Economics & Strategy

DBS Focus

Singapore Outlook 2024: A year of renewal

Economics/FX/Rates

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	2022	2023F	2024F	2025F
Growth, yoy%	3.6	0.9	2.2	2.5
Inflation, yoy%, ave	6.1	4.7	3.5	2.4
Core inflation, yoy%, ave	4.1	4.0	3.1	1.8
SGD per USD, eop	1.34	1.33	1.32	1.31
10-year yield, %, eop	3.09	3.20	2.70	2.70

Source: DBS

Economic Themes

- *2024 will likely be a year of renewal for Singapore's economy. We see seven key economic themes.*
- *Growth to improve in 2024, mainly supported by a gradual yet fragile external-led recovery.*
- *Foreign investments to be forthcoming, amid regional supply chain shifts.*
- *The labour market is likely to be less tight.*
- *Inflation is set to be bumpy, but ease in 2024.*
- *4G leadership transition to occur in 2024, with expected policy continuity.*
- *Fiscal policy to balance between near and long-term priorities, with some room for expansionary stance.*
- *Monetary policy to normalise in July by reducing the steepness of the SGD NEER policy band's slope.*

Currency

- *USD/SGD to hold in the same 1.30-1.38 range with a downside bias as the year progresses.*

SGD Rates

- *SORA to drop more meaningfully when the Fed cuts in 2H24.*

Singapore is navigating a world beset with polycrisis. Heightened geopolitical tensions from US-China rivalry to ongoing wars, macroeconomic uncertainties from stubborn inflation to high interest rates, disruptions from climate change and technology, as well as an ageing population cloud Singapore's medium-term economic prospects. Against this backdrop, **2024 will likely be a year of renewal for Singapore's economy, and we see seven key economic themes.**

Singapore Key Economic Themes

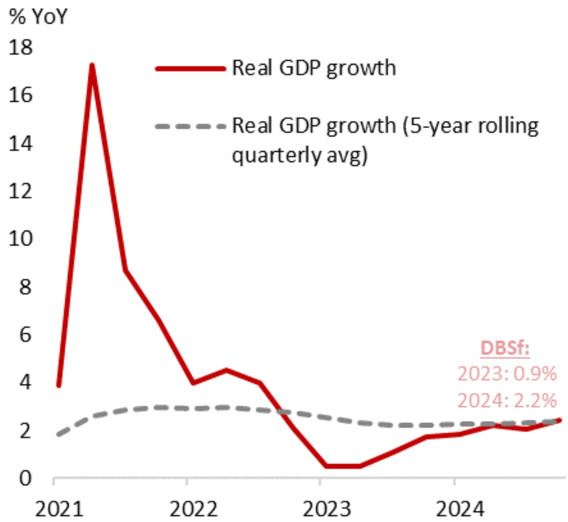
Source: DBS

Cyclically, we expect modestly better economic growth, forthcoming foreign investments, a less tight labour market, and a bumpy inflation moderation, barring large shocks from lingering uncertainties. 2024 will also be an important year of leadership transition to the 4G leaders, with expected policy continuity. Regarding **policies**, fiscal policy is balancing near and long-term priorities, and we some room for a slight expansionary policy stance. Monetary policy will return to quarterly decisions in 2024 for timely responses to a highly uncertain landscape, and we see potential for normalisation in line with global central banks. USD/SGD is likely to hold in the same 1.30-1.38 range with a downside bias as the year progresses, and SORA is set to drop more meaningfully when the Fed cuts in 2H24.

1) Gradual yet fragile external-led recovery

Singapore's growth prospects are set to improve in 2024, mainly supported by a gradual yet fragile external-led recovery. We forecast 2024 real GDP growth to rise to 2.2%, from 2023's subdued 0.9%. 3Q23 growth showed nascent signs of stabilisation, after 1H23's soft patch and narrow shave from technical recession. 3Q23 real GDP growth, while still below-trend, ticked up to 1.1% year-on-year (YoY), from 1H23's 0.5% YoY. Sequential growth improved to 1.4% quarter on quarter seasonally adjusted (QoQ sa), after stagnating since 4Q22. This potentially marked the start of a gradual recovery.

