

Economists flag headwinds ahead for 'Goldilocks' economy

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THE global economy has been enjoying a "Goldilocks" combination of robust growth and low inflation - but this "not too hot, not too cold" situation might not last for much longer.

Economists at a roundtable flagged key risks on the horizon, including rising oil prices due to geopolitical uncertainties, as well as faster-than-expected interest rate hikes which could destabilise financial markets in the region.

They were speaking on Wednesday at the 29th Singapore Economic Roundtable, a high-powered dialogue group which focuses on Singapore's macroeconomic outlook and its implications on policy.

The forum was held under Chatham House rules, which state that views cannot be attributed without consent, so as to encourage freer sharing.

Roundtable speakers were generally upbeat about economic prospects in the region, but said rising oil prices could pose risks to growth and result in higher inflation.

"We've seen improving global economic growth which is resulting in higher demand for oil. In addition, the situation now is being affected by geopolitical developments in the Middle East," said Rajiv Biswas, Asia-Pacific chief economist at research company IHS Markit.

"Those considerations are the key factor now pushing oil significantly higher, and the political risk premium on the oil price could increase especially given escalating tensions."

World oil prices have surged more than 70 per cent over the past year - from about US\$50 per barrel in May last year to US\$80 per barrel now - on the back of rising demand coupled with supply restrictions by the Organization of the Petroleum Exporting Countries (Opec).

In addition, the United States has announced plans to impose sanctions on Iran over its nuclear programme, raising fears that markets will face shortages when trade restrictions take effect.

The tightening market has all but eliminated a global supply overhang that depressed crude prices between late 2014 and early 2017.

One participant pointed out that the oil price recovery could benefit Singapore's beleaguered offshore and marine sector, which appears to be showing signs of bottoming out.

Another concern raised at the roundtable was the prospect of faster-than-expected interest rate hikes in the US, which might result in capital flows out of Asia and spark financial instability.

"Our region has seen a lot of inflows relative to other emerging markets, especially into bond markets," said Ng Chuin Hwei, the group head and lead specialist of regional surveillance at the Singapore-based Asean+3 Macroeconomic Research Office (Amro).

"To some extent this has been supported by better fundamentals, but it is also prone to reversal especially with interest rate hikes on the horizon. That's a risk we need to watch," she added.

Chaipat Poonpatpibul, Amro's lead economist for China, Hong Kong, Brunei and Singapore, noted that Singapore's household debt to income ratio is relatively high compared with other markets like the US - which could be a risk.

"There might be pockets of households that could be affected significantly when interest rates start to rise further," he noted.

The roundtable was organised by the Institute of Policy Studies in partnership with The Business Times.