

Singapore Watch

GDP Review: Less downbeat end to 2023

Growth: Ending 2023 slightly firmer than expected

Advance estimates showed 2023 GDP expanding by 1.2% (2022: 3.6%), exceeding MAS' Oct '23 expectations (lower half of its 0.5-1.5% forecast range, see [13th Oct '23 MAS Review](#) report) and ours (0.7% as per our [20th Nov '23 Year Ahead](#) report).

In yoy terms, GDP growth expanded by 2.8% in 4Q vs. 1.0% in 3Q (revised down from 1.1%). In qoq SA terms, GDP was up by 1.7% qoq SA in 4Q vs. 1.3% in 3Q (Exhibit 1), lifted by manufacturing. We summarize the sectoral details (in qoq SA terms; Exhibit 2):

- **Manufacturing GDP** expanded by 9% qoq SA in 4Q vs. 0.3% in 3Q. These estimates already account for rebound in Dec IP (at an estimated +0.8% mom SA), after pulling back by 7.8% in Nov (Oct: +9.9%).
- **Services GDP** was flat sequentially in 4Q vs. 1.1% qoq SA in 3Q, with pick-up in "infocomms, finance & insurance and professional services" offsetting contractions elsewhere.
- **Construction GDP** rose for the 8th straight quarter by 4.3% in 4Q vs. 0.8% in 3Q, but remains around 18% below 4Q19 levels.

Upside risk to our 2024 GDP forecast

The higher starting point from today's release poses upside risk to our 2024 GDP forecast of 2.3%, though it's not clear if the strong rebound in 4Q manufacturing rebound is durable. We await the final GDP release (likely around 15th Feb, just one day before Budget 2024). During the same release, historical data will likely be revised extensively, in turn altering GDP trajectory and output gap estimates. For example, GDP in SA terms in 4Q'22 was revised up by 1.1ppt.

Higher carbon tax priced into 1Q electricity & gas tariffs

Electricity & gas prices (2.86% of core CPI basket) will be raised by 5% in 1Q'24 (Exhibit 3). This factored in the (a) pricing in of the five-fold increase in carbon tax rates – as we had anticipated earlier (see [23rd Oct '23 CPI](#) report), (b) changes in energy prices, and (c) Jan '24 1ppt GST hike. We still see core inflation at 2.9% in 2024 (Exhibit 4), or closer to 2% (and above historical average) if impact of GST hike is excluded.

Faster narrowing of negative output gap = MAS status quo

Relative to MAS' Oct 23 expectations, GDP trajectory (as of end-23) is tracking slightly above (Exhibit 5), implying a possibly faster narrowing of negative output gap. Back in Oct '23, MAS probably estimated the negative output gap narrowing from ≈0.7-0.8% of potential GDP in 2023 to ≈0.5-0.6% in 2024 (Exhibit 6). Meanwhile, 4Q'23 core inflation appears to be tracking in line with MAS' Oct '23 forecast of close to 3%. All in, incoming data reaffirms our view for MAS to keep FX policy settings unchanged at the upcoming late Jan meeting and for the rest of the year. Given lingering (core) inflation concerns, we still see risks skewed towards tightening, rather than easing as expected by some market participants (10-20% of respondents in MAS' Professional Forecasters' Survey expects MAS to ease from Apr).

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GEM Economics
Asia | Singapore

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Glossary:

MTI: Ministry of Trade & Industry

MAS: Monetary Authority of Singapore

yoy: Year-on-year

qoq: Quarter-on-quarter

mom: Month-on-month

SA: Seasonally adjusted

GST: Goods & Services Tax

IP: Industrial production

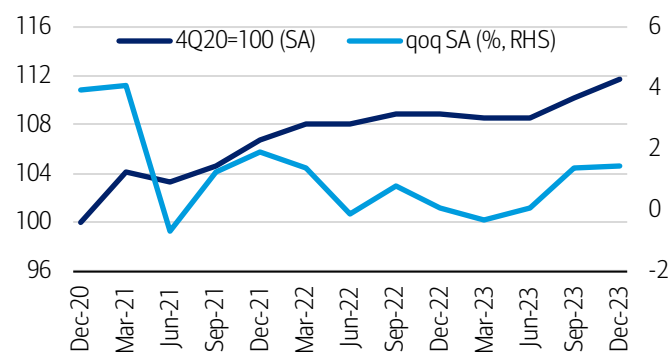
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Exhibit 1: GDP SA (4Q20=100 & qoq SA)

In qoq SA terms, GDP rose by 1.7% in 4Q'23 vs. 1.3% in 3Q...