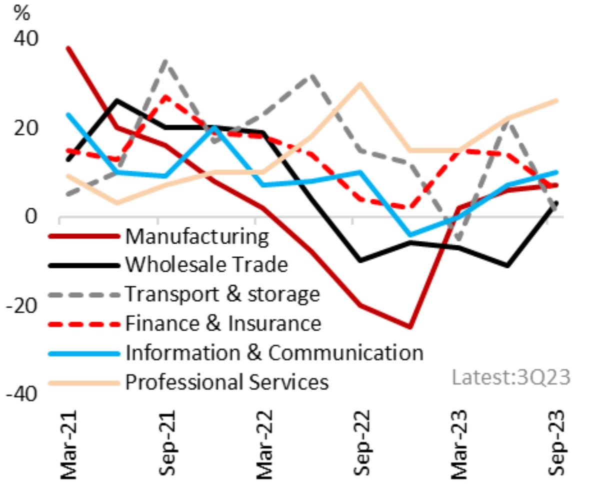
Gradual growth recovery in 2024



Source: CEIC, DBS

The upcoming growth improvement will hinge on better external-oriented sector performance, in our view. Manufacturing, which has been in the doldrums and weak for most of 2023, is a key sector to watch. We see early indications of a turnaround in factory activity in 4Q23, and expect a return to modest expansion in 2024, as external demand gradually recovers.

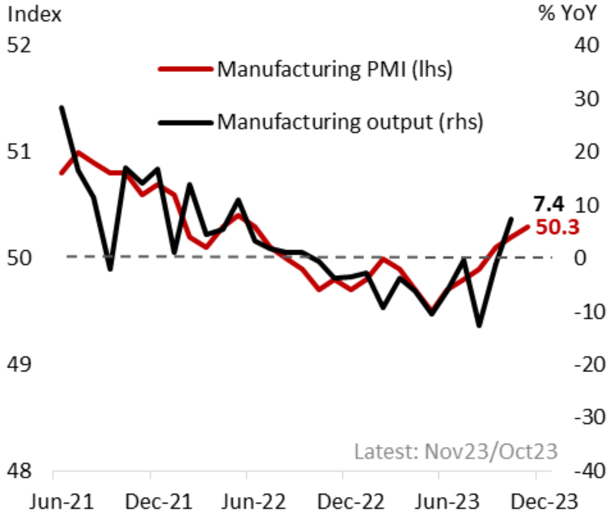
Positive 6M forward manufacturing and external-oriented services business expections



Source: CEIC, Singstat, DBS

Manufacturing business expectations for the next six months, which remained positive for the third straight quarter, corroborate with the improving manufacturing purchasing managers' index (PMI) trend.

Manufacturing is turning around

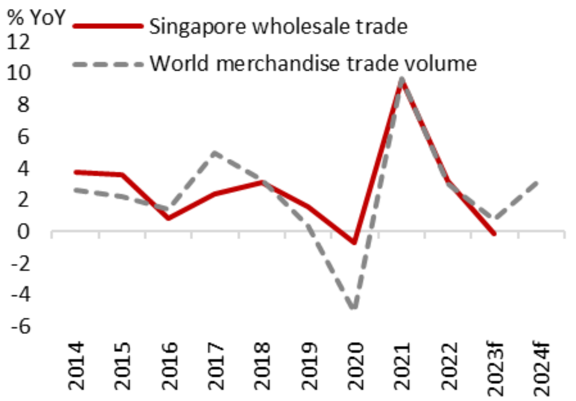


Source: CEIC, DBS

The manufacturing PMI stayed in expansion for the third straight month as of Nov 2023, with building order backlogs and expanding new export orders. For the important electronics cluster, Singapore firms anticipate better business conditions from the modest turnaround in global semiconductor sales, following the inventory digestion, even as they are cognisant of lingering geopolitical risks that could still disrupt supply chains. Electronics PMI surfaced into expansion in Nov 2023, ending 15 consecutive months of contraction.

Manufacturing's uptick will spill over positively onto trade-related services, especially for wholesale trade and shipping transport. Wholesale trade business expectations have turned modestly net positive after being negative for the past four surveys. This likely reflects expectations of a measured improvement in world merchandise trade in 2024, as seen from the World Trade Organisation (WTO)'s projections. The WTO is projecting world merchandise trade growth of 3.3% in 2024, from 2023's 0.8%.

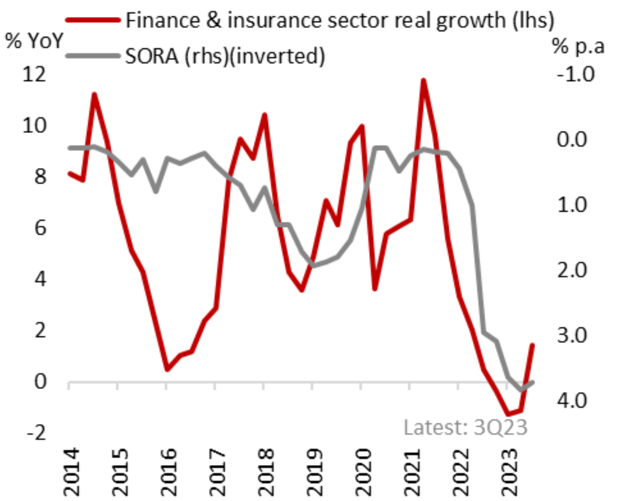
Wholesale trade to recover alongside improving world trade



Source: CEIC, WTO, DBS
Note: World merchandise trade volume forecasts by WTO; Singapore's 2023 wholesale trade growth is for first 3Q of 2023.

