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ECONOMICS

Singapore

Year Ahead 2022: Singapore

Reopening & Transforming

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Services Laggards & Construction to Catch Up in 2022

We forecast GDP growth moderating from the strong +7.1% in 2021 to +3.8% in 2022 and +2.5% in 2023. A broader services and construction recovery will drive GDP growth in 2022, as the manufacturing momentum eases. Semiconductor production, which accounts for 36% of total manufacturing, is operating near full capacity. With the economic reopening and expansion of Vaccinated Travel Lanes (VTLs), consumer-facing and travel-related sectors - F&B, retail, recreation, hospitality - will catch up and recover more strongly in 2022. Relaxation of border controls will help ease foreign worker shortages, although construction output will likely remain below pre-pandemic levels in 2022. About 86% of the population has received at least one vaccine dose as at 27 November. Booster shots started on 15 Sep, while vaccination of children below 12 years will start early next year.

Inflation to Peak in 2Q 2022 Before Easing

Inflation is climbing, driven by both cyclical and structural factors, and will likely peak in 2Q before moderating in the second half. Inflation pressures from energy and food prices, and supply chain disruptions will likely ease by the second half of 2022. We forecast core inflation rising to +1.8% in 2022 (from +1% in 2021), driven by higher energy and food prices; and wage costs from a tighter labor market and expansion of the Progressive Wage Model to more sectors (retail in 2022, F&B in 2023) and introduction of the Local Qualifying Salary (LQS) of S$1,400 in September 2022. Headline inflation will likely rise to +2.6% in 2022 (from +2.2% in 2021), above MAS's forecast range of 1.5%-2.5%, driven by rising accommodation costs and private transport costs due to high COE premiums. The 2%pt GST hike will likely not occur in 2022 given inflation risks and materialize in 2023. We expect the MAS to tighten monetary policy again in April 2022 by steepening the S$NEER appreciation slope further.

Foreign Employment Recovers But Labor Market Still Tight

Non-resident employment will likely recover in 2022, by an estimated 75k to 125k, with the relaxation of border controls and expansion of quarantine-free vaccinated travel lanes. Foreign employment has fallen by a cumulative -214k as of Jun 2021 since the start of 2020. Total employment has fallen by a smaller -171k due to the recovery in resident employment (+43k). Stricter border controls and foreign worker measures will however dampen the recovery in foreign employment, which will remain well below pre-pandemic levels in 2022. The job market recovery and return of expats will support property prices and rents, which have been rising due to housing completion delays, Singapore's safe-haven status and the return of overseas Singaporeans.

Risks: New Lethal Variants, Extended Supply Disruptions, Fading Fiscal Support, China Slowdown

The recovery may remain bumpy despite a high vaccination rate. First, new infectious variants (such as the Omicron) may force targeted lockdowns and slow the speed of reopening. Second, extended supply disruptions could dampen the global recovery and lead to more persistent inflation. Third, fading fiscal support and ending of wage subsidies may hurt struggling sectors and smaller companies. Fourth, China's slowdown and "zero Covid" strategy may dampen exports, disrupt supply chains and worsen logistical bottlenecks

Link to:

ASEAN Macro : 2022 Year Ahead: The Endemic New Normal

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1. Services Laggards & Construction Catch-Up

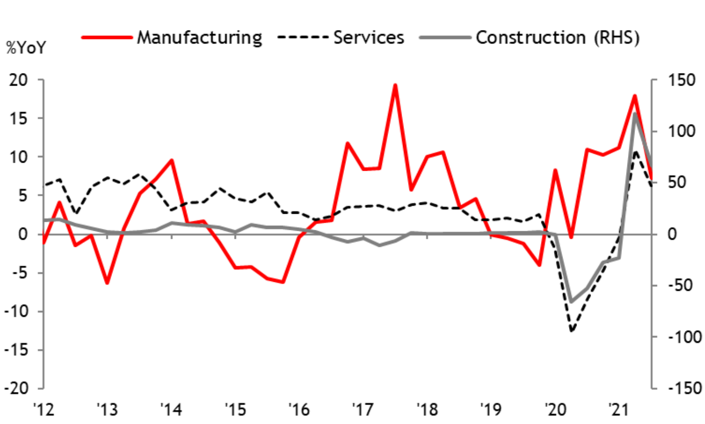
We forecast GDP growth moderating from the strong +7.1% in 2021 to +3.8% in 2022 and +2.5% in 2023. A broader services and construction recovery will drive GDP growth in 2022, as the manufacturing momentum eases. Semiconductor production, which accounts for 36% of total manufacturing, is operating near full capacity. Chip output growth decelerated to +3.9% in October, from +8.1% in 3Q21 and +20% in 2Q21 (see Fig 2).

