



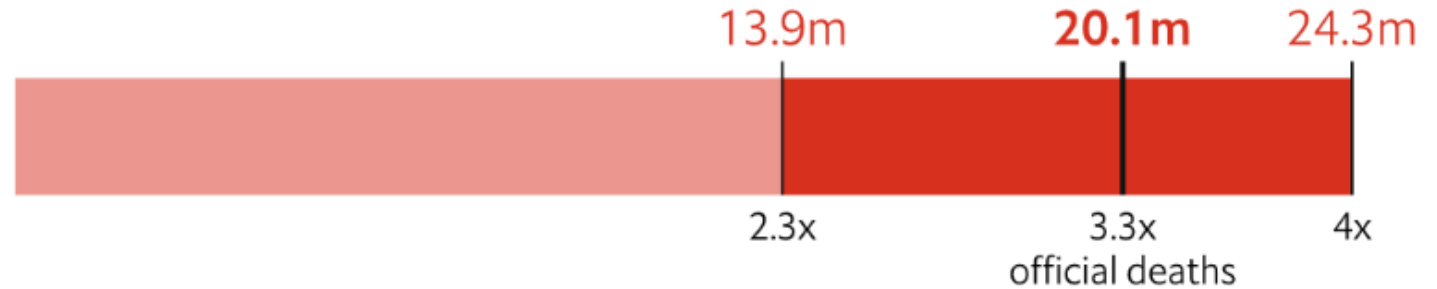
S'pore and Retail Sector Outlook: SRA 44th AGM 2022 23 March 2022

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2022 so far: Omicron & global supply chain bottlenecks

UPDATED ON MARCH 19TH

Estimated global excess deaths
With 95% confidence interval



Official global covid-19 deaths



Plus hawkish central banks: FOMC is playing catch up

- Frontloading of rate hike trajectory – the Fed hiked 25bps as expected, but now looking at another six hikes this year which is in line with market pricing.
- Bullard had dissented, marking the first vote against a decision since September 2020, as he preferred a 50bp rate hike.
- Fed chair Powell noted that “in hindsight it would have been appropriate to move earlier”, but also opined that the US economy is positioned to withstand tighter monetary policy. He believes that the probability of recession is not particularly elevated despite the Ukraine-Russia war, and signaled that Quantitative Tightening (QT) may be announced at a “coming meeting” (May?).

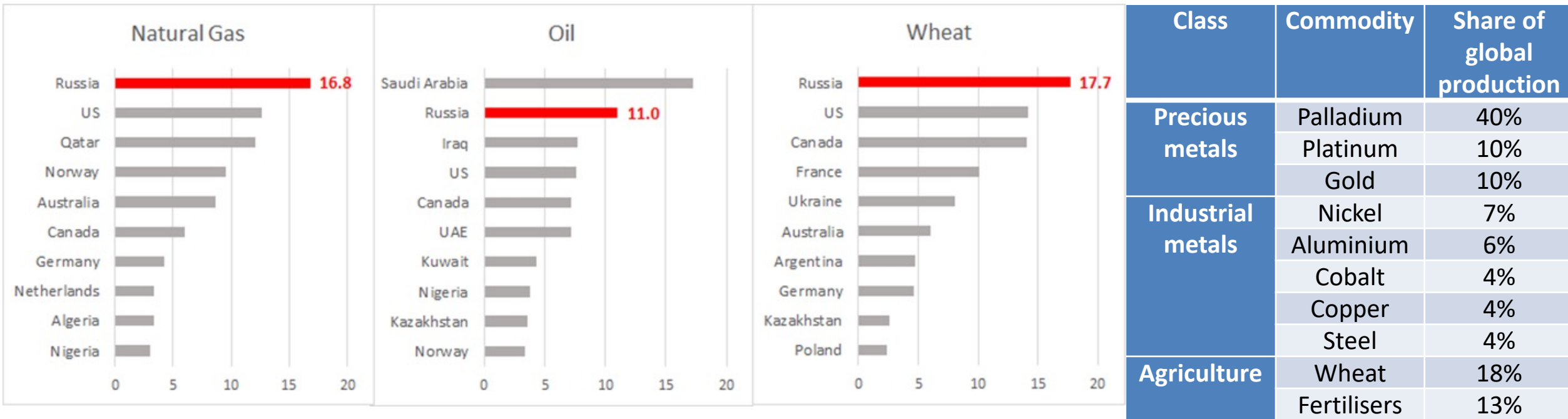
Percent

FOMC forecasts:

Variable	Median ¹				Central Tendency ²				Range ³			
	2022	2023	2024	Longer run	2022	2023	2024	Longer run	2022	2023	2024	Longer run
Change in real GDP	2.8	2.2	2.0	1.8	2.5–3.0	2.1–2.5	1.8–2.0	1.8–2.0	2.1–3.3	2.0–2.9	1.5–2.5	1.6–2.2
December projection	4.0	2.2	2.0	1.8	3.6–4.5	2.0–2.5	1.8–2.0	1.8–2.0	3.2–4.6	1.8–2.8	1.7–2.3	1.6–2.2
Unemployment rate	3.5	3.5	3.6	4.0	3.4–3.6	3.3–3.6	3.2–3.7	3.5–4.2	3.1–4.0	3.1–4.0	3.1–4.0	3.5–4.3
December projection	3.5	3.5	3.5	4.0	3.4–3.7	3.2–3.6	3.2–3.7	3.8–4.2	3.0–4.0	2.8–4.0	3.1–4.0	3.5–4.3
PCE inflation	4.3	2.7	2.3	2.0	4.1–4.7	2.3–3.0	2.1–2.4	2.0	3.7–5.5	2.2–3.5	2.0–3.0	2.0
December projection	2.6	2.3	2.1	2.0	2.2–3.0	2.1–2.5	2.0–2.2	2.0	2.0–3.2	2.0–2.5	2.0–2.2	2.0
Core PCE inflation ⁴	4.1	2.6	2.3		3.9–4.4	2.4–3.0	2.1–2.4		3.6–4.5	2.1–3.5	2.0–3.0	
December projection	2.7	2.3	2.1		2.5–3.0	2.1–2.4	2.0–2.2		2.4–3.2	2.0–2.5	2.0–2.3	
Memo: Projected appropriate policy path												
Federal funds rate	1.9	2.8	2.8	2.4	1.6–2.4	2.4–3.1	2.4–3.4	2.3–2.5	1.4–3.1	2.1–3.6	2.1–3.6	2.0–3.0
December projection	0.9	1.6	2.1	2.5	0.6–0.9	1.4–1.9	1.9–2.9	2.3–2.5	0.4–1.1	1.1–2.1	1.9–3.1	2.0–3.0

Russia-Ukraine conflict: higher inflation for longer?

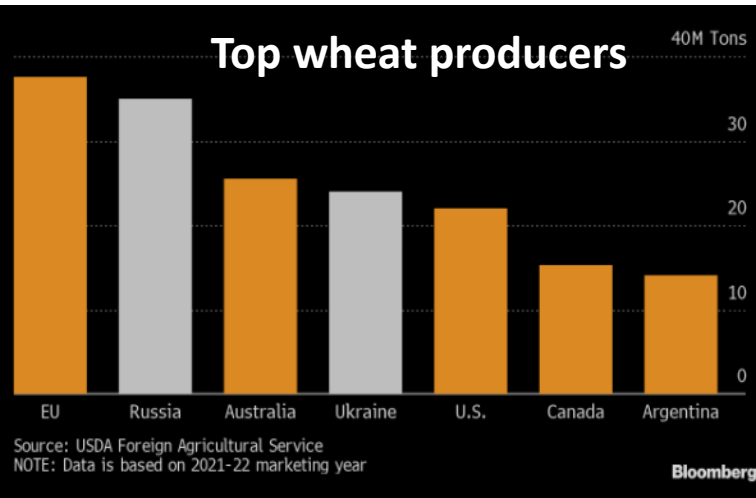
- Russia and Ukraine are important producers and exporters of oil, gas, metals and agriculture products.
- Prior to February, most of the oil price rally was due to the challenging supply logistics, but the subsequent rally was largely attributable to the Russian-Ukraine tensions. Iran's supply – which has been frozen out of the global markets due to US sanctions – might come online if there is a deal between the US and Iran to revive the lapsed nuclear accord. If this materializes, this may mean the release of as many as 500k barrels per day of oil in the near term, and potentially 1mn bpd later this year.



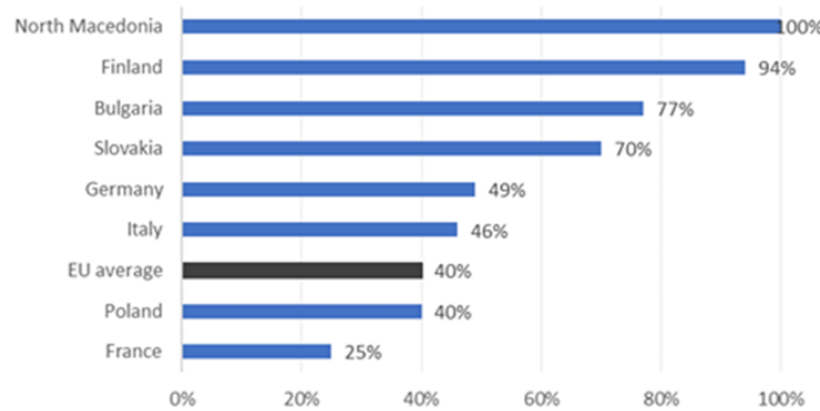
Commodities disrupted: any winners or losers?

- US is dependent on Russian C4F6, Neon, and Palladium, which are materials need in making semiconductor chips. Russia is a crucial source of C4F6 which several US suppliers buy and purify for use in advanced node logic device etching and advanced lithography processes for chip production. The US market consumes about 8MT of C4F6 per year. About 90% of neon is from Russia and purified by a specialized Ukrainian company. Neon is used for laser gas needed for chip lithography.
- Russia is also a key palladium supplier, along with South Africa, and supplies approximately 33% of the global demand. Palladium is used in sensors and emerging memory (MRAM), and as a plating material for some packaging technologies. Palladium is primarily employed as a catalyst, and is especially important for automotive emission systems, mobile phones to dental fillings.
- Generally, most manufacturers hold 2-4 weeks of inventory, so any prolonged supply disruption will show up within weeks/months. If sustained, stagflation risks may increase.

