

## Manufacturing Recession & “Intensifying” Risks

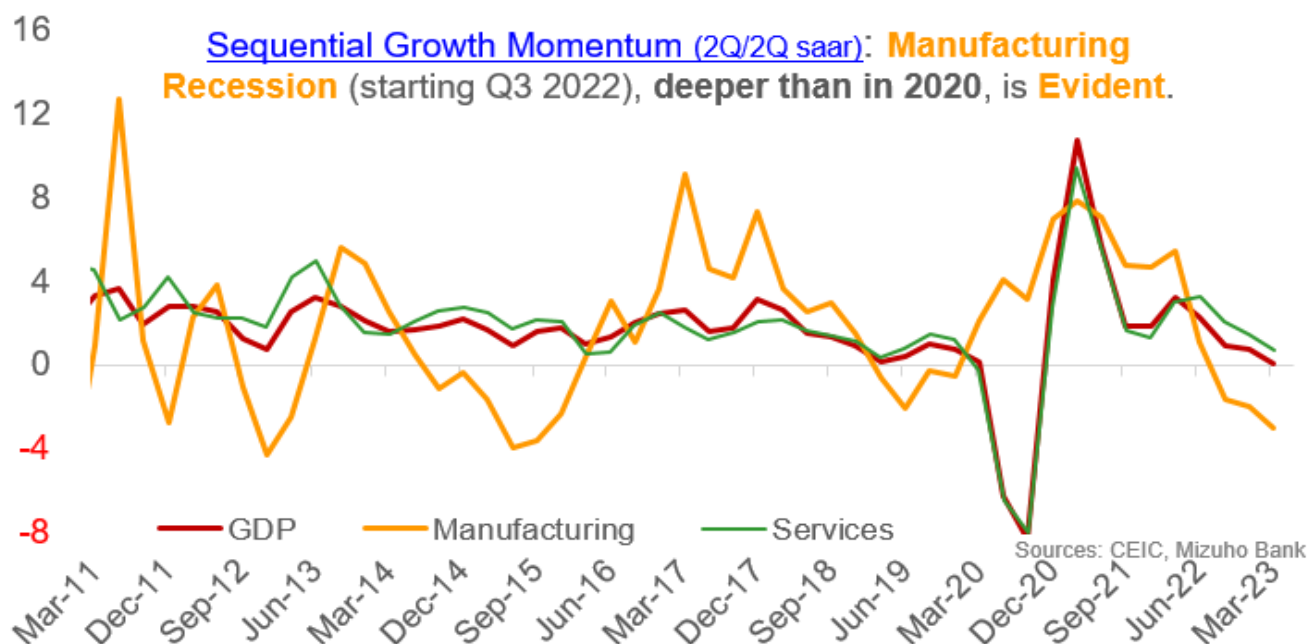
### Q1 23 Flash

Table 1. Singapore GDP at 2015 Prices

	2021	2022	2022				2023
			Q1	Q2	Q3	Q4	Q1 Flash
% y/y							
<b>GDP</b>	<b>8.9</b>	<b>3.6</b>	<b>4.0</b>	<b>4.5</b>	<b>4.0</b>	<b>2.1</b>	<b>0.1</b>
Manufacturing	16.0	2.5	5.8	6.1	1.1	-2.6	-6.0
Construction	6.8	6.7	3.3	5.5	8.1	10.0	8.5
Services	4.9	4.8	4.9	4.8	5.5	4.0	1.8
% q/q sa							
<b>GDP</b>	<b>8.9</b>	<b>3.6</b>	<b>1.4</b>	<b>-0.1</b>	<b>0.8</b>	<b>0.1</b>	<b>-0.7</b>
Manufacturing	13.3	2.5	-2.0	0.8	-2.9	1.0	-5.2
Construction	20.5	6.7	3.7	2.9	2.1	1.4	1.8
Services	7.6	4.8	2.7	-0.1	1.6	-0.2	0.3

Source: Ministry of Trade & Industry (MTI)

\* seasonally-adjusted annualized rate



### MAS Holds After Unprecedented Tightening

At its first bi-annual meeting for the year, and *after five successive rounds of tightening since October 2021* (over three scheduled and two off-cycle meetings), the MAS kept policy on hold; maintaining S\$NEER policy band mid-point, slope and width.