With the economic reopening and expansion of Vaccinated Travel Lanes (VTLs), consumer-facing and travel-related sectors – F&B, retail, recreation, hospitality - will catch up and recover more strongly in 2022. Singapore has started vaccinated travel lanes with 18 countries so far, which accounted for more than half of total visitor arrivals pre-pandemic – the largest markets being Indonesia (16.3% of total arrivals), India (7.4%) and Malaysia (6.4%).

Relaxation of border controls will help ease foreign worker shortages, although construction output will likely remain below pre-pandemic levels in 2022. Disruption of material supplies due to lockdowns and high freight costs have worsened project delays and resulted in a surge in cost of materials including aluminium, concrete and steel rebar.

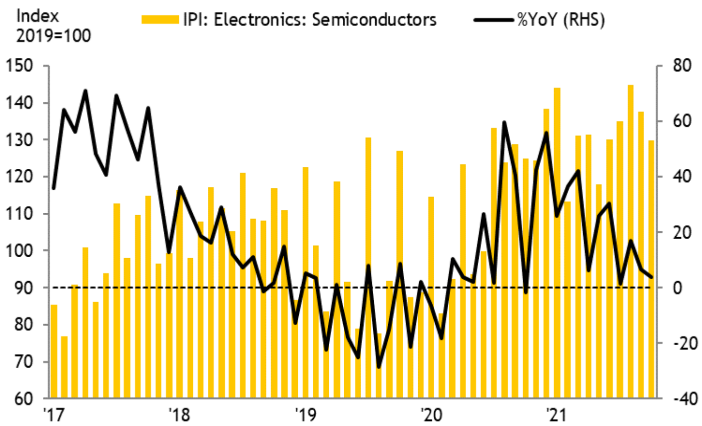
About 86% of the population has received at least one vaccine dose as at 27 November. Booster shots started on 15 September, while vaccination of children below 12 years will start early next year. The interval rate for receiving boosters was standardised to 5 months for all eligible age groups, which would imply that half of the population may have received three doses by the end of 2021 (from current 25%).

Fig 1: Services & Construction to Catch-Up in 2022, Manufacturing Momentum Moderates



Source: CEIC

Fig 2: Semiconductor Manufacturing Near Full Capacity



Source: CEIC

2. Inflation to Peak in 2Q 2022

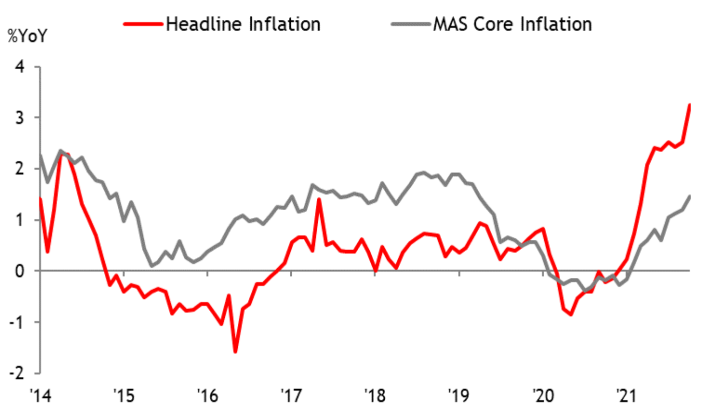
Inflation is climbing, driven by both cyclical and structural factors, and will likely peak in 2Q before easing in the second half. Inflation pressures from energy and food prices, and supply chain disruptions will likely ease by the second half of 2022. There are tentative signs that supply chain bottlenecks are easing with shipping rates having fallen by around 12% from their peak in September. Chip prices have also been sliding since August. But wage cost pressures and services inflation may intensify in the second half with the introduction of the Local Qualifying Salary (LQS) and expansion of the Progressive Wage Model (PWM) to retail in September 2022.