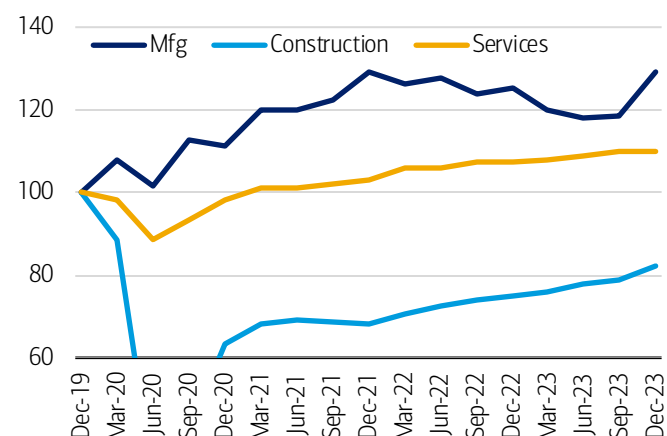


Source: BofA Global Research, MTI, Haver

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Exhibit 2: GDP SA, by sectors (4Q19=100)

... lifted by strong pick-up in manufacturing

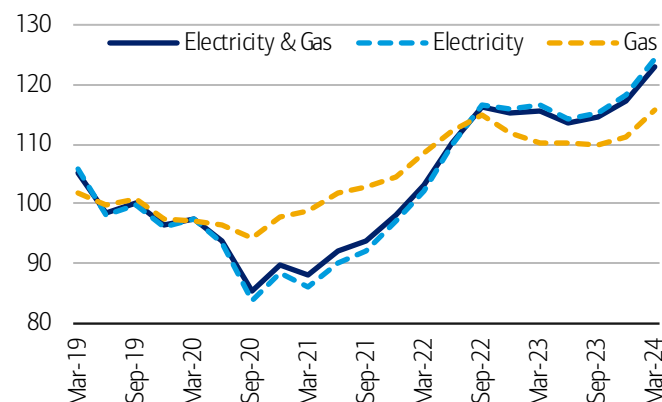


Source: BofA Global Research, MTI, Haver

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Exhibit 3: Electricity & gas prices (2019=100)

Prices to be raised by 5% in 1Q'24, partly reflecting higher carbon tax

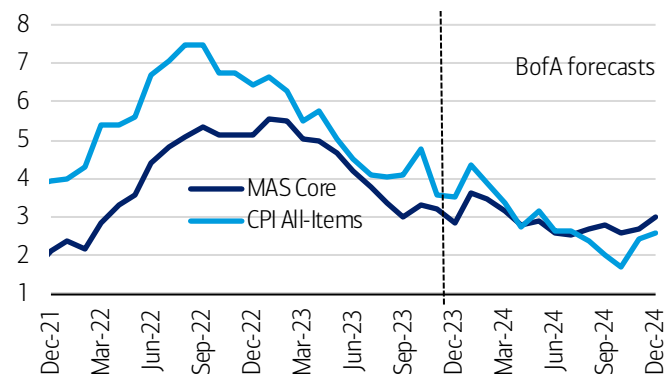


Source: BofA Global Research, DOS, Haver Note Electricity & gas account for 2.86% of core CPI basket, comprising of electricity (2.42%) and gas (0.44%)

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Exhibit 4: Core & headline inflation (%yoy)

We see core inflation averaging 4.1% in 2023 and 2.9% in 2024

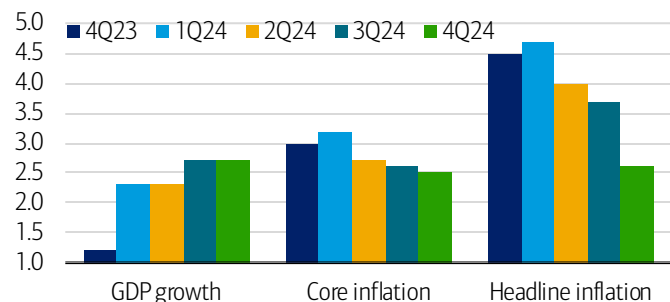


Source: BofA Global Research estimates, CEIC

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Exhibit 5: MAS Oct '23 implicit forecasts (%yoy, BofA estimates)

4Q23 GDP likely exceeded MAS' expectations from Oct '23

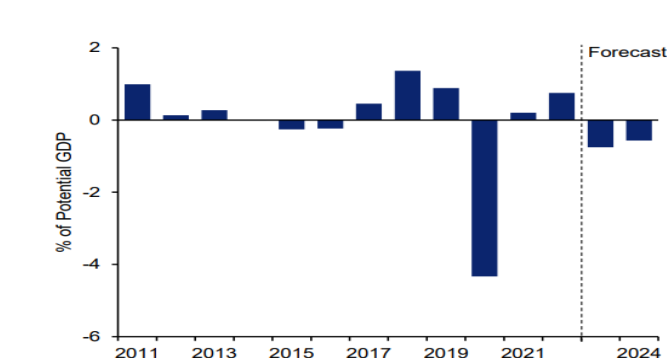


Source: BofA Global Research, MAS Note: (1) MAS' implicit forecasts based on BofA's inference from MAS Macroeconomic Review (Oct '23), and (2) MAS' GDP growth assumptions were based on 3Q'23 advance GDP estimates (revised up in final 3Q'23 GDP)

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Exhibit 6: MAS Oct '23 output gap forecasts

MAS in Oct '23 expected output gap to stay slightly negative in 2024



Source: MAS Macroeconomic Review (Oct '23)

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