SG OUTLOOK

OCBC Bank

MAS' Macroeconomic Review

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Treasury Research
Tel: 6530-8384

Selena Ling
Tel: 6530-4887
LingSSSelena@ocbc.com

Highlights:

- **S'pore's growth to be slightly moderating, albeit more balanced going into 2018.** The output level is tipped to remain close to potential, while core inflation is expected to trend towards but average slightly below 2% over the medium term. For manufacturing, especially electronics, which has been the outperformer this year, some of the IT-related momentum should see some pullback in the quarters ahead as inventory restocking slows, but sustained growth in consumer and corporate final demand should provide some resilience to the global tech cycle. For the laggards like Construction and Marine, MAS tips that the weakness could exert less of a drag in 2018 as global oil rig utilisation has stabilised, new order forecasts for M&OE manufacturers have improved to be mildly negative (versus sharply pessimistic) and the additional $1.4b of public sector construction contracts that have been accelerated to the next two years. **While an official 2018 GDP growth forecast has not been announced yet, we see a 2-4% range as plausible, vis-à-vis the 2017 growth outcome which should come in around the 3% handle.**

- **The domestic inflation trajectory remains contained, but globally the direction is for gradual monetary policy normalisation.** There is currently little evidence that underlying price pressures will accelerate in the near term, and even external inflation sources remain relatively benign. While global oil prices could increase slightly from US$52 in 2017 to US$54 per barrel in 2018, food inflation has stabilised in recent months and ample rice and wheat inventories should cap upward pressure into 2018 as well, although there could be localised and temporary supply shocks. Domestic firms may also be locked into longer-term contracts at lower prices, and unlikely to fully pass through increases in imported costs to consumer prices in the short-term. Essentially there are no indications of a broad-based increase in demand-led price pressures for essential services (which are the main driver for services inflation) and this should limit overall services inflation to rise only slightly in 2018. Meanwhile, accommodation costs will continue to exert a significant drag on headline inflation by 0.9% point this year and 0.6% point next year. While the reduction of the vehicle population growth rate to 0% from February 2018 may see car prices adding marginally to headline inflation in 2018, this will be more than offset by administrative hike effects (eg car park fees and road taxes) fading over time. Hence MAS tips headline and core inflation to be broadly stable at 0-1% (versus around 0.5% for 2017) and 1-2% (versus around 1.5% for 2017) respectively. **Our view remains that the window for a normalisation of monetary policy in April or October 2018 remains open, depending on the evolution of economic developments and their impact on growth and**

inflation outlook.

- **Property market: it's too early to open the champagne yet?** URA data showed private residential property prices rose 0.7% qoq in 3Q17, faster than the 0.5% flash estimates, and a turnaround from the 15 consecutive quarterly decline since its 3Q13 peak. That said, URA flagged that "as en-bloc sales of existing sites has been very active over the past 1-2 years, the redevelopment of these en-bloc sites will add a significant number of housing units to the existing supply pipeline. Specifically, in addition to the 17,178 unsold units with planning approval, there is a potential supply of about 16,700 units (including ECs) from Government Land Sales (GLS) sites and awarded en-bloc sale sites that have not been granted planning approvals yet. They comprise (a) about 7,400 units from awarded GLS sites, Reserve List sites that have been triggered for sale but not awarded yet, and Confirmed List sites that have not been awarded yet, and (b) about 9,300 units from awarded en-bloc sale sites. A large part of this new supply of 16,700 units could be made available for sale in the next 1-2 years, and will be completed by 2021 onwards". In addition, the MR also noted that "while accommodation costs are expected to continue easing in 2018 on a year-ago basis, the rate of decline is projected to moderate as the fall in housing rentals and imputed rentals on owner-occupied accommodation stabilises over the coming year". Such commentary should inject a note of caution into current market sentiments.

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