We forecast core inflation rising to +1.8% in 2022 (from +1% in 2021), driven by higher energy and food prices; and wage costs from a tighter labor market and expansion of the Progressive Wage Model to more sectors (retail in 2022, F&B in 2023) and introduction of the Local Qualifying Salary (LQS) of S$1,400 from September 2022. Core inflation will likely moderate to +1.5% in 2023 as foreign worker shortages will be less acute as borders restrictions are slowly unwound.

Headline inflation will likely rise to +2.6% in 2022 (from +2.2% in 2021), above MAS forecast range of 1.5%-2.5%, driven by rising accommodation costs and private transport costs due to high COE premiums. The 2%pt GST hike will likely not occur in 2022 given inflation risks and likely materialize in 2023. Rents may continue to climb with the return of foreign workers and housing completion delays in 2022.

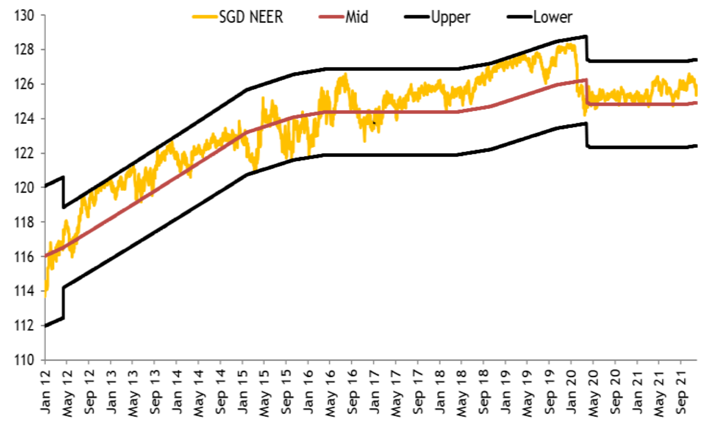
We expect the MAS to tighten monetary policy again in April 2022 by steepening the S$NEER appreciation from the current +0.5% pace per annum to +1% given rising core inflation risks. The SGD NEER is currently trading at around +0.5% above the implied mid-point (see Fig 4). Our FX team is forecasting the SGD to appreciate to about 1.32 against the US dollar by end-2022.

Fig 3: Core CPI (+1.5%) Climbing, Headline CPI (+3.2%) Jumped to 8-Year High in October



Source: CEIC

Fig 4: SGD NEER Currently Trading at Around 0.5% Above Implied Mid-Point



Source: Maybank GM FX Research

3. Foreign Employment Recovers But Labor Market Still Tight

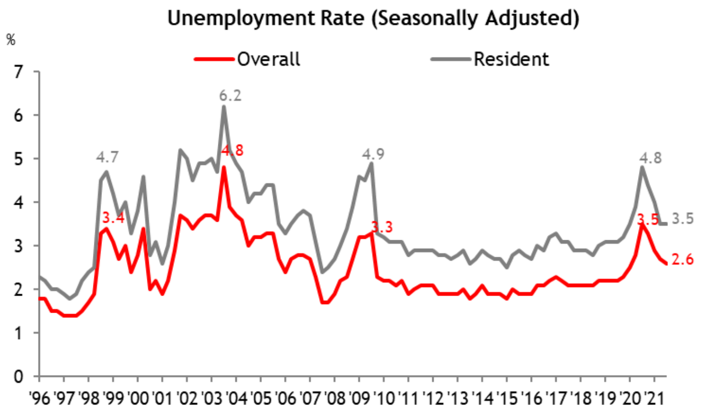
Non-resident employment will likely recover in 2022, by an estimated 75k to 125k, with the relaxation of border controls and expansion of quarantine-free vaccinated travel lanes. Foreign employment has fallen by a cumulative -214k as of Jun 2021 since the start of 2020. Total employment has fallen by a smaller -171k due to the recovery in resident employment (+43k) (see Fig 6). Overall unemployment rate eased to 2.6% in 3Q21 from the peak of 3.5% in 3Q20, while resident unemployment rate returned to pre-pandemic levels of 3.5% in 2Q21, similar to the level seen in 1Q20 (see Fig 5).