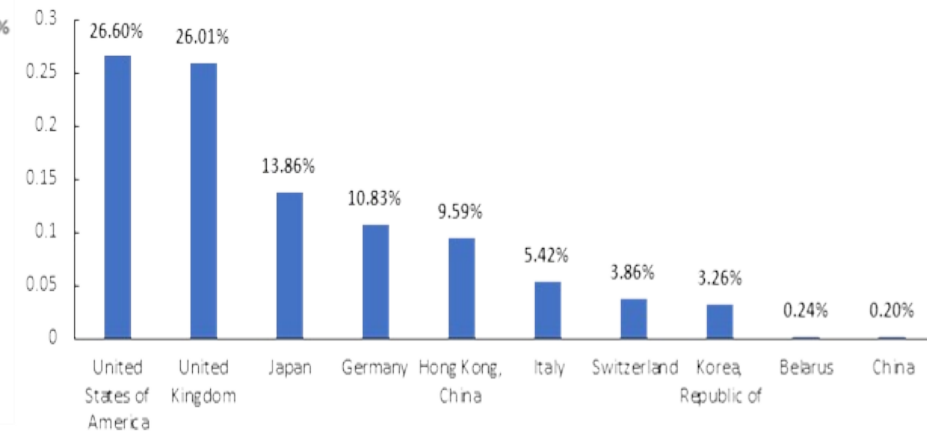
Top wheat producers



Share of gas supply from Russia



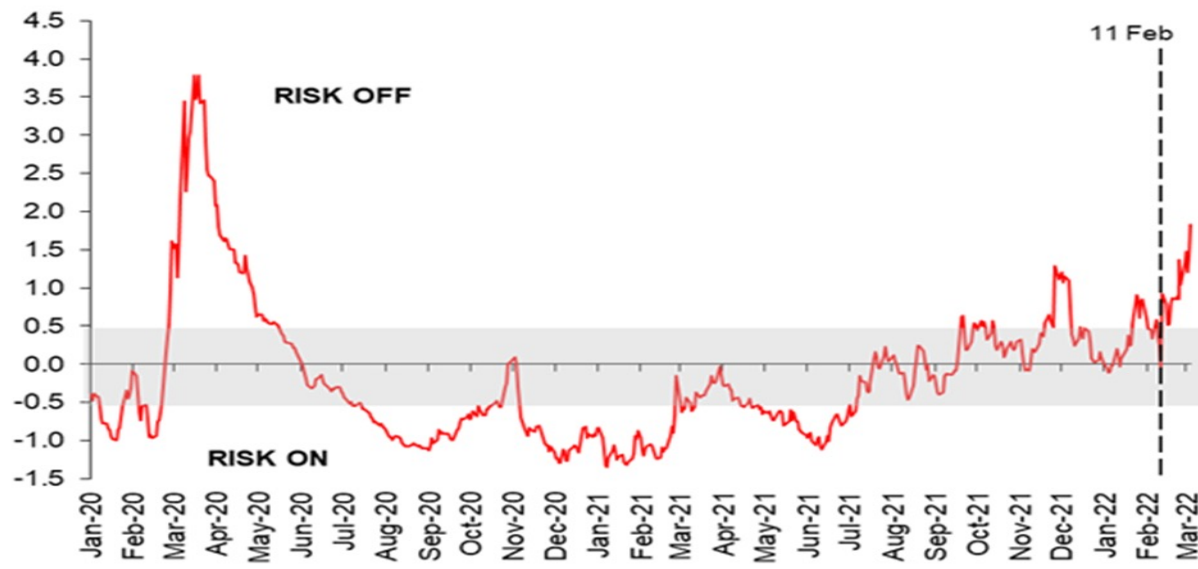
Top importers of Platinum (Including Palladium, etc) USD 7.8bn



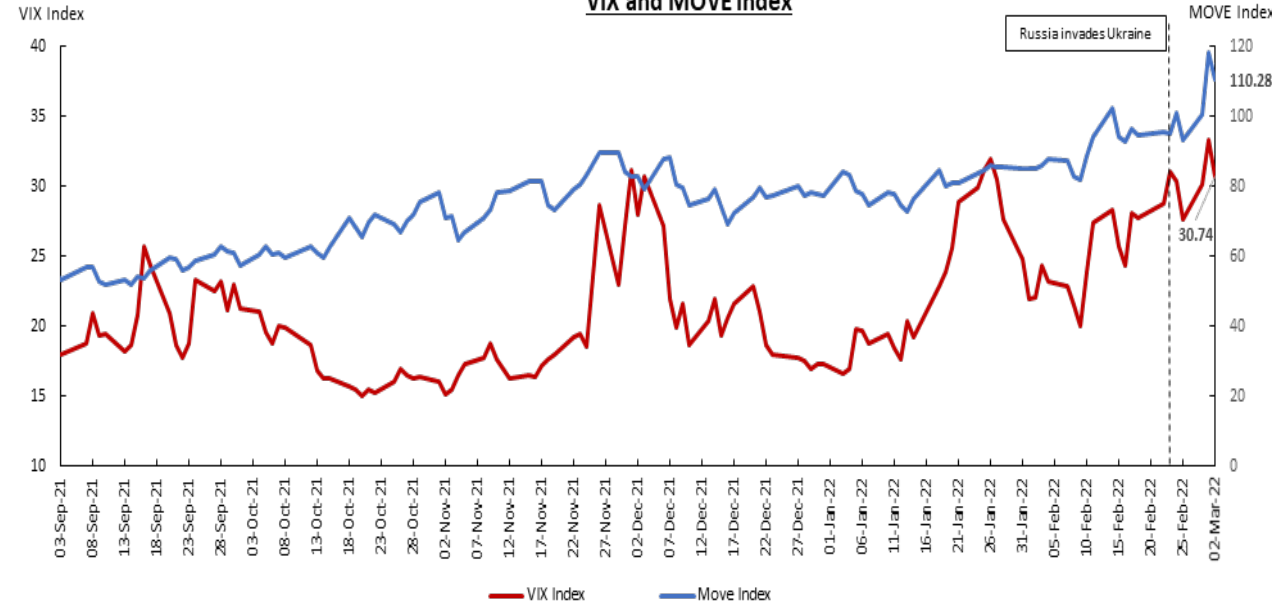
Financial market reactions:

- Economic sanctions include SWIFT access being restricted and export bans. Although the SWIFT ban supposed to have carve-outs for natural gas transaction, risk is still there. MSCI and FTSE have also removed Russia from their key indices, and clearing houses like Clearstream and Euroclear have stopped accepting ruble as settlement currency.
- Bank of Russia hikes from 9.5% to 20%, introduced mandatory hard-currency revenue sales for exporters and banned brokers from selling securities by foreigners from 28 February. While Russia has US\$643 billion in foreign reserves, ~40% is held in the financial systems of countries involved in sanctions. Ruble payments will be allowed for sovereign/corporate debt.
- With the tilt towards risk-off, market volatility has surged.

FX Sentiment Index



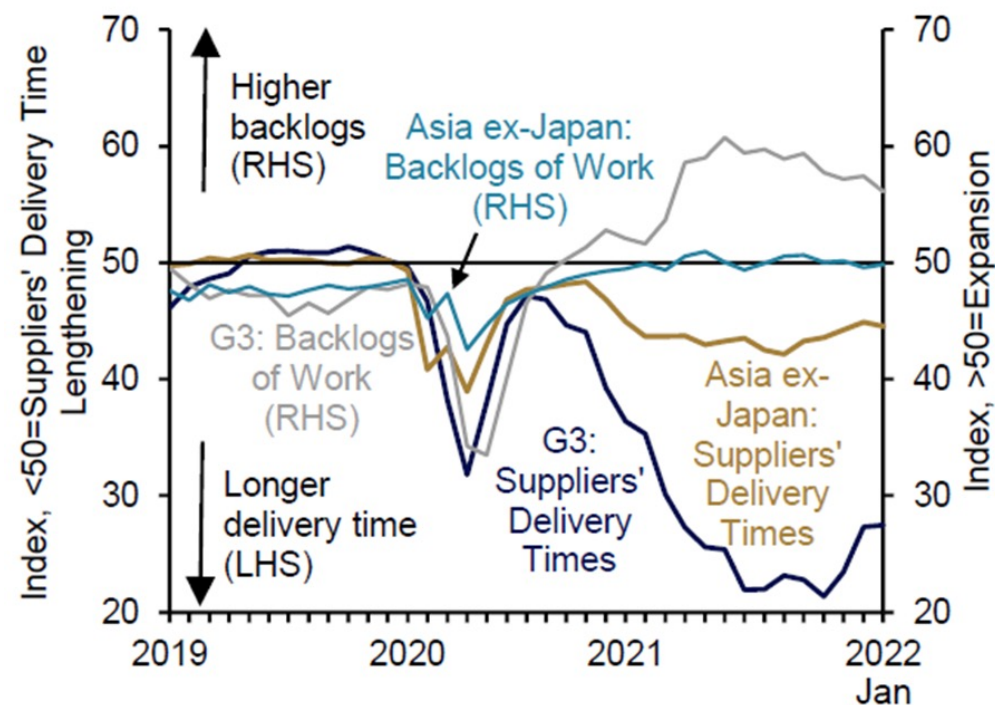
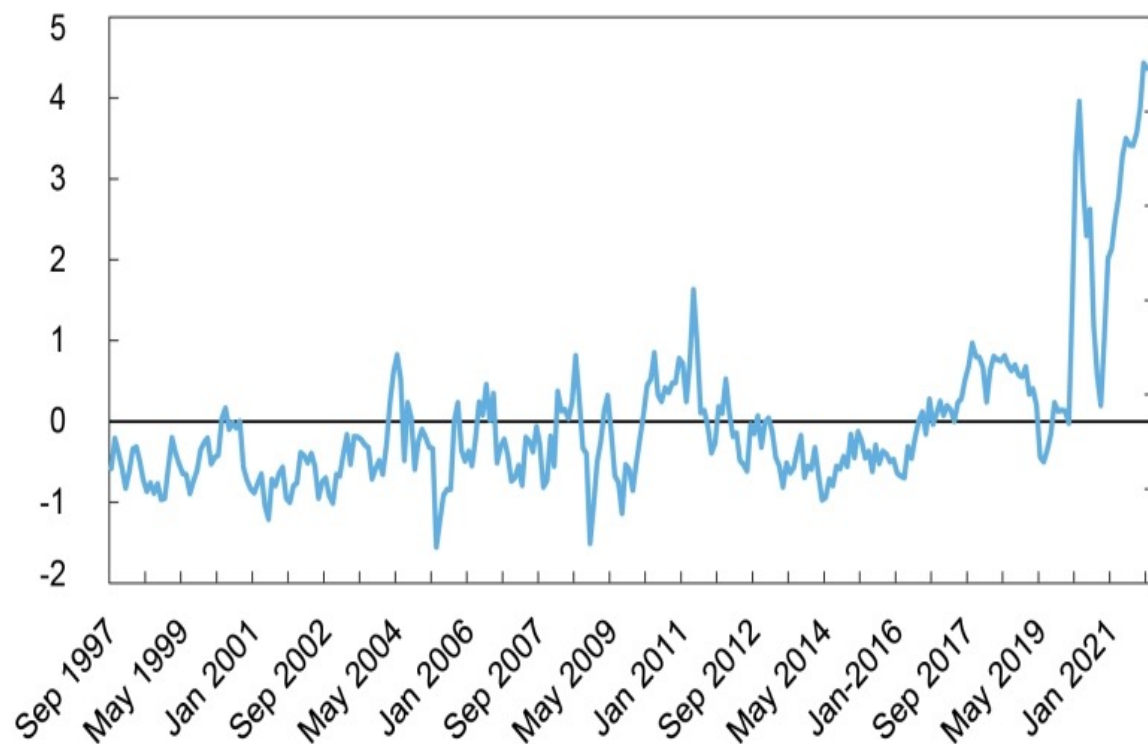
VIX and MOVE Index



