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Week Ahead Economic Preview

Flash PMI, Fed FOMC, ECB, BOJ meetings and GDP data

21 July 2023

Flash PMI data for July, due Monday, kickstarts economic data reporting for the second half of 2023, providing the earliest insights into economic conditions across major developed economies. Meanwhile central bank meetings in the US, Eurozone, Japan, Indonesia and Hong Kong SAR join in as highlights in a crowded week. Official GDP and inflation figures from the US, Eurozone, Germany, South Korea and Taiwan will also be eagerly anticipated.

The focus next week is expected to be split between corporate earnings, monetary policy and macro data following a week where the attention had largely been dominated by earnings optimism. Positive earnings reports from US banks buoyed sentiment, helping to support equity prices. That said, economic fundamentals return to the spotlight with July flash PMIs set to outline the degrees to growth can remain resilient in the face of higher interest rates and price pressures continue to cool (*see special report*).

Meanwhile, it will also be a reality check for the market with next week's Federal Open Market Committee meeting. Hopes that the July meeting will be the final rate hike of this cycle has provided some support to risk assets. Any more hawkish than expected post-meeting rhetoric may easily dent sentiment, though recent inflation readings suggest a diminished likelihood of such. The European Central Bank will also be watched for their take on the path forward with a July hike having been priced in. Concurrently, their data-focus emphasis will also draw the spotlight to the PMIs and the upcoming eurozone inflation readings.

Similarly, the Bank of England will be eager to see UK PMI data for evidence that inflation continues to cool after the PMIs correctly anticipated the easing of CPI in June.

In APAC, the Bank of Japan is expected to stay put again with regards to interest rates, though speculation that yield curve control settings may be tweaked have led to increased yen volatility. Amid continued expansion of Japan's private sector economy and relatively elevated selling price inflation, as seen via the au Jibun Bank Japan Composite PMI, it will be of interest to examine the BOJ's choice of policy tools. This is especially as global central banks are widely expected to be at or near the end of their current rate hike cycles into the second half of 2023.

Peak rates in sight?

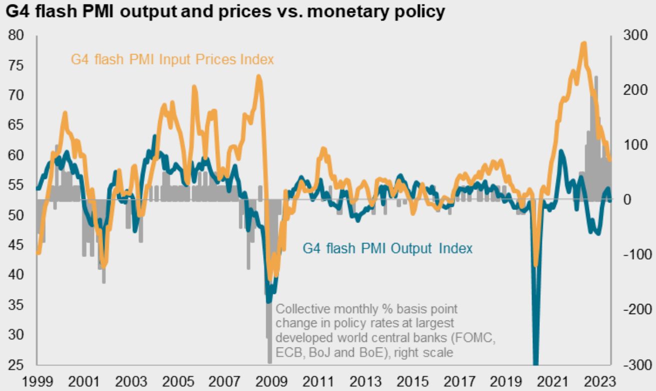
The coming week sees policy meetings at the FOMC, ECB and bank of Japan all preceded by the release of US, Eurozone and Japanese flash PMI data for July, with the Bank of England no doubt also keeping a close eye on the UK flash numbers.

Our special report on page 4 outlines the major themes to watch in the flash PMIs, which have sent important signals so far this year. From an economic growth perspective, manufacturing malaise has been countered by resurgent service sector growth amid a rebound in travel post-pandemic. Inflationary pressures have consequently shifted. Whereas the combination of surging demand and constrained supply lifted goods prices in the pandemic, these same forces have pushed up services prices in 2023. This time, it's not supply chain constraints that are the problem, but labour and capacity shortages.

However, even these service sector inflation pressures showed signs of easing across the major economies in June, so policymakers will be eager to see if this welcome trend has persisted into the second half of the year to help drive CPI rates lower.

More worrying might be the output and order book data, especially for the eurozone. At 49.9, the headline eurozone PMI fell marginally into contraction territory in June, and any further weakening of the data will add to concerns that a belated over-tightening of policy might drive economies into recession. While overall output growth in the G4 economies remains resilient, the pace of expansion is not historically consistent with tightening policy and the persistence of even this modest growth remains highly uncertain.