Stricter border controls and foreign worker measures will however dampen the recovery in foreign employment, which will remain well below pre-pandemic levels in 2022. The number of work permit holders in the construction, marine shipyard and process sectors plunged by nearly 60k, or 16% in 2020 as many workers who ended their contracts chose to return home. Singapore recently reopened borders to travellers (excluding short-term visitors) from South Asia including Bangladesh, India, Myanmar, Nepal, Pakistan and Sri Lanka on 27 Oct. This will help address the worker shortages in the construction, marine and processing sectors.

The job market recovery and influx of foreigners will likely support property prices and rents, which have been rising due to housing completion delays, Singapore's safe-haven status and the return of overseas Singaporeans. Overseas Singaporeans fell for the second straight year by -23.9k to 179.5k in mid-2021, extending the -13.8k decline in 2020.

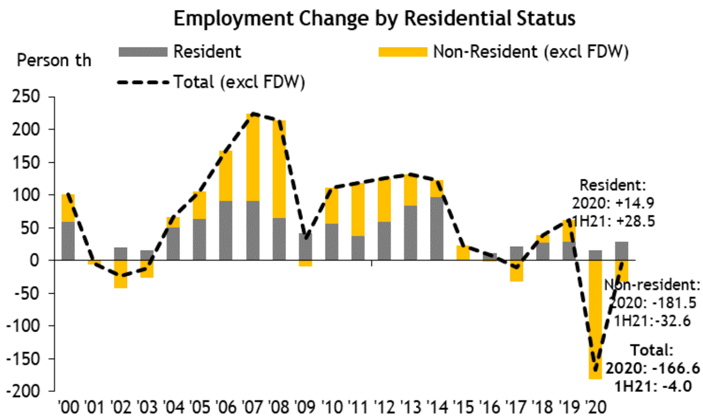
Population fell by -4.1% to 5.45 million as at end June 2021, extending the -0.3% contraction in 2020. This was mainly on the back of the plunge in non-residents (-10.7%) to a decade-low of 1.47mn. The fall in the resident population including citizens (-0.7%) and permanent residents (-6.2%) also contributed to the decline, and was mainly due to travel restrictions which resulted in more residents staying overseas for 12 months or more (and hence excluded from the population count). Total fertility rate fell to a historic low of 1.1 in 2020 (vs. 1.14 in 2019), as the pandemic resulted in 10% fewer marriages compared to 2019.

Fig 5: Overall Unemployment Rate Fall to 2.6% in 3Q 2021 from Peak of 3.5% in 3Q 2020



Source: CEIC

Fig 6: Non-Resident Employment Fell by 214k Between 2020 and Jun 2021



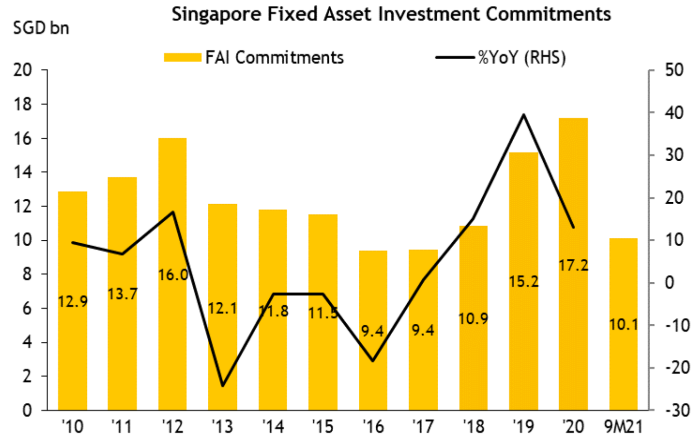
Source: Ministry of Manpower

Longer-term, Singapore is restructuring and transforming its economy and society to be more resilient and productive. Left-leaning policy changes could transform the economy to become a "higher wage, higher cost" structure. Tightening foreign manpower and immigration policies combined with minimum salaries and expansion of the progressive wage model will raise labor wage costs significantly. Population will grow by only about 0.5% per annum given the low fertility rate and aging demographic.