Supply chain disruptions: may get worse?

- Fresh risks from energy price spike translating to manufacturing and freight costs.
- Re-routing of container lines and diversion of airlines to avoid critical airspace around Russia-Ukraine mean fresh disruptions to some global supply chains and may contribute to congestion elsewhere.

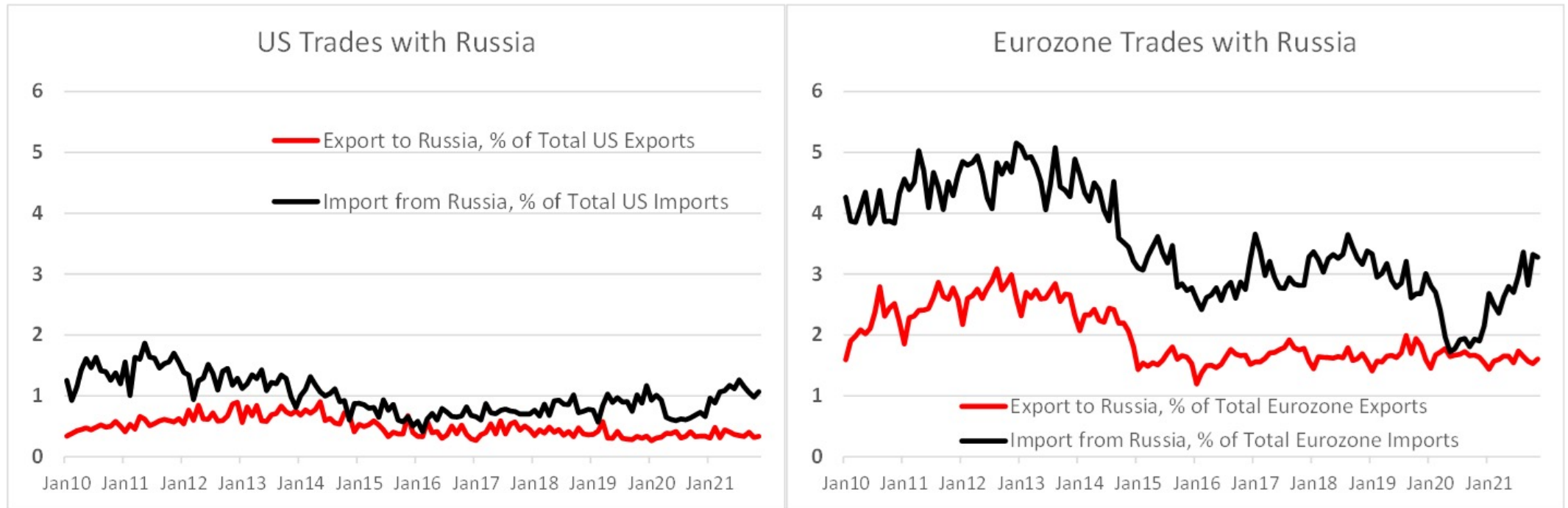
Global Supply Chain Pressure Index



Source: Haver Analytics and EPG, MAS estimates

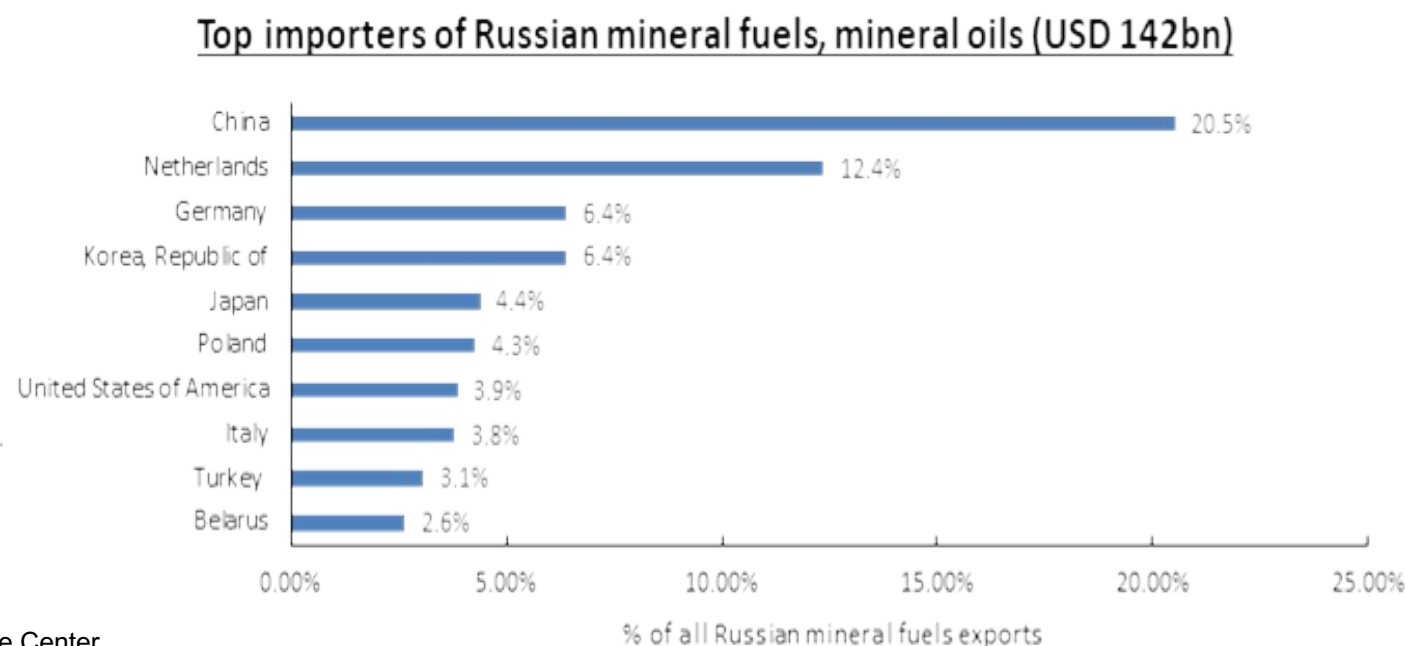
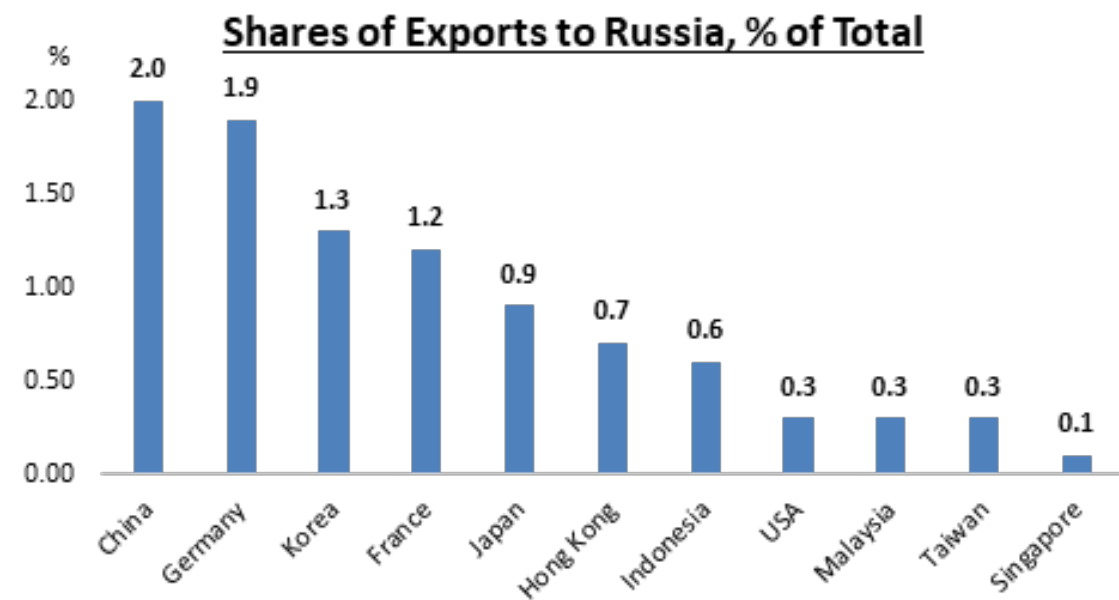
Who is most vulnerable to the escalating Russia-Ukraine conflict:

- Trade linkages between Russia and the US are a lot more limited than that with the Eurozone. US exports to Russia are only 0.37% of its 2021 total, while imports from Russia are ~1%, whereas Eurozone exports to Russia are 1.6% and Russian imports comprise about 3% of Eurozone's imports.
- Hence, the hit to the Eurozone economies will be more considerable, especially if we add in the likely impact of higher energy prices on domestic growth. ECB chief economist, Philip Lane, warned that the conflict might shave off 0.3-0.4ppt of growth.