G4 flash PMI output and prices vs. monetary policy



Data compiled June 23, 2023.
PMI (50 = no change on prior month) covers manufacturing and services in the US, Eurozone, UK and Japan.
Sources: S&P Global PMI, S&P Global Market Intelligence.
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Key diary events

Monday 24 Jul
Australia Judo Bank Flash PMI, Manufacturing & Services*
Japan au Jibun Bank Flash Manufacturing PMI*
UK S&P Global/CIPS Flash PMI, Manufacturing & Services*
Germany HBOB Flash PMI, Manufacturing & Services*
France HCOB Flash PMI, Manufacturing & Services*
Eurozone HCOB Flash PMI, Manufacturing & Services*
US S&P Global Flash PMI, Manufacturing & Services*
Malaysia Inflation (Jun)
Singapore CPI (Jun)
Taiwan Industrial Production, Retail Sales (Jun)

Tuesday 25 Jul
South Korea GDP (Q2, advance)
Indonesia BI Interest Rate Decision
Hong Kong Trade (Jun)
Germany Ifo Business Climate (Jul)
United States House Price Index (May)
United States Consumer Confidence (Jul)

Wednesday 26 Jul
Australia Inflation (Q2)
Singapore Industrial Production (Jun)
United States New Home Sales and Building Permits (Jul)
United States FOMC Interest Rate Decision

Thursday 27 Jul
Australia Import and Export Prices (Q2)
China (mainland) Industrial Profits (Jun)
Hong Kong HKMA Interest Rate Decision
Taiwan Consumer Confidence (Jul)
Thailand Trade and Industrial Production (Jun)
Eurozone ECB Interest Rate Decision
United States GDP (Q2, advance)
United States Durable Goods (Jun)
United States Initial Jobless Claims
United States Wholesale Inventories (Jun, advance)
United States Goods Trade Balance (Jun, advance)
United States Pending Home Sales (Jun)

Friday 28 Jul
South Korea Industrial Production and Retail Sales (Jun)
Australia Retail Sales (Jun, prelim)
Australia PPI (Q2)
Singapore Unemployment Rate (Q2, prelim)
Japan BOJ Interest Rate Decision
France GDP (Q2, prelim)
France Inflation Rate (Jul, prelim)
Germany PPI (Jul)
Taiwan GDP (Q2, advance)
Eurozone Economic Sentiment (Jul)
Germany Inflation (Jul, prelim)
Canada GDP (May, prelim)
United States Personal Income and Spending (Jun)
United States Core PCE Index (Jun)
United States UoM Sentiment (Jul, final)

* Press releases of indices produced by S&P Global and relevant sponsors can be found here.

What to watch

Flash PMI release for July

July's flash PMI for major developed economies, including the US, UK, Eurozone, Japan and Australia will be released at the start of the week. Further insights into inflation and economic growth developments at the sat of the third quarter will be sought with these early economic data releases.

Specifically, whether manufacturing output continued to decline in July will be a key question to consider in the flash PMIs alongside the issue of whether the services rebound has peaked. Additionally, although service sector output price inflation eased in the June surveys, policymakers will remain worried about any persistent elevated rates of increase. *Read more in our special report.*

Americas: Fed FOMC meeting, Q2 GDP (adv), core PCE, durable goods, new home sales, personal income and spending data, plus consumer confidence

The Fed convenes in the coming week and will update their monetary policy decision at the end of the two-day FOMC meeting on Wednesday. According to indications from the CME FedWatch tool, the Fed is widely expected to raise rates by another 25 basis points (bps) in July but this will potentially be the last of 2023. As such, the focus will be on the Fed's rhetoric from both the statement and press conference.

A busy US economic calendar also notably includes Q2 GDP data with the consensus pointing to a rate of growth comparable to that seen in the first quarter of 2023.

Europe: ECB meeting, German Ifo Business Climate, Eurozone, Germany and France GDP and inflation

In addition to the Fed, the ECB is also expected to lift rates next week and the focus will likewise be on the rhetoric addressing the path forward. A series of tier-1 data, including euro area GDP and inflation readings, will follow flash PMIs and will similarly guide expectations on the European monetary policy front.

Asia-Pacific: BOJ, BI, HKMA meetings, South Korea, Taiwan GDP

Various central bank meetings also unfold in APAC. Although no surprises on interest rates are expected, the BOJ will be closely watched for any indications of change on the yield curve control front this month.

Special reports:

Inflation and Growth Signals: What to Watch for in the Upcoming July PMI Surveys | Chris Williamson | page 4

Singapore Economic Growth Weakens in First Half of 2023 | Rajiv Biswas | page 7

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Recent PMI and economic analysis from S&P Global

Global	Global trade falls at fastest rate for five months in June	12-Jul	Chris Williamson
	Monthly PMI Bulletin: July 2023	12-Jul	Jingyi Pan
	Sector PMI finds hints of service sector inflation cooling amid waning demand from consumers	7-Jul	Chris Williamson
	Labour costs keep inflation elevated worldwide in June	6-Jul	Chris Williamson
	Global growth loses momentum as service sector slowdown accompanies factory downturn	6-Jul	Chris Williamson
	Global factory sector reports renewed decline in June as demand environment worsens	3-Jul	Chris Williamson
US	US manufacturing downturn accompanied by slumping price pressures	3-Jul	Chris Williamson
Asia-Pacific	Thailand's economic outlook for 2023 boosted by rising tourism inflows	14-Jul	Rajiv Biswas
	Vietnam economy moderates in first half of 2023 as exports slump	7-Jul	Rajiv Biswas
Commodities	Weekly Pricing Pulse: The first half of 2023 ends with another week of falling prices	6-Jul	Gregory Muller

S&P Global Economics & Country Risk highlights

Eurozone house prices record second consecutive quarterly decline

The rapid tightening of financing conditions and continued feed-through of higher interest rates to consumers, plus an increase in inflation to levels last observed half a century ago, are weighing on the housing market. Eurozone house prices declined for the second consecutive quarter in the first quarter of 2023.

