						
Overall GDP	1.0	2.2	1.1	3.0	2.9	**4.1**
Goods Producing Industries	-3.5	1.9	-2.9	-0.6	0.0	**6.6**
Manufacturing	-4.9	1.4	-4.3	-1.5	-1.1	**7.5**
Construction	3.7	5.2	5.2	3.6	4.8	**3.1**
Services Producing Industries	2.3	2.0	2.3	4.3	3.6	**3.3**
Wholesale & Retail Trade and Transportation & Storage	1.2	1.0	1.4	3.9	3.9	**3.5**
Information & Communications, Finance & Insurance and Professional Services	3.0	3.6	2.2	5.7	5.4	**4.3**
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services	3.7	2.0	4.3	3.0	1.0	**1.0**

	3Q23	4Q23	2023	1Q24	2Q24	**3Q24***
Quarter-on-quarter growth rate, seasonally adjusted						
Overall GDP	1.0	1.2	1.1	0.4	0.4	**2.1**
Goods Producing Industries	1.1	4.1	-2.9	-4.3	-0.9	**7.9**
Manufacturing	0.8	4.5	-4.3	-5.1	-1.2	**9.9**
Construction	1.9	2.0	5.2	-2.4	3.4	**0.0**
Services Producing Industries	0.8	0.3	2.3	2.2	0.4	**0.3**
Wholesale & Retail Trade and Transportation & Storage	-0.3	-0.7	1.4	2.7	2.1	**-0.6**
Information & Communications, Finance & Insurance and Professional Services	2.6	4.4	2.2	-2.8	1.2	**1.6**
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services	0.9	-0.7	4.3	2.2	-1.3	**0.8**

*Advance estimates

Source: Singstat

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