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Economics Group

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Singapore Manufactures an Acceleration in GDP

Real GDP growth in Singapore was 4.3 percent year over year in Q1, led by robust manufacturing output. The Monetary Authority of Singapore adjusted policy to allow the Sing dollar to modestly appreciate over time.

Manufacturing Sector Drives Real GDP Growth in Singapore

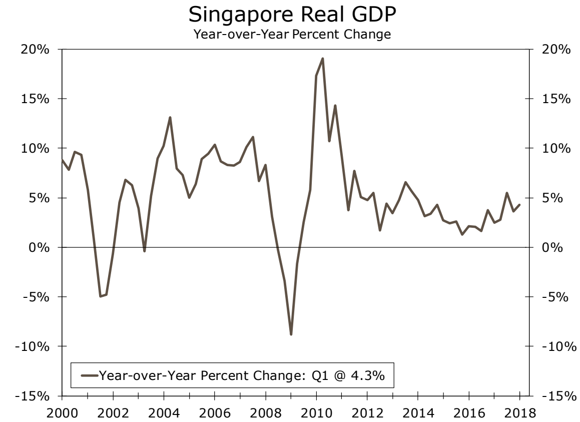
Data released this morning showed Singapore's economy grew at a 1.4 percent annualized rate in Q1. The quarter-to-quarter data in Singapore are notoriously volatile, so we typically use year-over-year measures to gauge the underlying trends in output. On that basis, real GDP growth rose 4.3 percent, up from 3.6 percent in Q4. Manufacturing output climbed 23.3 percent over the quarter and 10.1 percent over the year, with particular strength in the semiconductor sector. While demand-side GDP data are not yet available, the surge in factory sector output suggests exports may have helped to fuel growth in Q1. Construction output remained in negative territory on a year-ago basis but rose in the quarter for the first time in a year, lessening the severity of the year-over-year decline.

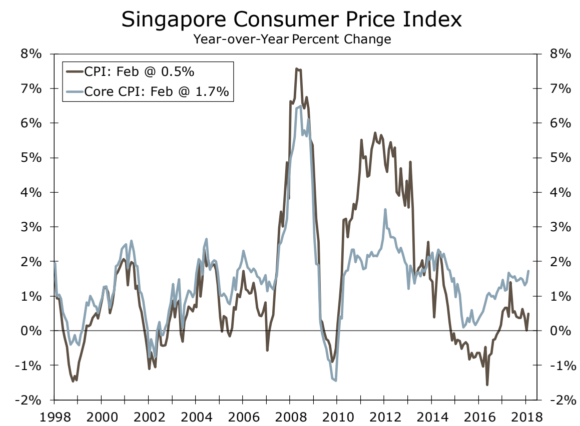
Singapore's open, trade-oriented economy is highly susceptible to swings in global conditions. At the moment, this bellwether reflects the broader story of the global economy: firmer growth than seen over the 2014-2016 period, but well short of the supercharged growth rates that were achieved in the mid-2000s. Inflation has risen, with the core CPI in Singapore at its highest year-ago pace since October 2014. Price growth remains largely in check, however, and the Monetary Authority of Singapore (MAS) expects that core inflation will come in within the upper half of the 1-2 percent forecast range if economic conditions evolve as expected. One potential key to the inflation outlook for the island city-state is oil prices. The MAS noted that "although global oil prices experienced sporadic spikes in Q1, they should ease as supply remains responsive."

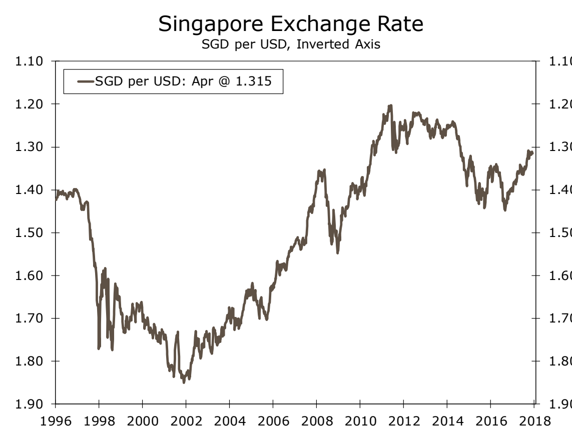
MAS Nudges Policy Towards a Stronger Sing Dollar

Unlike most central banks, the MAS targets a nominal effective exchange rate for its currency due to the importance of trade for the Lion City's economy. The central bank's "policy band" creates guardrails within which the MAS tries to keep the currency floating. At its policy meeting today, the MAS decided to increase slightly the slope of the policy band, which previously was zero. The practical implications of this change is that the MAS will permit a "modest and gradual appreciation path" of the Sing dollar's nominal effective exchange rate.

This move by the central bank reflects the improvement in economic growth and firming inflation that has taken place over the past 18 months or so. The policy adjustment comes at an interesting time given Singapore's heavy reliance on trade and the ongoing economic saber rattling between the United States and China. It appears the MAS felt the risk of an inflation overshoot outweighed the uncertainty related to a possible trade war, at least for the time being. A move by the central bank of an export-oriented economy to allow the domestic currency to appreciate is a vote of confidence in the economic outlook.







Source: IHS Markit and Wells Fargo Securities

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