Singapore's subdued finance & insurance sector activity appears to be bottoming out from 3Q23, after weakness since 4Q22. Financial services look set to turn up gently, with interest rates peaking, as global central banks are closer to pausing their tightening cycles, alongside more supportive base effects.

Financial sector appears to have troughed



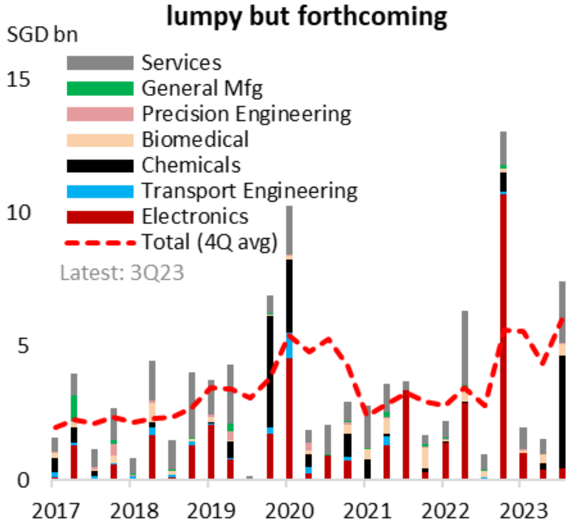
Source: Bloomberg, CEIC, DBS

Business expectations of information & communication, as well as professional services, remain firmly optimistic over the next two quarters, suggesting cushion to activity, despite their YoY growth deceleration. Travel-related services, which outperformed in 2023, will continue to benefit from the complete recovery in inbound tourism in 2024, but with tapered growth. We see moderate reopening tailwinds, with foreign tourist arrivals already making the big gains to >70% of pre-pandemic 2019 levels in 2023. The continued return of tourists would still support food & beverages services and retail trade activities.

2) Forthcoming foreign investments

Singapore will continue to be a beneficiary of the ongoing supply chain shifts and investments that ASEAN will benefit from over the coming years. We expect Singapore's fixed asset investment (FAI) commitments to be forthcoming and steady in 2024, considering the still uncertain global economic environment. 2023's FAI commitments have pulled back, but are likely to be above the Economic Development Board (EDB)'s SGD8.0-10.0bn medium-term target, after registering SGD11bn in the first 3Q of 2023, vs 2022's exceptional record SGD22.5bn.

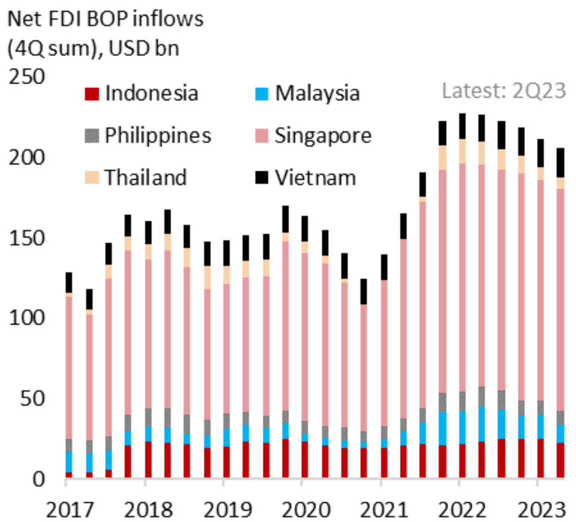
Fixed asset investments commitments lumpy but forthcoming



Source: CEIC, DBS

Singapore is coming from a position of strength as a trusted and reliable global and regional business and financial hub in a turbulent global economic environment with increased global competition for investments. Multiple existing advantages that support its business-friendly environment include political stability, good rule of law, extensive regional connectivity, and availability of highly skilled talent.

Singapore dominates regional FDI inflows



Source: CEIC, DBS

Our analysis shows that Singapore dominates about two-thirds of the rising foreign direct investment (FDI) inflows into ASEAN-6, based on balance of payments data. Sizeable investments are channelled into Singapore's real economy, especially the manufacturing sector, even as the country attracts sizeable in-transit inflows that are invested in the region (*see 'ASEAN-6: Tailwinds from supply chain reconfiguration' for our regional takeaways*). Manufacturing capacity additions from these investments will enable Singapore to capture the export opportunities in an upturn.

Singapore continues to calibrate efforts to enhance competitiveness, which bode well for attracting greater investments. Efforts to strengthen the island-state's attractiveness include doubling down on investment promotion, keeping the economy open to quality talent, expanding connectivity, and bolstering resilience.