Click here to read our research and analysis

PMI Insights: Divergent trends in goods and services

Our Purchasing Managers' Index team compiles data for more than 40 economies around the world. In this episode, the economists explore the divergence in the performance of the manufacturing and services sectors in countries including Australia and Greece. They zero in on how this is showing up in labor markets, looking at employment growth and wages.

Click here to listen to this podcast by S&P Global Market Intelligence

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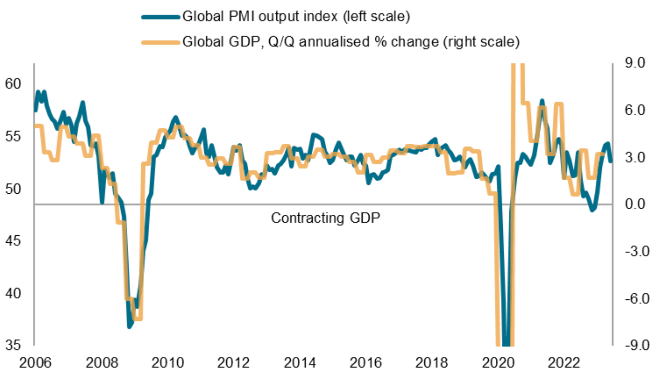
Special Focus

Inflation and Growth Signals: What to Watch for in the Upcoming July PMI Surveys

How fast is inflation falling, and how resilient is economic growth? Further insights into these two key issues facing policymakers and markets around the world will be provided by the upcoming PMI surveys, commencing with flash PMI data for the major developed economies on 24th July and followed by final data in early August. The surveys will provide details on industrial prices, service sector inflation, the detailed sectoral pattern of demand –notably the recent upswing in consumer services spending – as well as clues as to whether labour markets are continuing to hold up, pushing wages higher.

We look below at the top issues to monitor with the July PMI data.

Global economic growth and the PMI



Data compiled June 2023 including PMI data to June 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month..
Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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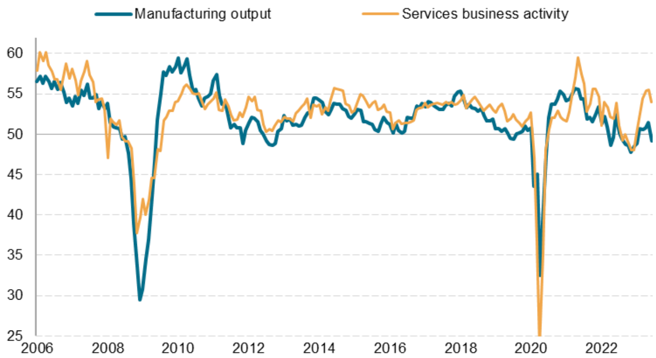
Services rebound

Has the travel and leisure boom already peaked? Stronger global economic growth in 2023 has so far been spurred by resurgent post-pandemic spending on services such as travel and tourism. Services have consequently outpaced manufacturing in terms of output growth to a degree unprecedented in the history of the PMI surveys in all major developed and emerging markets. However, June saw some signs of this growth spurt moderating. It will be important to assess the sustainability of the upturn in July, as any marked deterioration will add to signs that consumers are buckling under the weight of higher prices and higher interest rates.

Global PMI output by sector



Data compiled June 2023 including PMI data to June 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Sources: S&P Global PMI with J.P.Morgan, S&P Market Intelligence
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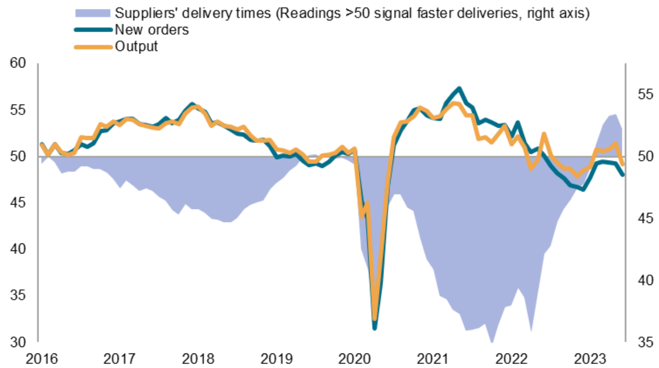
Manufacturing malaise

Are conditions worsening for manufacturers? Manufacturing output slipped into decline in June, as a short-term production boost from improved supply availability faded. While better supply had enabled the fulfilment of back orders in the spring, the absence of new order inflows mean factories around the world are running out of work to sustain current production volumes. Further insights in these dynamics will be eagerly awaited with the July data, helping ascertain the extent of the drag on global growth from the manufacturing sector.