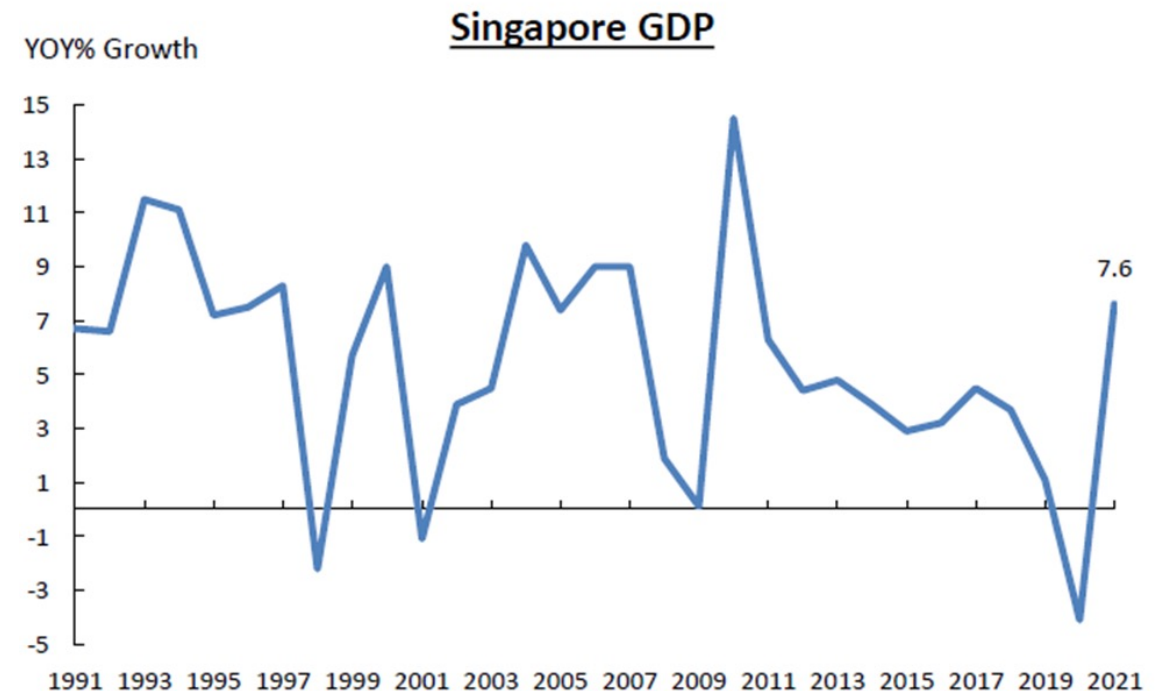
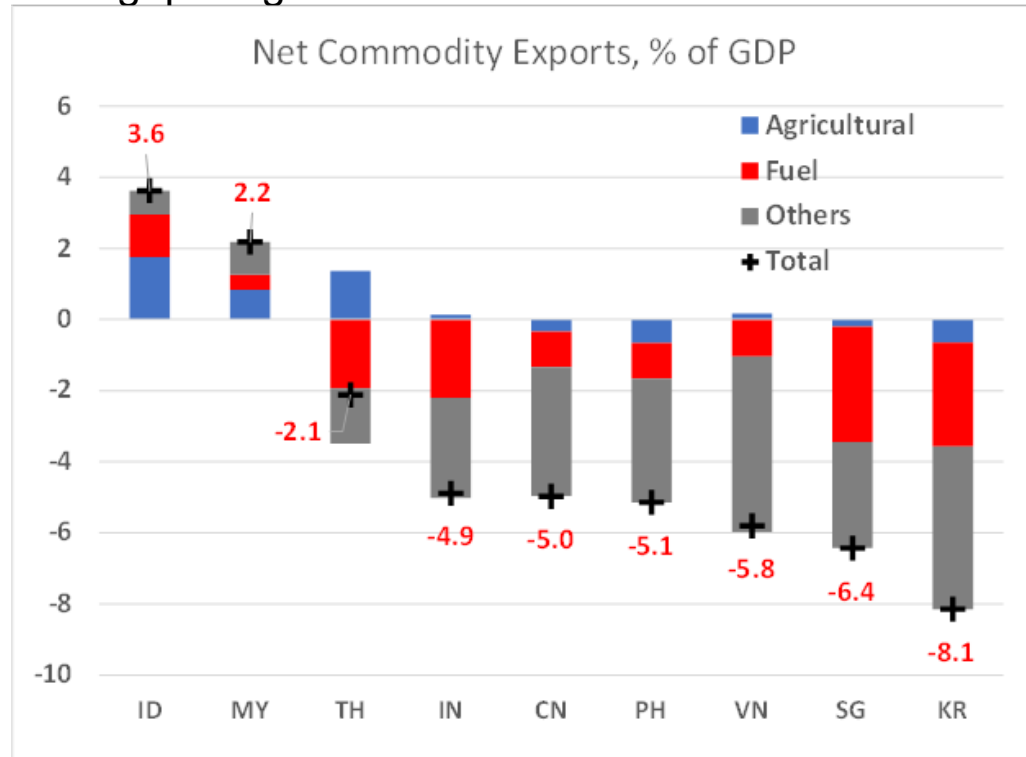
Impact on Asia:

- Direct trade linkages between Russia and most countries are limited, with share of exports to Russia at a low single digit percentages. There is higher dependence on Russian energy supplies for some Asian countries. Indeed, over 20% of Russian mineral fuel exports goes to China. To the extent that the impact of the Western sanctions might be more muted for the bilateral trade between China and Russia, however, such trade flows should be relatively unimpeded.
- Nevertheless, Asian policymakers would remain watchful of the secondary effect that would inadvertently rise via global market volatility and the inflationary impulse from the rising commodity prices, as well as a more marked slowdown in the Eurozone economies that might affect end-demand for exports from these countries. The silver lining, of course, is that Indonesia and Malaysia are the rare net commodity exporters in the region. With rising commodity prices, it should help to buffer any impact on the trade balances overall.



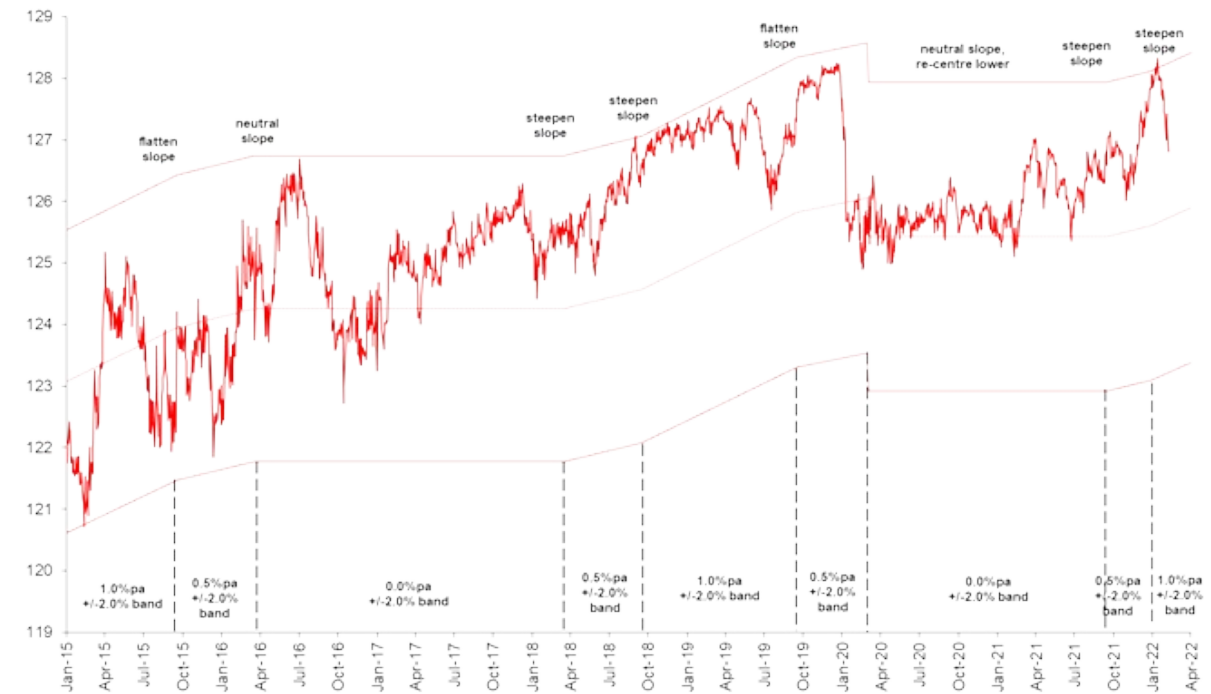
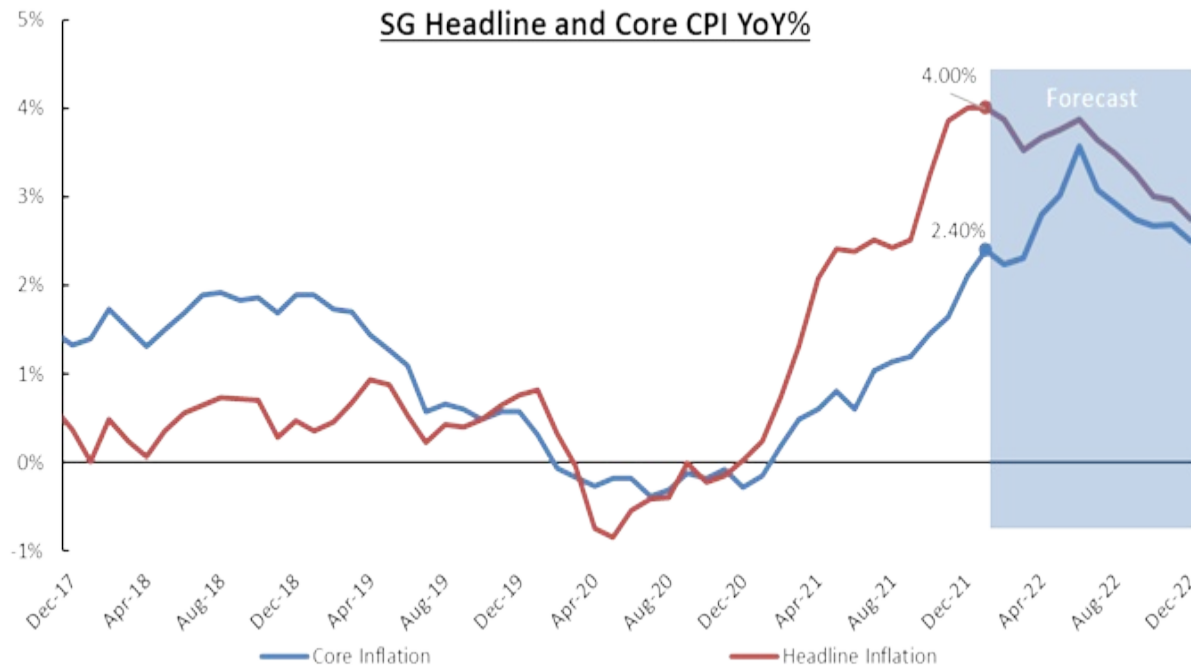
Impact on Singapore: trade and financial services