Investments will flow into higher labor productivity and less labor-intensive sectors, including high-end manufacturing, financial services and infocom. Fixed asset investment commitments in manufacturing remained robust at S$10.1bn in the first 9 months of 2021, exceeding the upper end of EDB's medium/long-term annual target of $8bn to $10bn (see Fig 7). Heavy public investments will be directed at green infrastructure.

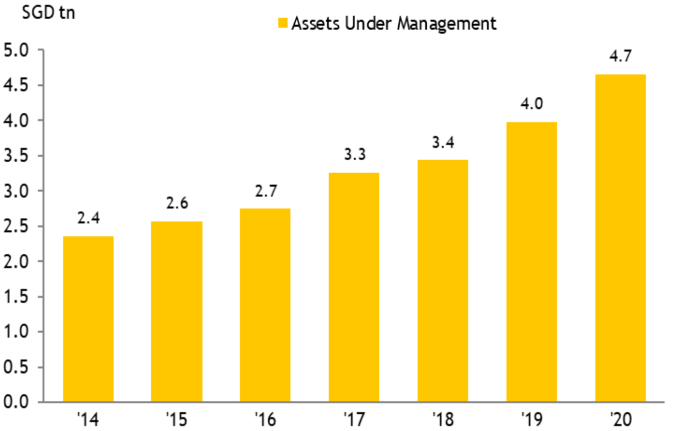
Singapore's hub status will likely continue to thrive as a financial center, particularly in FX, private banking and asset management, and as regional MNC headquarters. Assets under management has risen by +13% CAGR over the past 5 years to S$4.7tn in 2020 (see Fig 8). The US-China rivalry, Hong Kong's loss of independence and China's zero Covid strategy will strengthen Singapore's hub status.

Figure 7: Fixed Asset Investment Commitments at S$10.1bn in Jan-Sep 2021, Above EDB's Target of $8bn-$10bn



Source: EDB, Singstat

Figure 8: Assets Under Management Expanded by +13% CAGR Over the Past 5 Years to S$4.7tn in 2020



Source: MAS

Table 1: Singapore – Key Macroeconomic Indicators

	2019	2020	2021E	2022E	2023E
Real GDP (%)	**1.3**	**-5.4**	**7.1**	**3.8**	**2.5**
By Expenditure:					
Private Consumption	3.3	-14.1	4.9	3.6	2.5
Government Consumption	3.4	12.6	3.7	3.5	3.0
Gross Fixed Capital Formation	1.2	-13.7	14.2	5.2	6.0
Exports of Goods & Services	0.1	-4.3	6.0	4.4	4.0
Imports of Goods & Services	0.2	-7.1	6.4	4.9	4.6
By Industry:					
Manufacturing	-1.5	7.3	11.4	3.0	3.0
Construction	1.6	-35.9	20.4	14.0	6.0
Services	2.0	-6.9	5.4	4.2	2.5
Wholesale & Retail Trade	-1.0	-3.7	4.7	2.7	2.0
Transportation & Storage	0.2	-25.4	3.7	11.0	3.0
Accommodation & Food Services	0.2	-26.6	7.4	13.9	6.0
Information & Communication	12.1	2.1	8.8	2.6	3.0
Finance & Insurance	7.8	5.0	7.5	4.1	3.0
Business Services	-2.3	-12.6	2.7	4.5	1.5
Other Services	3.6	-8.9	6.1	3.3	2.0
Current Account Balance (% of GDP)	14.3	17.6	20.0	18.0	17.0
Fiscal Balance (% of GDP)	-0.3	-13.9	-2.2	-0.5	1.0
Headline Inflation (%, period average)	0.6	-0.2	2.2	2.6	1.2
Core Inflation (%, period average)	1.0	-0.2	1.0	1.8	1.5
Unemployment Rate (%, end-period)	2.3	3.0	2.7	2.4	2.3
Exchange Rate (per USD, end-period)	1.35	1.32	1.35	1.32	1.30
10-Year Government Bond Yield (%, end-period)	1.73	0.83	1.75	1.90	2.20
3M SIBOR (% p.a., end-period)	1.77	0.41	0.45	0.62	1.10
3M SORA (%, p.a., end-period)	1.27	0.13	0.16	0.33	0.81

Source: CEIC, Maybank Kim Eng forecasts

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