Selected policies
Topped up SGD4bn into the National Productivity Fund as part of Budget 2023, with investment promotion included as a supportable activity.
Introduced the Complementarity Assessment Framework (Compass) from Sep 2023 for Employment Pass (EP) applications, making the criteria for granting approvals for hiring foreign professionals more transparent.
Introduced the Overseas Networks and Expertise Pass (ONEPass) from Jan 2023 to attract top talent across all sectors.
Updated Global Investor Programme (GIP) criteria from Mar 2023 to selectively attract individuals with ability to make more economic impact for Singapore, and be more rooted.
Enhancing transport infrastructure through developing Changi Airport Terminal 5 and Tuas Port.
Introduced the Enterprise Innovation Scheme as part of Budget 2023 that will raise tax deductions for businesses working on key activities that boost innovation.
Plans to introduce a new law to set out a new investment management framework for critical entities not adequately covered under existing sectoral legislation, applying to both foreign and local investors, through the Significant Investments Review Bill.

Source: News sources, DBS

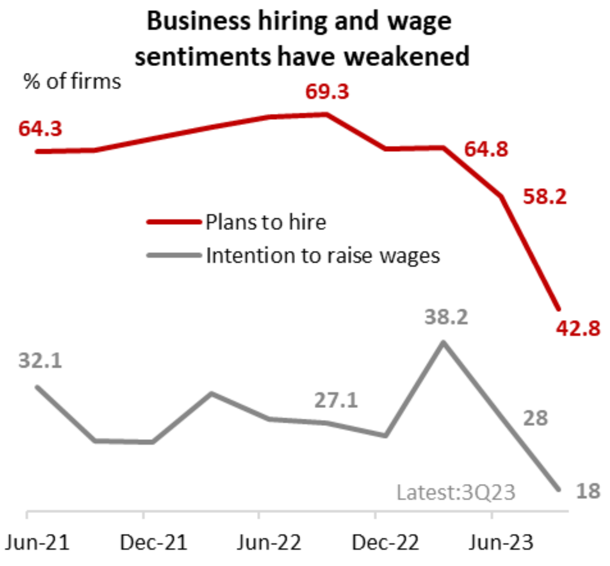
3) Less tight labour market

Singapore's labour market is likely to be less tight in the coming year. Labour demand, as seen from quarterly employment changes, has cooled, amid softer economic activity. At the same time, labour shortfalls have eased, partly helped by the expansion in non-resident employment, even though some labour-intensive domestic and travel-related sectors still have some room to recover. Consequently, the job vacancy to unemployed person ratio has moderated from its 2022 high, even as it remains above the pre-pandemic average.

Labour market softening

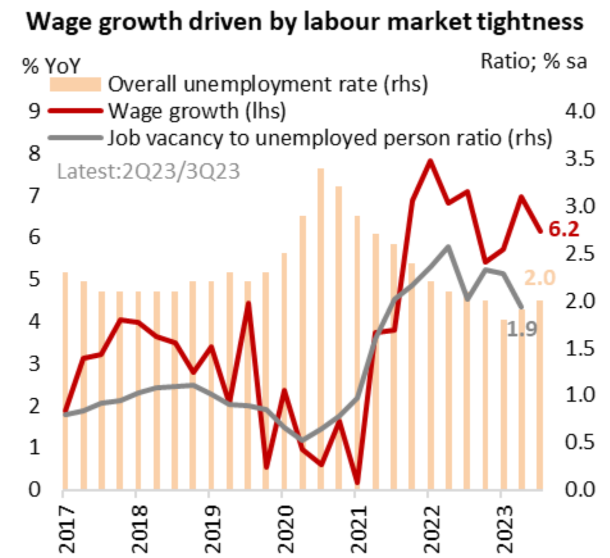
Source: CEIC, DBS
Note: 3Q23 employment change data is preliminary.

We expect labour demand to moderate further in the near-term, amid more cautious business hiring, but cushioned by sectors with shortfalls. Business hiring intentions continue to trend lower from 3Q22's high, amid economic uncertainty, based on the Ministry of Manpower (MOM)'s survey.



Source: MOM, DBS

A Ministry of Trade and Industry (MTI) study showed that Singapore's quarterly employment changes tended to lag GDP QoQ sa shocks by two to three quarters. The external-led recovery would, therefore, support employment growth, heading into 2H24 and the latter part of 2024, in our view.