- Our 2022 GDP growth forecast of 3-5% remains intact for now, barring a further deterioration of the current situation.
- Singapore's goods trade with Russia and Ukraine amounted to around \$5b and \$80 million respectively in 2021.
- Only 0.1% of our total exports go to Russia and Ukraine, while our imports from these two countries are 0,8% of our total imports. Our top imports from Russia are petroleum oils and metals, while top imports from Ukraine are iron and steel, and oils. Singapore's top exports to Russia are electronics and apparatus.
- The Singapore government has also announced some financial measures relating to Russia.



Impact on Singapore: inflation and monetary policy settings

- Our 2022 headline and core CPI forecasts have been upgraded to 4.2% and 3.5% respectively, up from 3.5% and 2.7% previously. The official forecasts are 2.5-3.5% and 2-3%, versus 2.3% and 0.9% in 2021. Finance Minister Lawrence Wong said government closely monitoring economic and inflation risks and will act if cost pressure worsens.
- Unscheduled “pre-emptive” tightening in January 2022 when MAS slightly raised the appreciation rate of the S\$NEER policy band after doing so earlier in October 2021. If core inflationary pressures show no sign of subsiding, but instead continue to stay elevated, it is likely that MAS will tightening monetary policy again at the upcoming April review.

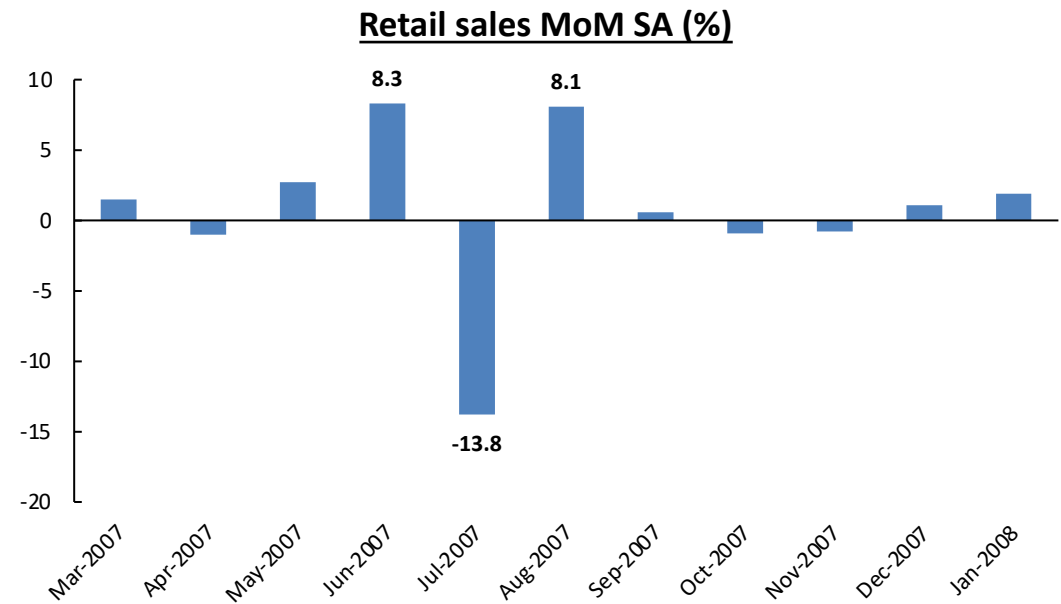
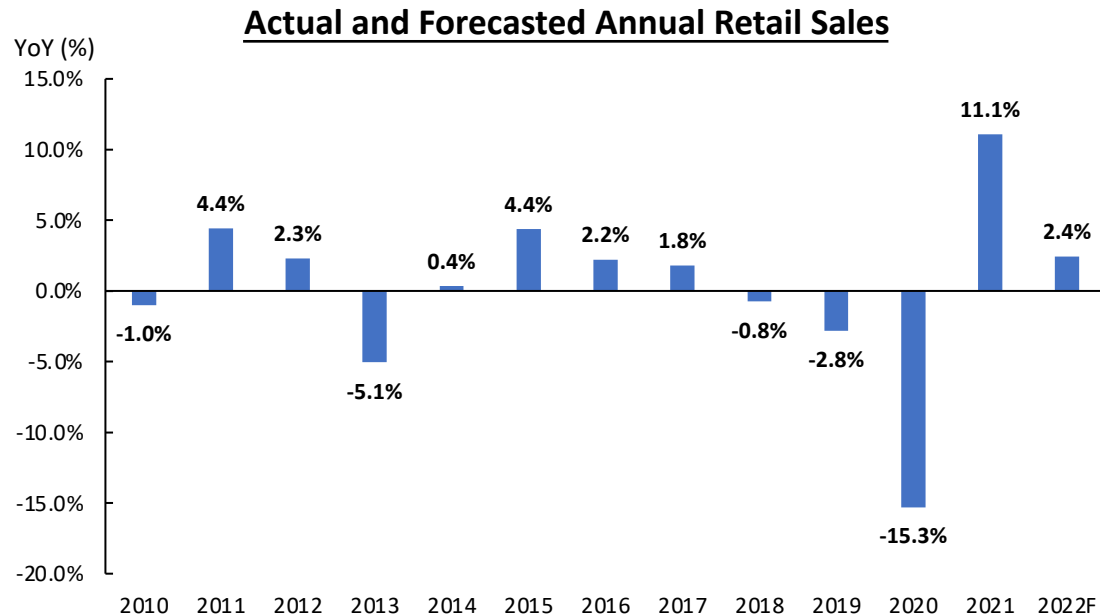


Overview of the S'pore Retail Sector:

- **Shopper traffic decline while online sales have surged:** Shopper traffic has declined by ~40% from pre-pandemic levels amongst the REITs with retail mall exposure under our coverage, exacerbated by movement restrictions. Excluding motor vehicles, online sales represented 12.9% of total retail sales value in January 2022 versus 6% pre-pandemic.
- **Downtown malls impacted more than suburban malls:** Per URA data, the retail index for the central region declined 6.8% qoq in 4Q2021, with extended COVID-19 restrictions accelerating a longer-term decline. Tourist-reliant downtown malls were harder hit than suburban malls located in the vicinity of residential catchment areas. Historically, Orchard Area rents were near double that of Outside Orchard Area, although we note that the rental gap had narrowed to only SGD2.70 psf pm in 4Q2021 versus more than SGD4.79 psf pm on average in 2019 before the pandemic per Knight Frank's data.
- **Stronger occupancy rate:** Occupancy looks to be improving after a challenging two years which saw a number of well-known retailers exit the market (Robinsons, Esprit, TopShop, Bakerzin, Sportslink). Island wide occupancy rate remained at 91.9% in 4Q2021 (4Q2020: 91.2%). We expect higher rental variability as malls prioritise occupancies over rents.
- **Recent transactions:** Retail property valuations have stayed mostly intact despite the sector headwinds with few landlords willing to sell. Notable retail mall deals in 2H2021 include a 31.8%-stake in JEM bought by LREIT for SGD337mn and Le Quest Mall (integrated with a condominium) in Bukit Batok, sold to Firmus Capital for SGD139mn. In 1Q2022, we saw two deals. Wisteria Mall in Yishun was sold for SGD208mn to UK private equity firm Schroders in Jan 2022 and in Feb 2022, LREIT announced its plan to acquire the remaining 68.2% interest in JEM for SGD2.015bn.