Global manufacturing output, demand and supply



Data compiled June 2023 including PMI data to June 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month
Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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Inventory cycle

An additional drag on the manufacturing sector in recent months has been the widespread incidence of inventory reduction policies globally. As our charts below indicate, this reflects a combination of a reduced need to hold safety stocks (in turn linked to improved supply availability after the pandemic) and the reduced need to hold inventory amid a weakening demand environment. We await a turnaround in this inventory correction, as this will provide renewed momentum to the manufacturing economy.

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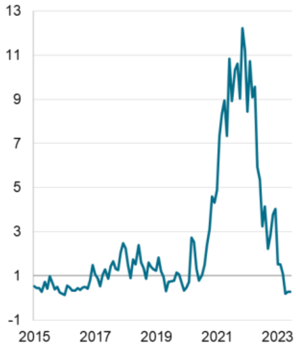
S&P Global PMI: worldwide factory input buying for safety stock considerations



Data compiled June 2023. Axis scale 1 = long term average.
PMI (Purchasing Managers' Index). Axis scale 1 = long term average.
Source: S&P Global PMI.
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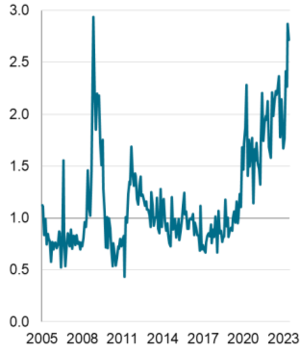
S&P Global PMI: worldwide stocks of goods lowered due to weak demand



Data compiled June 2023.
PMI (Purchasing Managers' Index). Axis scale 1 = long term average.
Source: S&P Global PMI.
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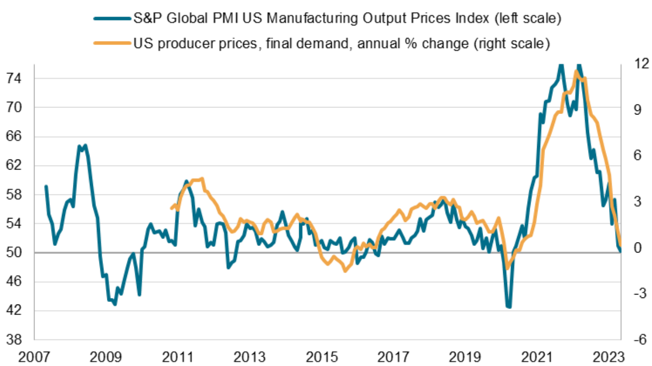
Industrial prices

The combination of falling demand, improved supply and inventory reduction had put further downward pressure on global manufacturing prices in June. Average input costs fell for a second successive month (including in the US, see chart below, which presaged the further fall in the official PPI measure), marking a dramatic turnaround from the near-record rate of inflation seen in early 2022. Further downward pressure on material prices will be important in helping drive global inflation lower, so we will be keenly watching these input cost gauges globally in July. However, with oil prices rising again in recent session, such a further downturn cannot be guaranteed.

US manufacturing producer output prices



Data compiled June 2023.
PMI (Purchasing Managers' Index), 50 = no change on prior month. All data seasonally adjusted.
Sources: S&P Global PMI, US Commerce Dept. via S&P Global Market Intelligence.
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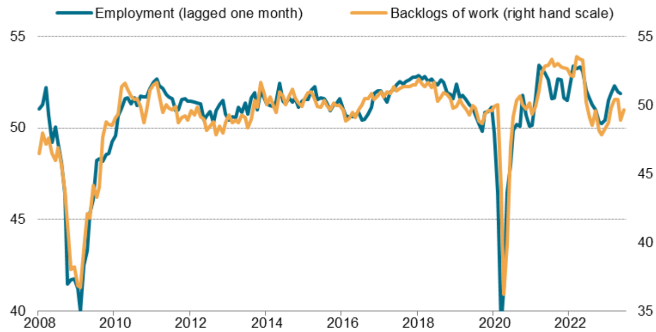
Resilient employment

Labour markets are important not just in terms of their relevance to consumer spending and resultant economic growth, but also in respect to wages. So far, employment has remained resilient in 2023, continuing to expand in many as companies – especially in the service sector – seek to fill long-vacant positions. This has been aided in part by improving labour supply. However, forward looking indicators such as the PMI's backlogs of work index – an important gauge of capacity utilisation – hint at a slowdown in hiring. Any further cooling in jobs growth will likely dampen economic growth via reduced household confidence and spending.