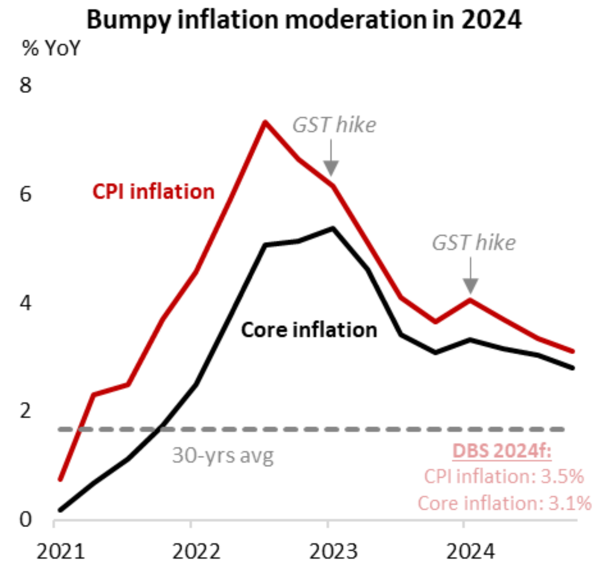


Source: CEIC, DBS

Wage growth is also likely to ease, amid a less tight labour market, and weakened business intentions to raise wages, as firms seek to contain upside cost pressures given a still uncertain economic environment. The overall unemployment rate has edged up slightly, but remains low. Any rise is likely to be modest, in our view, as employment is likely to be supported by wage flexibility.

4) Bumpy inflation moderation

Singapore's inflation is likely to be bumpy, but average lower in 2024 vs 2023. We forecast average 2024 headline inflation and core inflation of 3.5% and 3.1%, respectively, vs 2023's 4.7% and 4.0%. This will still be above the respective pre-pandemic 2010-2019 averages of 1.7% and 1.5%.

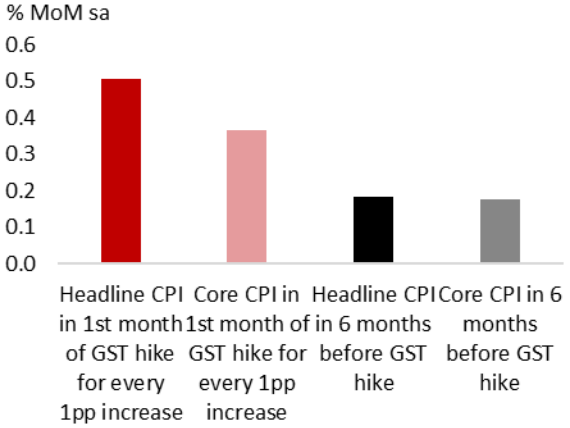


Source: CEIC, DBS

In the immediate horizon, we see domestic inflationary impulses that will lift core inflation temporarily. The goods and services tax (GST) will be hiked by another one percentage point (pp) to 9% from Jan 2024, following a similar increase to 8% in Jan 2023.

Previous GST hikes led to notable headline and core inflation pass-through. For every 1pp GST hike, we estimate that headline and core inflation rose by 0.5% and 0.4% month-on-month seasonally adjusted (MoM sa), respectively, on average in the same month of the GST hike. The average price uptick was at least twice of the % MoM average increases in the six months before the GST increments.

Estimated average pass through to CPI inflation from previous GST hikes



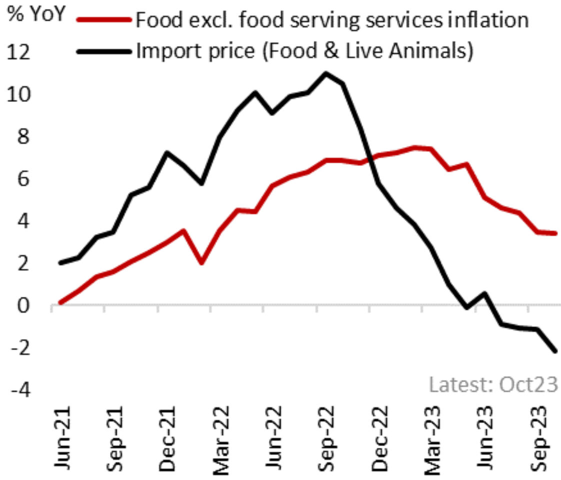
Source: CEIC, DBS
Note: Average is based on GST hikes in Apr 94, Jan 03, Jan 04, Jul 07, Jan 23.

Carbon taxes will also be raised to SGD25 in 2024 from SGD5, and public transport fares will rise by 7% from late Dec-2023. Water prices are set to increase in April 2024. We estimate that these could add ~0.4pp to 2024 core inflation, in terms of direct and first-round impact, with upside risks from second-order impact.

Nevertheless, core inflation is likely to be contained, and eventually resume its easing path, in our view. This would in line with global trends, as Singapore is a global price taker.

First, we expect tempering imported inflation. This will be partly helped by the dampening impact from the cumulative tightening and Singapore dollar strength since Oct 2021. Looking at food inflation, it remains on an easing trend. Imported food inflation is likely to be contained by moderating global food commodity prices. El Niño weather disruptions pose upside risks, but if materialised, could only feed through to Singapore's food inflation with some lag.