Retail sector outlook: brighter but also many challenges remain

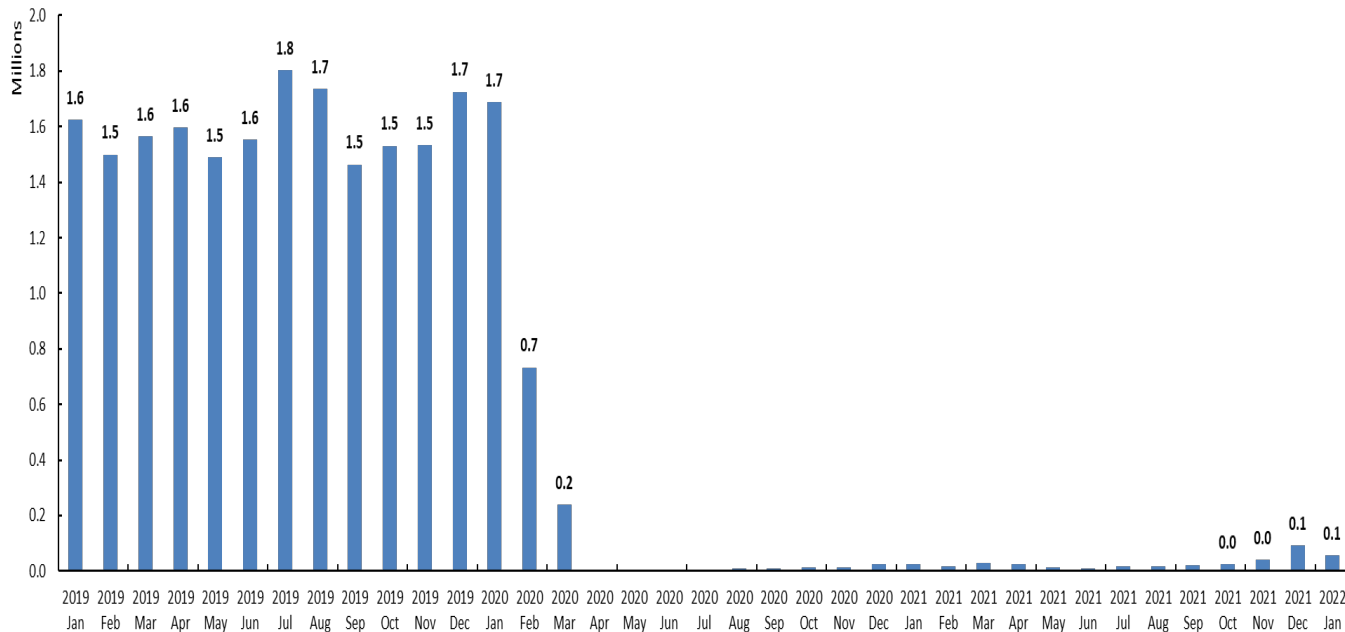
- The retail industry experienced a rebound of 11.1% yoy in 2021 after a sharp 15.3% yoy contraction in 2020.
- The 2022 retail outlook may benefit from easing border restrictions and as overseas visitors return.
- However, the existing challenges from rising imported inflation, uncertain economic climate which is aggravated by geopolitical tensions, ongoing Covid infections, high operating costs and tight manpower constraints remain.
- Budget 2022 also announced the 2% point GST rate hike will rise to 8% and 9% on 1 January 2023 and 2024 accordingly. The GST hikes are expected to dampen consumer spending. Historically, the June 2007 GST hike saw retail sales climb 8.3% mom before falling 13.8% the next month as consumers frontloaded big-ticket purchases.



Revival of tourism: still a far cry from pre-Covid levels

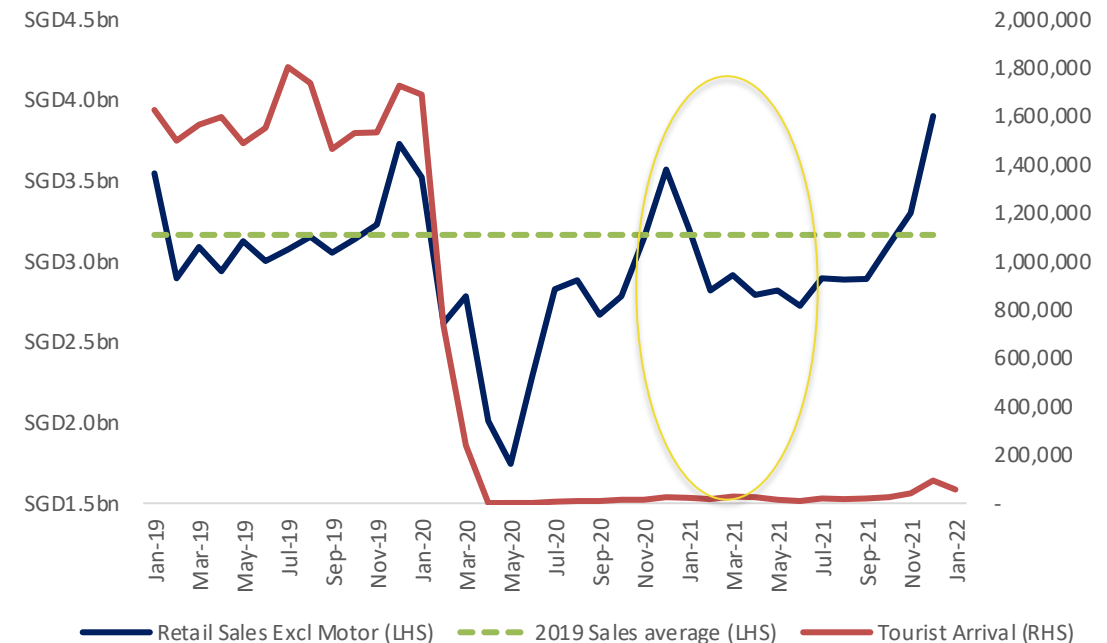
- After the tourism slump since 2020, Singapore has seen tourist numbers rise from October 2021 with the introduction of the Vaccinated Travel Lanes (VTL). Even though the recent surge in Omicron cases has dampened the visitor arrivals, the situation may improve in coming months. Key tourist events like F1 is also returning this year.
- Domestic tourism has also been strong, with 1.9mn Singaporeans using their rediscover vouchers, which generated \$300mn in voucher transactions.
- Retail was badly hit by the pandemic. However, e-commerce has also taken off during the pandemic.

Singapore Tourist Arrivals



Source: OCBC, Singstat

Retail sales (excl motor) vs Tourist Arrival



Budget 2022 implications: CDC vouchers & PWM

- Every Singaporean household will receive \$200 worth of Community Develop Council vouchers in 2023 and 2024 to help heartland merchants and hawkers. This is in addition to the Assurance Package which entitles every Singaporean above 21 years to receive cash payouts amounting to between \$700 to \$1,600 over five years, from 2022 to 2026.
- PWM (Retail) will be implemented on 1 Sep 2022. The Government will introduce the Progressive Wage Credit Scheme ("PWCS"). PWCS provides transitional support to employers by co-funding wage increases of lower-wage workers between 2022 and 2026.

Progressive Wage Credit Scheme

Singaporeans aged 21 years and above in reference year	Payout Period	Owns 0 to 1 property			Owns >1 property
		Assessable Income (AI)			
		AI≤\$34,000	\$34,000<AI≤\$100,000	AI>\$100,000	
2023	Dec 2022	\$200	\$150	\$100	\$100
2024	Dec 2023	\$400	\$250	\$200	\$200
2025	Dec 2024	\$400	\$250	\$200	\$200
2026	Dec 2025	\$400	\$250	\$100	\$100
2027	Dec 2026	\$200	\$150	\$100	\$100
Total		\$1,600	\$1,050	\$700	\$700

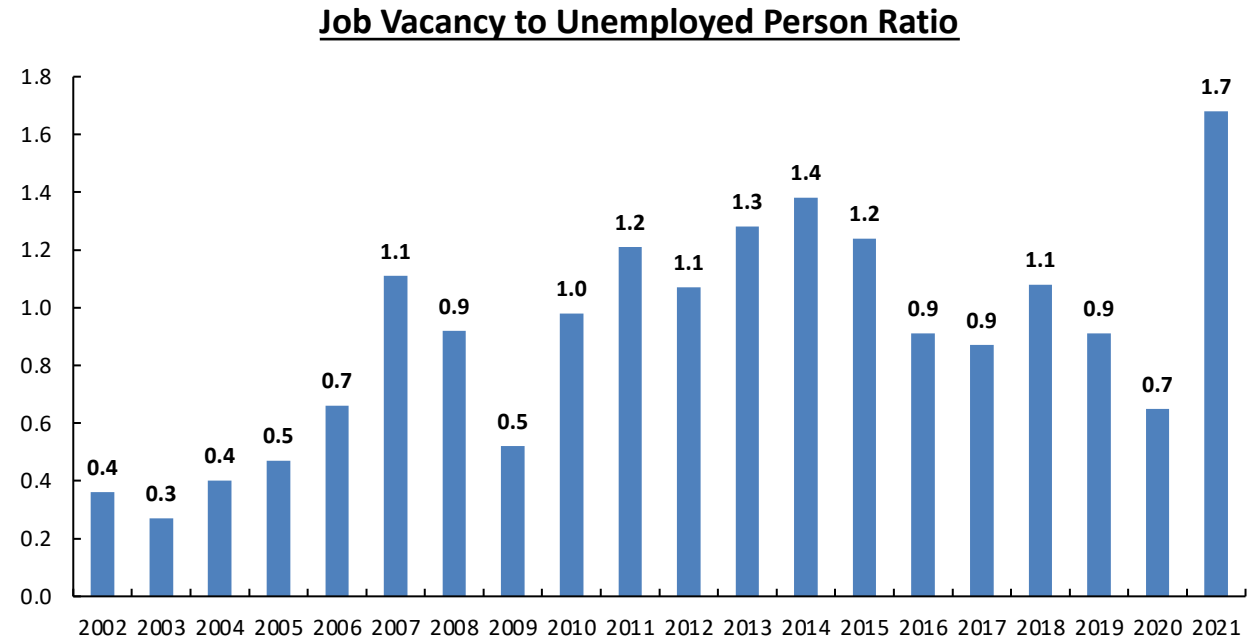
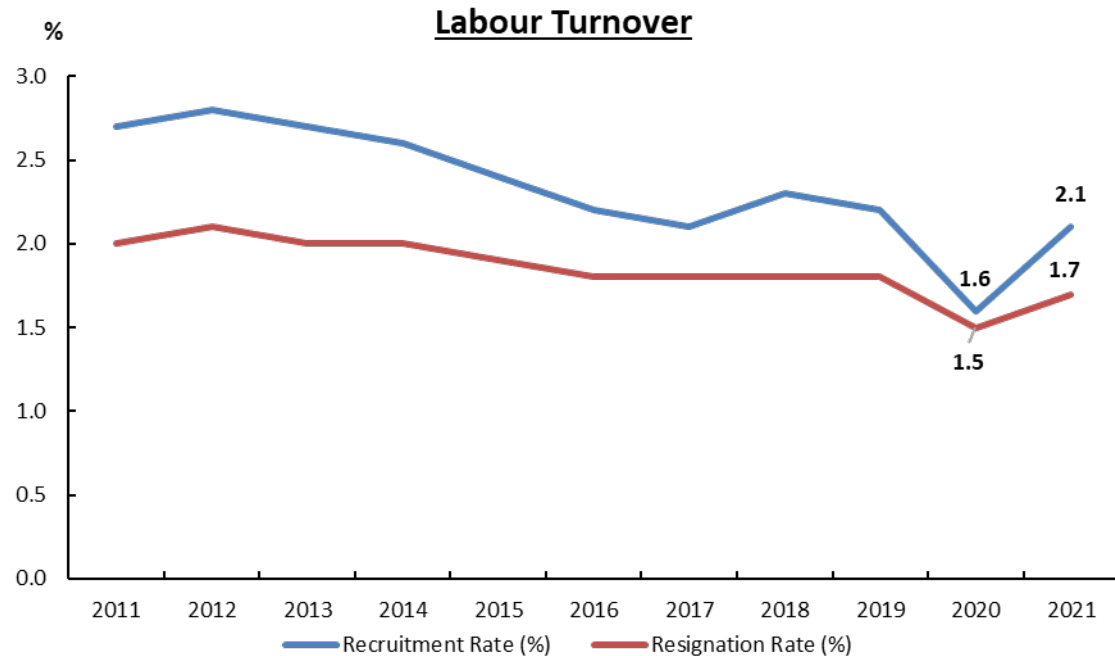
Qualifying year of pay increase	Payout period	Amount of pay increase subsidised	
		For workers earning \$2,500 or less a month	For workers earning more than \$2,500 and up to \$3,000 a month
2022	Q1 2023	50%	30%
2023	Q1 2024	50%	30%
2024	Q1 2025	30%	15%
2025	Q1 2026	30%	–
2026	Q1 2027	15%	–