Global employment



Data compiled June 2023.
PMI index 50 = no change on prior month, covers manufacturing and services.
Source: S&P Global PMI with J.P. Morgan.
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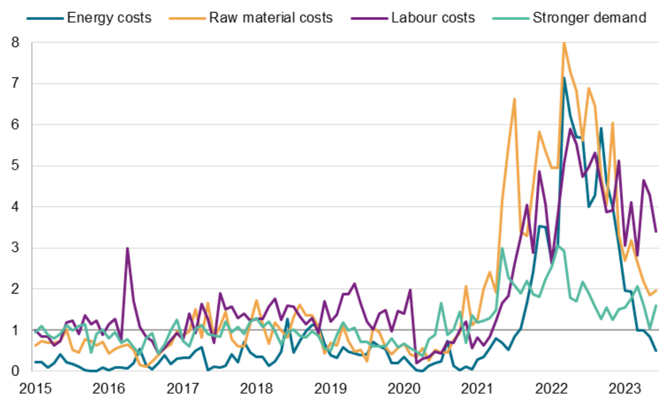
Wage pressures

For an inflation fighting perspective, an upside to any cooling of the labour market would be a commensurate moderation of wage pressures, which – as our chart below demonstrates – have been the principal driving force of higher prices globally in recent months. However, this wage growth effect showed signs of dampening in June which, if sustained into July, will be good news for those fearing the development of wage-price spirals.

S&P Global PMI: drivers of higher selling prices



Data compiled June 2023 including PMI data to June 2023. Axis scale 1 = long term average.
Source: S&P Global PMI.
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Services prices

Is service sector inflation moderating? Around the world, it has been the service sector that has been the main driving force behind inflationary pressures so far in 2023, taking over from manufacturing – which had led the upturn in prices during the pandemic. Whereas the pandemic saw a surge in demand for goods accompanied by constrained production due to supply shortages, 2023 is seeing a surge in demand for services accompanied by capacity constraints and labour shortages. This generally persisted into June, albeit with services inflation showing some signs of moderating. The

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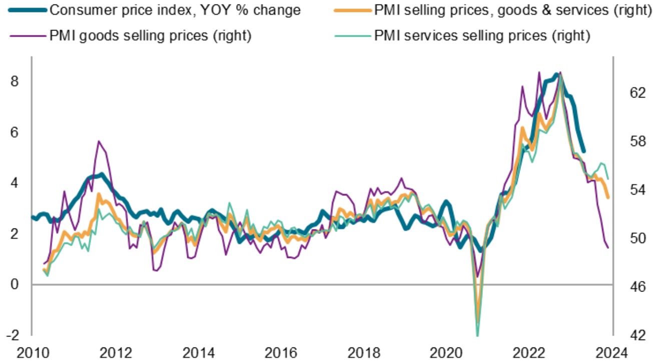
future path of service sector inflation will potentially represent a key determinant of central bank policy decisions.

Global consumer price inflation and PMI prices



Data compiled June 2023 including PMI data to June 2023 advanced six months.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Sources: S&P Global PMI with J.P. Morgan, S&P Global Market intelligence.
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National divergences

While many of the trends we identify above are common to all major economies, there are of course national divergences worth noting and monitoring.

One of the most visible has been the relatively subdued economic recovery in **mainland China** after COVID-19 restrictions were suddenly relaxed at the turn of the year. Deflationary forces are meanwhile gathering. This weakness seen in the Caixin PMIs was followed by disappointing GDP data for the second quarter and recent official inflation data. Any further slippage in the PMIs for China will add to speculation that the government will seek to add more stimulus to the economy.

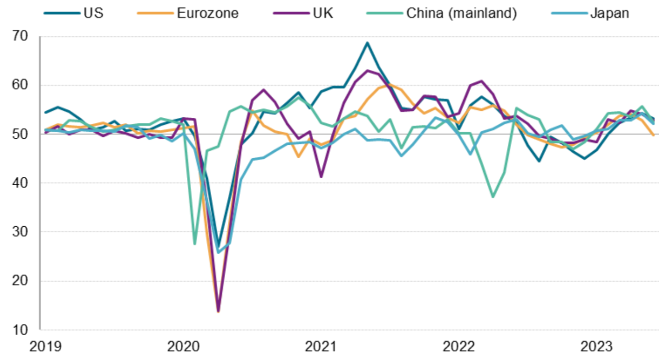
The **US** has meanwhile seen an especially resilient economic growth pattern this year, but has also seen the sharpest cooling of inflationary pressures among the major developed economies, according to both PMI and official data. The upcoming PMIs will be eyed for the lagged impact of policy hikes and assessed for the perceived need for further hikes among FOMC members.