### Alludes to "Intensifying (Growth) Risks"

In so doing, the MAS rightly alluded to; i) "*intensifying risks to global growth*", and; ii) "*five successive ... tightening moves\* since October 2021 ... tempering ... momentum of price increases*"; as mitigating factors against further tightening to tackle "still elevated" inflation.

### Singapore's Manufacturing Recession ...

To be sure, the MAS has the numbers to back the narrative of "*intensifying*" risks to growth. More worrying than anaemic 0.1% YoY (-0.7% QoQ saar) Q1 GDP is the **effective manufacturing recession**. Fact is the soft GDP headline understates far more dismal state of manufacturing.

Specifically, the **manufacturing recession** with two consecutive quarters of YoY contraction (Q1 2023: -6.0%; Q4 2022: -2.6%; see Table 1). For those splitting hairs over QoQ being the right barometer", fact is that *smoothed QoQ is also consistent with a recession*<sup>^</sup>.

The broader point being, the **momentum of manufacturing recession significantly negative**, deeper than in 2020 (see Chart); and in line with MAS's guidance for "below trend" growth that is set to turn the output gap negative in late-2023.

### ... Unlikely to be Offset by Services or Construction

Furthermore, this **manufacturing recession**, *reflecting the dire state of semiconductor industry*, is **unlikely to be offset** by services or construction. *On the contrary*, manufacturing forewarns of a deeper and broader downturn; *should gather global headwinds come home to roost*.

Especially given headline GDP buffer is overstated by flattering hospitality/retail-related activity (from a low base) amid and post-COVID construction catch-up.

Most worryingly, **adverse shocks from global banking/financial risks and/or geo-politics overhang; accentuating uncertainty and dampening confidence**.

### Moreover, Inflation Risks Tempered

What's more, downside growth risks from gathering global headwinds aside, negative imported price dynamics temper sustained inflation risks; even if inflation pullback to target is not imminent. Admittedly, concurrent upside risks to linger amid vulnerabilities to further energy/commodity shocks.

### & Policy Lags Warrant Patience

Crucially, given the lags of monetary policy, the MAS is on point in stating that the "*effects of ... monetary policy are still working through ... and should dampen inflation further*"; thereby

negating the need for urgent, incremental tightening at this point. In other words, **patience in assessing the policy course as "both upside and downside risks to inflation"** obfuscate the view ahead.

### **Especially Amid Conflict Rather than Convergence of Risks**

Especially as the **conflict of opposing economic forces amplify binary risks, rather than averaging to convergent outcomes**. The MAS' consequent policy reality is that it will need to nimbly account for, and adjust to, a dispersion of outcomes **amid heightened uncertainty**.

It is in this context of increased opposing risks that unchanged growth and inflation forecasts (Table 2 below) must be appreciated. With **fraught risks and low-visibility backdrop**, the MAS aptly assesses policy to be **"sufficiently tight and appropriate for securing medium-term price stability"** for now. We expect an extended hold with the next 6-12 months skewing risks to easing rather than tightening.

Table 2: MAS Growth & Inflation Guidance

<b>2023</b>	<b>October 2022</b>	<b>April 2023</b>	2022 Actual
<b>Growth - 2023</b>	-- "below trend; reverse mildly positive OG**"	0.5-2.5%* "below trend pace to turn OG slightly negative"	3.6%
<b>Inflation - 2023</b>	5.5-6.5%	5.5-6.5%	6.1%
<b>Core Inflation - 2023</b>	3.5-4.5%	3.5-4.5%	4.1%

\* In line with MTI forecast as of 13<sup>th</sup> Feb 2023 (pre-Budget) was 0.5-2.5%

\*\* Output gap

\*comprising three rounds of slope increments and mid-point re-centring higher each

^(as 1.0% QoQ expansion in Q4 is a blip in light of far deeper 2.9% contraction in Q3 and 5.2% drop in latest Q1 flash)

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