Easing food inflation due to contained import food prices and SGD strength



Source: CEIC, DBS

The moderation in energy-related inflation and oil import prices has bottomed out, alongside troughing but choppy global oil prices. Barring significant upside price shocks, for instance from a widening Middle East conflict, we think energy-related inflationary impulses should be kept in check.

Second, services inflation has also moderated over the course of 2023, but has been relatively stickier. We expect moderating domestic labour cost pressures, amid cooling wage growth, to translate into further services disinflation, more so for discretionary items. Travel-related inflation is likely to ease too, helped by rising flight capacity and some pull-back in travel demand.

Cooling core inflation, alongside easing private transport inflation and contained accommodation price increases, are likely to dampen headline inflation in 2024. Both private transport and accommodation inflation has moderated over the course of 2023, and likely to be suppressed by an expected increase in certificate of entitlement (COE) quotas and abating rental increases.

5) 4G leadership transition

Singapore's leadership transition to the 4G team will likely take place in 2024. Prime Minister (PM) Lee Hsien Loong said in his Nov 5 speech that he will hand over to Deputy PM Lawrence Wong by Nov 2024, if all goes well. This followed from Aug's National Day Rally 2023, when PM Lee reported that leadership succession plans are on track. The upcoming handover would be ahead of the next general election, which has to be held by Nov 2025.

Singapore Leadership Succession

1G	1959 - 1990	Lee Kuan Yew & leaders
2G	1990 - 2004	Goh Chok Tong & leaders
3G	2004 - 2024 (expected)	Lee Hsien Loong & leaders
4G	2024 - ?? (expected)	Lawrence Wong & leaders

Source: DBS

We expect policy continuity. PM Lee added in his Nov 5 speech that Deputy PM Wong and the 4G team 'have taken on greater responsibilities, and they are preparing well to take the helm'. They are increasingly setting the national agenda, for e.g. through the Forward Singapore (Forward SG) exercise. Led by the 4G leadership team, the Forward SG report released on October 27, provides a new roadmap to chart Singapore's future, and build a 'Vibrant, Inclusive, Fair, Thriving, Resilient, and United Singapore'.

After the very extensive 16-month long exercise, the Forward SG report identifies seven key shifts to refresh Singapore's social compact and the Singapore dream. The report marks the start of the partnership between the government and society (businesses, individuals, families, and communities) to build a better Singapore (*see Forward Singapore: A roadmap towards resilience for our key takeaways*).

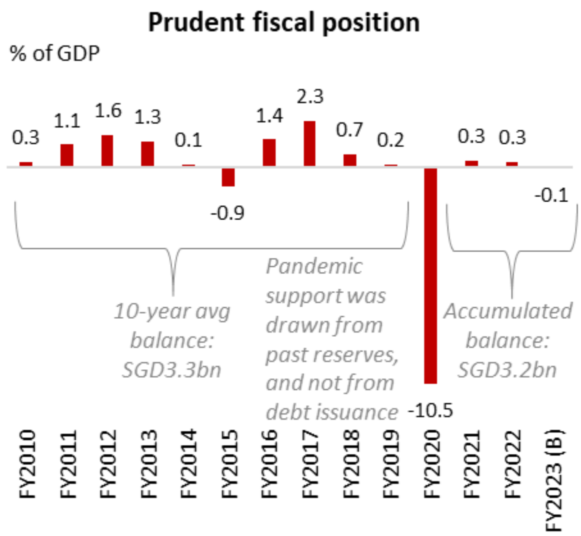
Forward Singapore Report: 7 Shifts

Vibrant, Inclusive, Fair, Thriving, Resilient, and United Singapore	01 Embracing Learning Beyond Grades	05 Empowering Those in Need
	02 Respecting and Rewarding Every Job	06 Investing in Our Shared Tomorrow
	03 Supporting Families through Every Stage	07 Doing Our Part as One United People
	04 Enabling Seniors to Age Well	

Source: Forward Singapore Report

6) Fiscal policy balancing multiple priorities

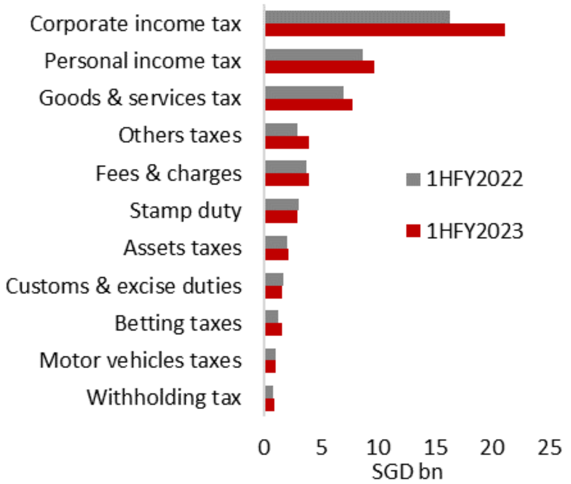
Singapore's fiscal policy is striking a balance between near and long-term priorities, and we see some room for a slight expansionary policy stance in 2024. Fiscal performance has surprised positively in the earlier years of the current government's five-year term, leaving modest space to provide support, if needed, especially if downside growth risk materialises.