The **Eurozone** has seen growth weaken more sharply than the US, and with the HCOB PMI signalling a near-stagnation in June the upcoming July flash PMI numbers will be eagerly awaited for signs of the region slipping into a downturn. Any such contraction will concern the ECB and reduce rate hike odds going forward, especially if price pressures continue to cool commensurately.

In the **UK**, the pace of growth has also slowed, according to the S&P Global / CIPS PMI, but price pressures have remained somewhat more elevated than in the US and Eurozone – especially in the service sector, where labour cost pressures appear more intense. Such a persistent divergence will add to further speculation that the Bank of England may need to hike rates further than the FOMC and possibly even the ECB.

Finally, in **Japan**, the au Jibun Bank PMI data have been prescient in signaling strong, services-led, economic growth and accompanying elevated price pressures. If persisting into July, these forces will lean on the Bank of Japan to mark a change in course on its ultra loose policy stance.

Major economies, output (manufacturing & services)



Data compiled June 2023 including PMI data to June 2023.
PMI index 50 = no change on prior month.
Sources: S&P Global PMI, S&P Global Market Intelligence, HCOB, CIPS, Caixin.
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Special Focus

Singapore Economic Growth Weakens in First Half of 2023

Singapore's advance estimate for second quarter GDP for 2023 showed weak expansion at a pace of 0.7% year-on-year (y/y), albeit slightly higher than the 0.4% y/y GDP growth rate in the first quarter of 2023. Economic growth momentum has slowed significantly compared with annual GDP growth of 3.6% in 2022. A key factor driving the slowdown of economic growth in the first half of 2023 has been declining manufacturing output, which fell by 7.5% y/y in Q2 2023.

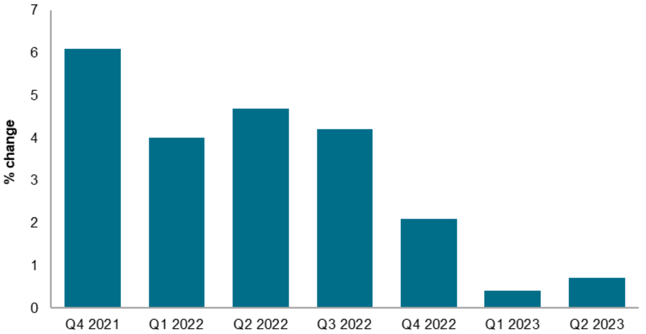
The near-term outlook is expected to remain constrained by weak demand in several important export markets for manufactures, notably the US and European Union (EU), with the pace of recovery in mainland China also weak. The service sector economy is expected to be more resilient, boosted by the continued recovery of international tourism travel in the APAC region.

Singapore economy weakens in first half of 2023

According to the advance estimate for Q2 2023 GDP released by Singapore's Ministry of Trade and Industry (MTI), Singapore's GDP growth rate was 0.7% y/y, improving on the 0.4% y/y pace in Q1 2023, but much weaker than the 3.6% annual GDP growth rate achieved in 2022.

Manufacturing output fell by 7.5% y/y in Q2 2023, following a decline of 5.3% y/y in Q1 2023. Manufacturing output also fell by 1.3% quarter-on-quarter (q/q) in Q2 2023, after a contraction of 4.5% q/q in Q1 2023.

Singapore real GDP growth



Source: Singapore MTI via S&P Global Market Intelligence.
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The construction sector was a bright spot amongst the goods-producing industries, with output up by 6.6% y/y in Q2 2023, after strong growth on 6.9% y/y in Q1 2023 and of 6.7% y/y in calendar 2022.

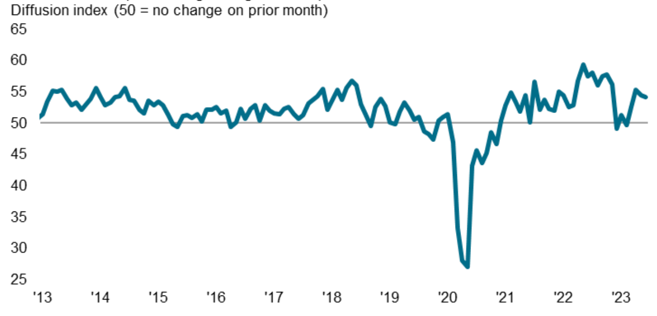
The service sector also showed positive growth of 3.0% y/y in Q2 2023, with output up 1.3% q/q. The removal of many COVID-19 restrictions since April 2022 and improving tourism flows supported buoyant growth in the accommodation and food services, real estate, administration and support services segment, which grew by 6.1% y/y in Q2 2023.