NOTE: Average gross monthly wage increase must be at least \$100 in a year to qualify for the subsidy.

Table: STRAITS TIMES GRAPHICS • Source: MINISTRY OF FINANCE

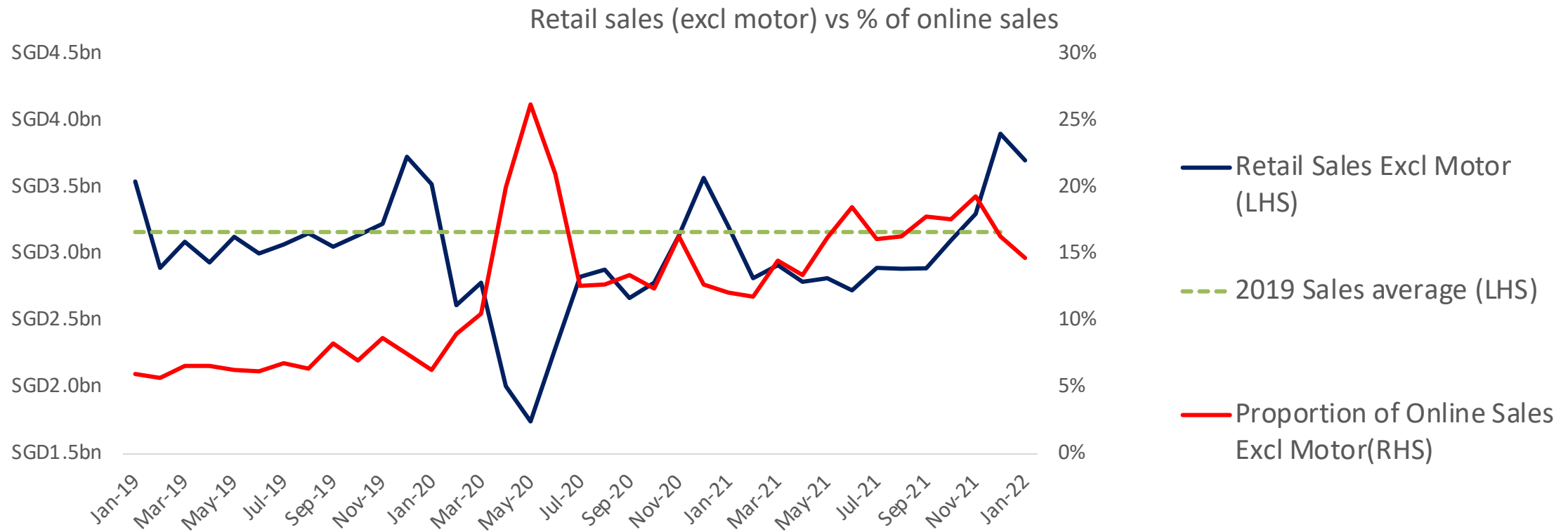
The Great Resignation: shortage of retail workers

- With the economic recovery, the labour market has also improved. The recruitment rate rose from a low of 1.6% to 2.1%, but the resignation rate has also bounced from a pandemic low of 1.5% to pre-Covid levels of 1.7%. In particular, the average monthly resignation rate for PMETs climbed to 1.5% in Q3 2021, which is the highest level in 7 years.
- Singapore's job vacancies hit a peak of 94,700 in 2021, close to the number of vacancies recorded in 2020. In tandem, the job vacancy rate rose to a high of 4.7% while the job vacancy to unemployed person ratio hit 1.7x (highest since 2002). The retail sector had the second highest number of job vacancies, with an estimated 1,660 vacancies as of September 2021.
- The number of foreign workers (excluding FDW and selected WP) fell to ~650k, some 100k below pre-covid levels. MAS has warned that the domestic labour market could continue to tighten further, resulting in increased wage pressures.



Adaptation and innovation into Online Retail-verse:

- Following the trend, retailers are pivoting to the **omnichannel**. Retailers need to adapt and innovate in order to survive and be relevant.
- Though proportion of online sales saw a dip in Dec 2021 and Jan 2022, it may be due to seasonal holiday period and also easing of Covid-19 restrictions where more shopping and dining are done physically.



What is Omnichannel:

- Omnichannel retailing is to integrate the multiple channels into a seamless customer experience while depending on data and infrastructure-readiness, engaging customers and building the customer relationships.

Traditional
Brick and
mortar store



E-commerce/
Online shopping



Multi Channel



Omnichannel



Source: MS Excel Icons, Shutterstock

- Data collected by Think with Google indicated that successful omnichannel strategies help bring in approximately 80% of in-store visits by customers.
- According to Invesp, 89% of customers are retained on average with omnichannel customer engagement strategies. While companies with weak omnichannel capabilities only manage to retain 33% of customers.
- According to consulting firm, Bain & Company, stores that evolve and adapt to modern retail environment will see increased in sales, productivity and customer satisfaction. In a survey of US retail executives found that digital operations leaders are 67% more likely to achieve higher profitability than their competitors.
- Omnichannel shoppers have a 30% higher lifetime value than those who shop only using one channel. Data provided by Google.

Some Omnichannel examples:

- Structural decline in departmental stores. Familiar names have been exiting the market/ closing down outlets like Robinson, BHG and Marks and Spencer. Robinson with more than 160 years of presence in Singapore has closed all its department stores, following significant shifts from offline to online spending.



Creating an experience for shoppers.

Shopping is no longer a transaction of purchasing products of the shelves. Renovated flagship store at Bugis Junction. Key milestone as part of the company's business model transformation.



Provide broader, varied and nuanced set of choices for consumers. Beauty Library™ is an exclusive retail concept by BHG. Offers up to 20 nature-inspired labels including 14 BHG-exclusive brands.



Interactive digital touchpoint – “Lift & Learn”. Provides shoppers quick and easy way to discover more about the featured product and also access for easy checkout where the QR code on the screen directs shoppers to BHG's ecommerce page. Seamless experience and reduce queues at physical cashiers.



AI robot at Skinceuticals counter

Digitalization of sales assistant role. May be a way to cope with shortage of human resource moving forth. AI Robot is able to assist in getting to know the brand, products that they “represent” and exclusive ongoing promotions.

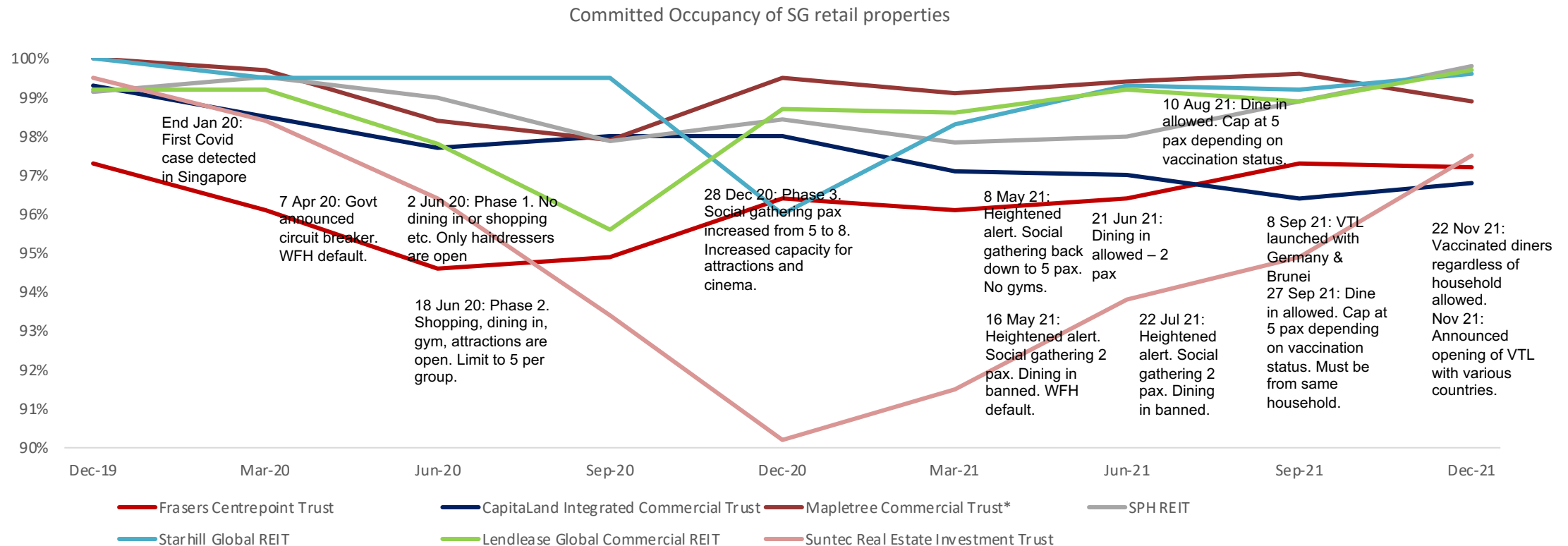
More Omnichannel examples:

- **Decathlon** is also one of the brands leading the way with omnichannel capabilities. Decathlon has 4 experience stores and 12 Click & Collect stores which provides 2-hour window to collect your purchases at any of these stores. Decathlon App has been launched too. With the app, customers can skip queuing and even order items that are out of stock. Outside of Singapore, Decathlon invested in parcel lockers for click-and-collect. Signed deal with Cleveron and Cubee (part of Belgium bPost) in 2019 to install parcel lockers. This enhanced last-mile delivery experience as it is available 24/7. Click & Collect store take up less area. Smaller shops can lower rental cost for retailer. Parcel lockers are efficient use of resource as retailers can reduce manpower waiting for customer to pick up.
- **Homegrown furniture player brand, Commune**, established in 2011 has presence in Australia, China, Malaysia and Singapore. China is their key market and Commune has opened 42 physical stores in China. Stores in China are equipped with virtual realities (“VR”) capabilities where customer’s floor plan can be viewed in the VR environment where in-house designers can recommend design concepts.
- **Luxasia**, a leading omnichannel platform for beauty and luxury brands in Asia Pacific. It connects customer with various brands through pop-up stores, social media, beauty community events.



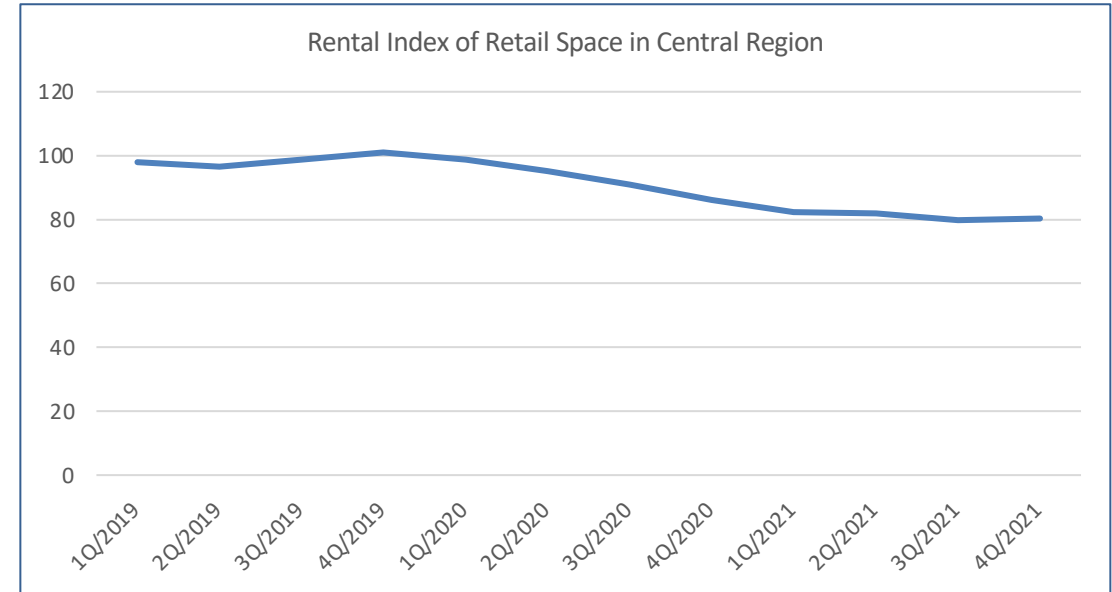
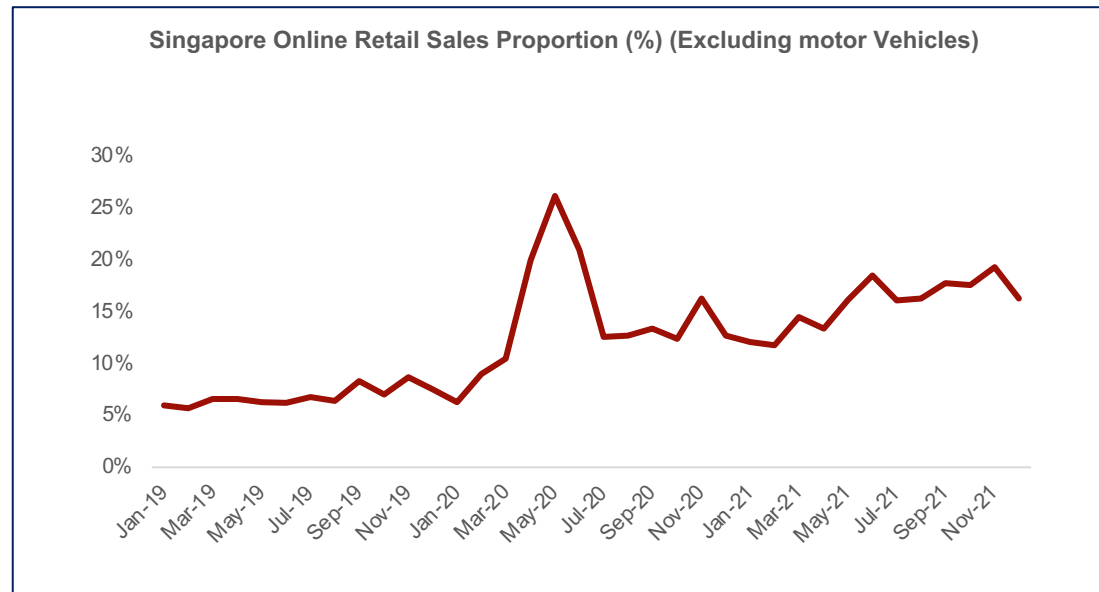
Singapore shopping malls: Occupancy rates have improved

- S'pore shopping malls have also been adapting to the market changes by refreshing their tenant mix to cater to the shifting consumer preference for new F&B concepts, activities and experience.
- For those retail REITs in SG under our research coverage, occupancy rate saw an improvement to an average of 98.5% from 97.9%. Retail sales were also reportedly near/above pre-pandemic level (measured against base-year 2019).



Rentals though improved, have yet to recover to pre-Covid levels:

- Rents for central region retail space climbed 0.6% in 4Q21. This is the first increase since 4Q19, but rentals are still down 6.8% for the whole of 2021. Malls in the central area but outside Orchard has fared worse versus Orchard malls which are better able to attract new market entrants to Singapore.
- Suburban malls rents increased 0.5% qoq and a 2.0% yoy increase in 4Q21, according to CBRE data. Suburban malls are expected to continue to do well.
- As of Dec 2021, shopping malls owned by the REITs we track were still reporting negative rental reversion, though occupancy rate has partially recovered.
- For 2022, 83,000 sqm gross retail space under construction is expected to be completed.
- Online sales is still capturing a large share of retail market (16.3% for December 2021, excluding motor sales).



Key conclusions:

- **Retail market should improve in 2022 due to:**
 - Easing of safe management measures amid high vaccination rates and endemic Covid.
 - Easing of border restrictions with more Vaccinated Travel Lanes.
- **Challenges:**
 - Increase in shop rentals.
 - Higher electricity costs may affect retailers cost structure (cost may be 50-70% higher yoy).
 - GST increase may affect shoppers buying habits especially on big ticket items. Tourist inflow is still tepid.
 - Lack of foreign workers and higher levies. Need to upskill and re-skill employees on digitalisation capabilities
- **Opportunities:**
 - Self-checkout counters like NTUC where one person can handle 8 counters. Increasingly more retailers are using this capability like places like Watsons and McDonalds.
 - Usage of AI robots. More applicable for bigger retailers.
 - Have online-offline presence, require less physical store space.
 - Enhance omnichannel presence to market to overseas consumers
 - Leverage on Budget 2022 assistance: eg. SkillsFuture Enterprise Credit, Productivity Solutions Grant, Advanced Digital Solutions (up to 70% funding support for qualifying costs of digital solutions from 1 Apr 2022) and Grow Digital (70% co-funding to onboard cross-border digital platforms from 1 Apr 2022).

Looking further ahead:

- **Social commerce will continue to grow.**
 - In Southeast Asia, retail sales is forecasted to grow to approximately USD90bn according to Insider Intelligence. Almost 65% of the region's sales coming from Indonesia.
 - 70%-85% of e-commerce will be conducted by phone in 2023 in APAC in Forrester's forecast
- **Shoppers continue to rely on communities, influencers, and content creators in making purchase decisions.**
 - In a report by Meta (Facebook), 45% of online shoppers globally say they will buy products promoted by creators and celebrities directly on social media.
 - Increasingly will see industry-wide investment in building loyal online communities.
 - Success of mdada in Singapore.
- **Shoppers to buy from brands that resonate similar values: eg. sustainability.**
- **Rise in “secondhand first” shopping behavior:**
 - Increasingly consumers are looking to shop sustainably coupled with current on-going supply chain issue.
- **Fashion and beauty brands to be early innovators in metaverse shopping:**
 - Brands that have a head start in live-streaming sales and augmented reality (AR) try on tools will be pioneers in metaverse shopping. According to a report from Meta, these two examples give shoppers a taste of what metaverse shopping will be like.
 - In an example by Vogue Business, shoppers will be able to see how various Prada bags look on them by using a “swiping” hand gesture to change the colours of the purse on the Snapchat app.

Snapchat AR try-on





Thank You