Source: CEIC, MOF, DBS. Note: FY2022 is calculated by DBS based on MOF, AGD release.

We estimate cumulative overall fiscal surplus of SGD3.6bn in FY2021 and FY2022[1], significantly better than the previously budgeted SGD14.1bn deficit. FY2023 could also surprise with a modest surplus vs the budgeted SGD0.4bn deficit, due to robust revenue collection, despite rising expenditures. For e.g., corporate and personal income tax revenues have been supported by strong nominal corporate earnings and wage growth in 1HFY2023, while GST tax revenues should also benefit from the GST tax hike.

Supportive tax revenues



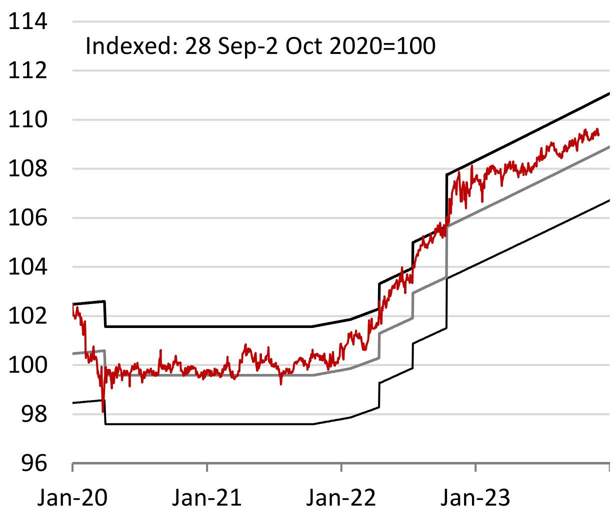
Source: CEIC, DBS
Note: 1HFY2023 refers to Apr to Sep 2023.

With some near-term fiscal room, the government announced a SGD1.1bn Cost-of-Living Support Package in end-Sep 2023 within the budget. The additional support package aimed to provide relief to Singaporean households, especially lower- to middle-income families, to help them better cope with cost-of-living concerns, by building on Budget 2023 measures. Inflation is moderating but still high, and therefore, better-than-expected short-term fiscal performance would offer ammunition to provide targeted support in 2024. The government has indicated that it is prepared to do more to support Singaporeans, if necessary.

Beyond near-term issues, fiscal policy will also be critical in allocating public finances to implement long-term policy priorities, including ideas from the Forward SG report, while adhering to long-held prudent principles. As the Forward SG exercise progressed, some policy initiatives to provide assurances in various areas have already been revealed. The upcoming Budget 2024 to be announced in 1Q24 will be underpinned by key ideas from the Forward SG report, and we expect further details to be presented. Helping businesses to scale up and be more productive is also on the agenda, amid higher business cost pressures.

7) Monetary policy to normalise

DBS SGD NEER and policy band



Source: DBS

We forecast the Monetary Authority of Singapore (MAS) reducing the steepness of the SGD NEER policy band's slope in July 2024, aligning with the global central banks in

[1] We estimate using budget documents and the government financial statements from the Accountant-General's Department (AGD).

normalising monetary policy. In the second half of 2024, we see the US Federal Reserve and the European Central Bank lowering their policy rates by 100bps.

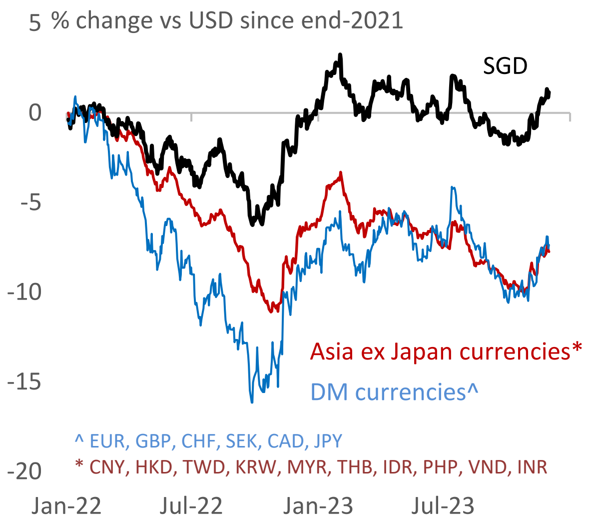
A slightly flatter slope sits better with a Singapore economy expanding around the 2-3% trend growth amid a slightly negative output gap in 2024. The MAS sees CPI-All Items inflation slowing to 3-4% in 2024 from 5% in 2023 and core inflation cooling to 2.5-3.5% from 4%. Stripping out the impact from the 1pp GST hike coming on 1 Jan 2024, the MAS forecasts CPI All-Items Inflation to average 2.5-3.5% in 2024 and core inflation at 1.5-2.5%.