International tourism has rebounded, with international visitor arrivals having risen to 1.13 million in April and 1.1 million in May 2023, helped by strong tourism inflows from other APAC nations, notably Indonesia, Malaysia, India and Australia. The number of visitor arrivals in May 2023 was 2.6 times higher than a year ago, with only 418,000 arrivals in May 2022.

The headline seasonally adjusted S&P Global Singapore Purchasing Manager's Index (PMI) fell to 54.1 in June from 54.5 in May. The reading continued to signal expansion for Singapore's private sector, albeit slower than in May. Driving the latest private sector expansion was a sustained improvement in new orders. However, export orders remained subdued, registering a mild contraction in the latest survey period.

S&P Global Singapore PMI

S&P Global PMI (Purchasing Managers' Index) Index
Diffusion index (50 = no change on prior month)



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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Manufacturing sector slowdown continues in early 2023

Latest statistics from Singapore's Economic Development Board (EDB) showed that manufacturing output continued to weaken in May 2023, declining by 10.8% y/y and by 3.9% month-on-month (m/m). This sharp downturn reflected contraction in output of electronics, chemicals and precision engineering. Electronics output fell by 23.0% y/y while precision engineering output fell by 10.5% y/y. Chemicals output contracted by 9.5% y/y, due to a combination of weak demand and plant maintenance shutdowns.

However, transport engineering showed strong growth of 28.4% y/y, helped by a 31.5% y/y rise in output of the marine

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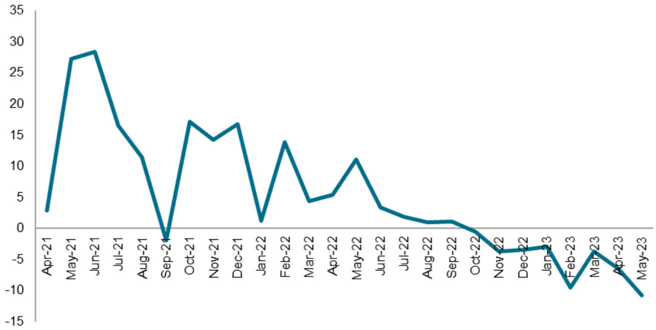
and offshore engineering sector, while aerospace engineering was up 35.9% y/y.

Singapore manufacturing output

% change, year-on-year



Source: Singapore EDB via S&P Global Market Intelligence.
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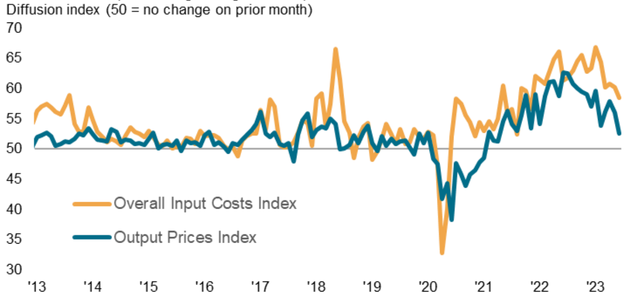
Reflecting the weakness of manufacturing sector new orders since mid-2022, Singapore's non-oil domestic exports (NODX) fell by 15.5% y/y in June, following a 14.8% y/y contraction in May, according to latest data released by Enterprise Singapore.

Inflation pressures have eased

According to the February S&P Global Singapore PMI survey, price pressures further eased across the Singaporean private sector. Overall input cost inflation descended due to slower purchase price and wage increases, which rose at the weakest paces since November 2021 and March 2023 respectively. This led to private sector firms raising their output prices at the most moderate pace in just over two years.

Singapore PMI input cost and output prices

S&P Global PMI (Purchasing Managers' Index) Index
Diffusion index (50 = no change on prior month)



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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Singapore's CPI inflation rate moderated to 5.1% y/y in May from 5.7% y/y in April. The Monetary Authority of Singapore (MAS) core inflation measure fell to 4.7% y/y in May, from 5.0% in April.

The MAS and MTI estimate that for calendar 2023, taking into account the 1% increase in GST that took effect on 1st January 2023, headline and core CPI inflation are projected to average 5.5%–6.5% and 3.5%–4.5% respectively.

Headwinds from moderating global electronics demand

The electronics manufacturing industry is a key segment of Singapore's manufacturing sector, accounting for 40% of the total weight of manufacturing output, dominated by semiconductors-related production. S&P Global survey data since mid-2022 indicates that the global electronics manufacturing industry is continuing to face headwinds from the weak pace of global economic growth.

The headline seasonally adjusted S&P Global Electronics PMI posted 47.6 in June, down slightly from 47.9 in May to signal continued contraction in the global electronics sector.

Weakening global economic growth momentum has impacted on consumer demand for electronics, with soft demand in mainland China also contributing to the downturn in new orders.

