Mizuho Flash: MAS

Economics & Strategy | Asia ex-Japan

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Manufacturing Recession & "Intensifying" Risks

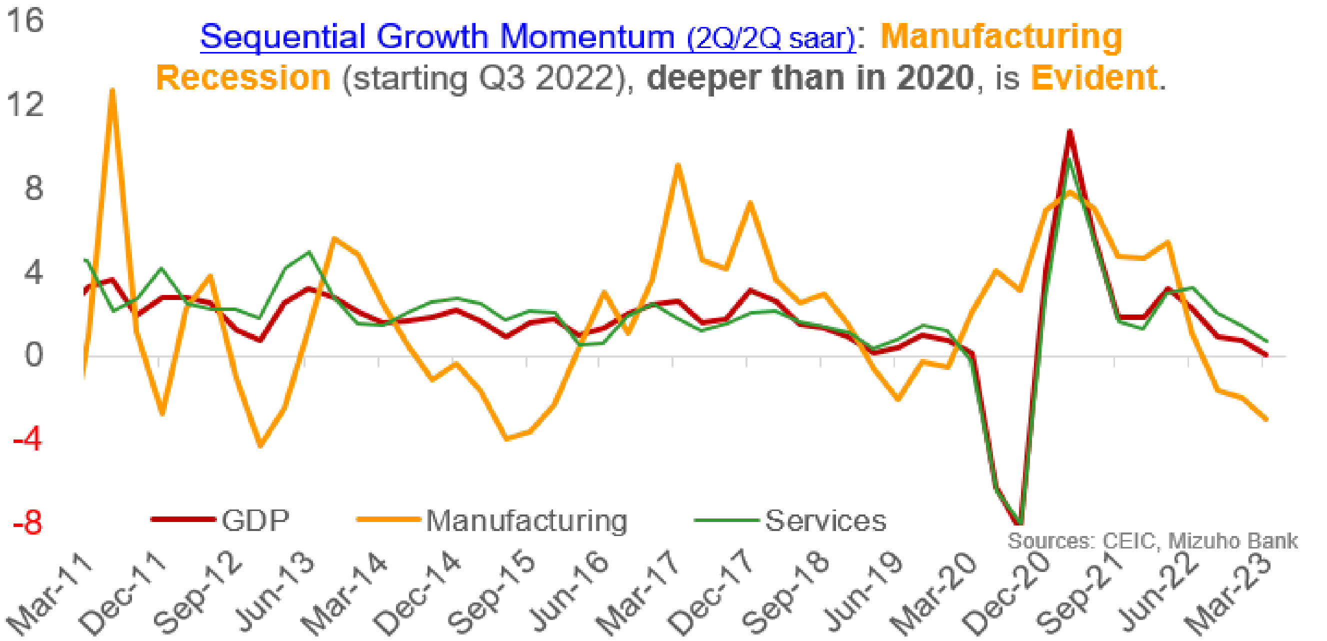
Q1 23 Flash

Table 1. Singapore GDP at 2015 Prices

	2021	2022	2022				2023
			Q1	Q2	Q3	Q4	Q1 Flash
% y/y							
GDP	**8.9**	**3.6**	**4.0**	**4.5**	**4.0**	**2.1**	**0.1**
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							
GDP	**8.9**	**3.6**	**1.4**	**-0.1**	**0.8**	**0.1**	***-0.7***
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*^.

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

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

* In line with MTI forecast as of 13th 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*)