Alas, 2024 is fraught with uncertainties and risks, underscored by the MAS's decision to hold four instead of two policy reviews in 2024. Some worst-case scenarios include a hard landing in the world economy from high interest rates feeding through the G7 economies, continued disappointment over China's economy and property sector, geopolitical miscalculations around US-China relations, Taiwan, North Korea, and the South China Sea.

USD/SGD: Lower bias in the same range

In early 2024, we expect USD/SGD to keep oscillating inside the same 1.30-1.38 range as in 2023. Monetary policies across the global central banks have largely aligned. They believe inflation will remain sticky amid a highly uncertain economic outlook into early 2024. Until they are convinced that inflation is on a sustained path to their targets, central banks want rates to stay elevated for an extended period, and will keep countering the market's impatience in bringing forward rate cuts.

MAS's policy has kept SGD resilient



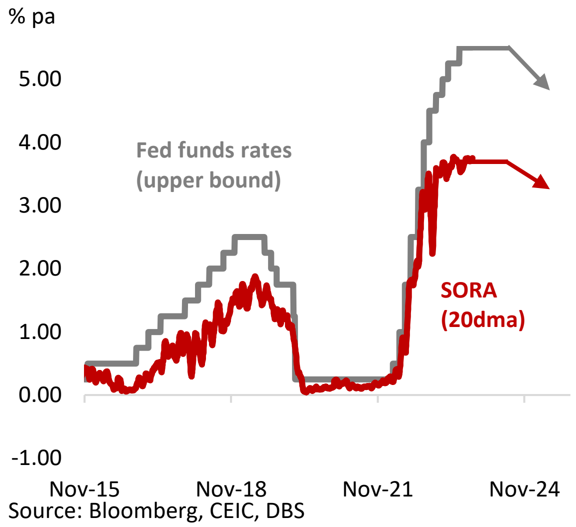
Sources: DBS Research, Bloomberg data

Over the year, we expect the USD to lose momentum from central banks normalising policy. Japan will probably start in the second quarter by abandoning its negative interest rate policy and yield curve control framework. Conversely, when the other central banks are ready to declare victory on inflation, the Fed should lead the way in reducing real interest rates.

SGD Rates: Peak and uneven path lower

The trajectory of SGD rates will depend in large part on how the global economy adjusts to the high level of interest rates across the developed world. We think that a soft landing remains the most likely scenario with the US economy generally resilient through 1H24 before cooling inflation allows the Fed to embark on measured cuts. If global inflation cools, we would reasonably expect Singapore's price pressures to also ease. The MAS expects core inflation to be in the 2.5-3.5% region for 2024. Excluding the impact of the GST hike in Jan 2024, this figure would be in the 1.5-2.5% area. If this plays out, the MAS's version of high for longer may see no shifts in the SGD NEER band for some time, with any easing probably closely linked to the Fed's cycle. Keeping these in mind, **SORA has likely peaked and will be rangebound before a more meaningful decline takes place in 2H24 as the Fed cuts.** However, the passthrough from Fed cuts into lower SORA would likely be less than 100%. The effect would likely be the reverse of the hike cycle we have seen where SORA did not track SOFR all the way above 5%. Instead, the discount in SORA can probably be attributed to SGDNEER appreciation expectations and more flush SGD liquidity conditions. We also expect SGD liquidity conditions to improve in 1H24 as the USD weakens and this should translate into lower SORA even as the Fed keeps rates steady. Beyond 1H24, **the discount in SORA would likely narrow when economic conditions become more challenging, and market speculates on a reduced NEER slope.**

SORA to drift lower in 2H24



Source: Bloomberg, CEIC, DBS

Meanwhile, dynamics in the long end of the SGD curve are more volatile. In contrast to the US, where US Treasury supply is a concern, there are no such worries for SGS (overall SGS supply barely rose by SGD6.4bn, 4%, in 2023). This was seen in 2H23 as SGS held up, despite the aggressive selloff in long dated USTs. With a dearth of SGS issuances in 4Q23, we think that yields are probably a tad depressed. This could change when supply dynamics head back to normal. In the decade ending 2022, net SGS supply rose by close to 7% on average each year and we would reasonably assume that 2024 net issuances will drift closer to the average. Accordingly, **we also see scope for the SGS and SORA curve to steepen.** However, the extent of steepening is more difficult to call given the necessary overlay from SGS supply, SGD liquidity, and MAS's policy.

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