Singapore's electronics output fell by 23.0% y/y in May, with electronics output down by 11.0% y/y in the first five months of 2023. Semiconductors output, which accounts for the largest share of total electronics production in Singapore, fell by 26.8% y/y in May.

Singapore's non-oil domestic exports of electronics continued to show sharp declines in June 2023, falling by 15.4% y/y according to exports data released by Enterprise Singapore. Exports of integrated circuits fell by 31.8% y/y, while exports of PCs fell by 41.6% y/y. Demand for electronics exports has remained weak in key Asian markets, with exports of electronics to mainland China having declined by 17.1% y/y in June, while exports to South Korea fell by 56.7% y/y.

S&P Global Electronics PMI and new orders

S&P Global PMI (Purchasing Managers' Index) Index
Diffusion index (50 = no change on prior month)

Source: S&P Global Market Intelligence, S&P Global PMI surveys
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Singapore's economic outlook

After a second year of rapid economic recovery from the pandemic in 2022, economic growth momentum has moderated significantly in the first half of 2023. GDP growth is forecast to slow to 1.4% in 2023, after growing at 3.6% in

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2022 and 8.9% y/y in 2021. According to the June 2023 Survey of Professional Forecasters produced by the MAS, the median GDP forecast for 2023 is for growth of 1.4%, significantly lower than the forecast from the March 2023 Survey, which was for GDP growth of 1.9% in 2023.

With continuing headwinds to global growth momentum in 2023 due to very weak growth in the US and EU and sluggish economic recovery in mainland China, the outlook for Singapore's manufacturing sector remains challenging. However, stronger exports of services, notably due to rising international tourist arrivals, will help to mitigate the impact of weaker growth in manufacturing exports.

The increase in Singapore's Goods and Services Tax (GST) by 1% from 7% to 8% implemented on 1st January 2023 will also act as a slight drag on economic growth in 2023, raising fiscal revenue by an estimated 0.7% of GDP per year. Singapore's Ministry of Trade and Industry has maintained its GDP growth forecast for 2023 in the range of 0.5% to 2.5%.

In 2023, taking into account the 1% increase in GST from 1st January 2023, headline and core CPI inflation are projected to average 5.5%–6.5% and 3.5%–4.5% respectively. MAS core inflation is projected by the MAS and MTI to remain elevated over the next few quarters, with risks still tilted to the upside, due to factors such as potential renewed shocks to world commodity prices and persistent global inflation pressures. Although prices of energy and food commodities have eased from their peaks, businesses will face higher utility prices and rising unit labour costs in the near-term. The MAS and MTI expect that MAS Core Inflation will moderate in the second half of 2023, as tightness in the domestic labour market eases and global inflation pressures moderate.

The medium-term outlook for Singapore's manufacturing sector is supported by a number of positive factors.

Despite near-term headwinds, medium-term prospects for Singapore's electronics industry remains favourable. The outlook for electronics demand is underpinned by major technological developments, including 5G rollout over the next five years, which will drive demand for 5G mobile phones. Demand for industrial electronics is also expected to grow rapidly over the medium term, helped by Industry 4.0, as industrial automation and the Internet of Things boosts rapidly growth in demand for industrial electronics. Singapore also remains an attractive hub for supply chain diversification for some high value-added segments of the electronics industry, as electronics manufacturers continue to diversify their supply chains for production of critical electronics products, notably semiconductors. Reflecting these trends, in 2022, Singapore attracted significant new foreign direct investment inflows into electronics manufacturing.

In the biomedical manufacturing sector, a number of new manufacturing facilities are being built by pharmaceuticals multinationals. This includes a new vaccine manufacturing facility being built by Sanofi Pasteur and a new mRNA vaccine manufacturing plant being built by BioNTech.

The aerospace engineering sector is currently experiencing rapid growth as the reopening of international borders in APAC is boosting commercial air travel across the region. Singapore's role as a leading international aviation hub is likely to continue to strengthen over the medium-term, helped by strong growth in APAC air travel and its role as a key Maintenance, Repair and Overhaul (MRO) hub in APAC.

In the service sector, Singapore is expected to continue to be a leading global international financial centre for investment banking, wealth management and asset management. Singapore will also continue to be a key APAC hub for shipping, aviation and logistics, as well as an important APAC hub for regional headquartering.

However, an important long-term challenge for the Singapore economy will be from ageing demographics. In Budget 2023, the finance minister stated that a key issue for the Singapore economy over the medium to long term will be from demographic ageing, with Singapore having one of the world's fasted ageing populations. The proportion of Singapore's population that is currently aged over 65 years is one-sixth of the population, but this will rise to an estimated one-quarter by 2030. This will result in rising healthcare and social welfare costs and could gradually reduce Singapore's long-term potential GDP growth rate. The role of fiscal policy in addressing demographic ageing will continue to be a key focus for government policy over coming years as the economic impact of demographic ageing intensifies.

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