SINGAPORE: 2Q17 GDP GROWTH

Avoiding a technical recession as anticipated

Friday, July 14, 2017

2Q17 GDP growth expanded by 2.5% yoy (+0.4% qoq saar) according to advance estimates, which is slightly below our forecast of 2.8% yoy (+0.6% qoq saar). Importantly, the positive seasonally adjusted quarter-on-quarter print also meant that the Singapore economy had effectively escaped a technical recession as widely anticipated. Coupled with a downward revision of its economic growth in 1Q17 to 2.5% yoy (-1.9% qoq saar), down from 2.7% yoy (-1.3% qoq saar), the economy clocked an average pace of 2.5% in the first half of 2017, which puts the S'pore economy on track to a 2-3% growth trajectory that is within official parameters.

Across the sectors, note that the manufacturing sector remained the outperformer with a stellar 8.0% yoy (+2.4% qoqsaar) in 2Q17, while also receiving an upgrade to its 1Q17 growth print to 8.5% yoy (+0.4% qoqsaar) as well. In all, Singapore's manufacturing sector averaged a print of 8.3% in the first half of the year, the highest print since 1H10 (+41.2%yoy). Growth was mainly supported by the electronics and precision engineering clusters, supported by a robust external environment in semiconductors and semiconductor manufacturing equipment demand. Looking ahead, the electronics momentum should still extend into 2H17 on the back of healthy semiconductor demand, especially in anticipating the launch of new products like iphone 8, but it remains to be seen if the other manufacturing industries like the biomedical cluster will also step up.

Meanwhile, services picked up some speed from 1Q17 but remained relatively soft at 1.7% yoy (+0.4% qoq saar). Services growth was reportedly led by the transportation & storage and business services sectors. Given the upgraded global growth prospects and the attendant pickup in global and regional economic and trade activities, this is unsurprising. With the domestic labour market conditions and business confidence firming modestly from the start of the year, the private consumption theme should sustain.

Still, the main drag was construction which has contracted for four straight quarters and fell 5.6% yoy (+4.3% qoq saar) as both private and public sector construction activities were weak. In particular, the construction sector's 1Q17 growth

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pace was also revised down to -6.1% yoy (-14.4% qoq saar which is the lowest since 1Q03). Accounting for the contraction in construction growth in 2Q17, the sector contracted an average of 5.9% in the first half of this year (lowest print since 1H03 at -12.4%). Hopefully the construction sector should stabilise in 2H17 given the low base in 2H16 and the recent modest improvement in private sector residential activities.

With 1H17 growth averaging 2.5% yoy, there is no need to adjust our full-year 2017 GDP growth forecast of 2.5% yoy for now, which is in line with official growth outlook of between 2-3% for the year. Given the strong manufacturing growth in the first half of this year, our full-year manufacturing growth outlook remains at 4.0% with upside risk. Elsewhere, we revise our full-year construction growth outlook to -1.5% (down from a previous +0.7% estimate and the lowest full-year growth print since 2004), accounting for the contraction prints seen year-to-date. Lastly, full-year services growth should continue to print in line with our call of 1.9%.

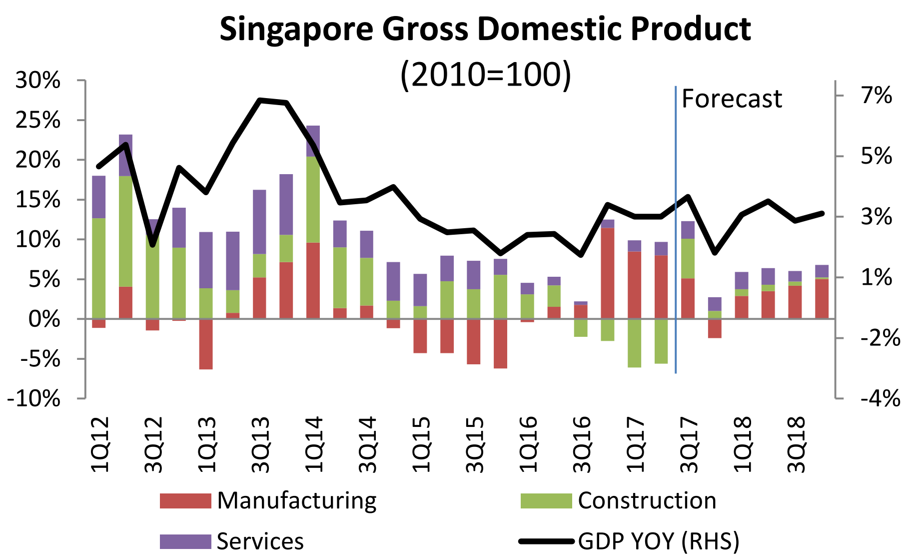
We also anticipate static neutral monetary policy settings at the October MPS. Given that growth and inflation trajectories are largely going according to plan, there is little impetus to move ahead of other major central banks like the FOMC which is embarking on its balance sheet unwinding intentions later this year, and the ECB which is also sounding more neutral than dovish of late. Domestic short-term interest rates like SOR and SIBOR may remain choppy in the interim as market players digest the global monetary policy and liquidity conditions tightening theme.

Gross Domestic Product at 2010 Prices

	2Q16	3Q16	4Q16	2016	1Q17	**2Q17***
Percentage change over corresponding period of previous year						
Overall GDP	1.9	1.2	2.9	2.0	2.5	**2.5**
Goods Producing Industries						
Manufacturing	1.5	1.8	11.5	3.6	8.5	**8.0**
Construction	2.7	-2.2	-2.8	0.2	-6.1	**-5.6**
Services Producing Industries	1.1	0.4	1.0	1.0	1.4	**1.7**
Quarter-on-quarter annualised growth rate, seasonally-adjusted						
Overall GDP	0.8	-0.4	12.3	2.0	-1.9	**0.4**
Goods Producing Industries						
Manufacturing	3.6	-5.0	39.8	3.6	0.4	**2.4**
Construction	3.1	-12.6	0.8	0.2	-14.4	**4.3**
Services Producing Industries	-0.7	1.1	8.4	1.0	-2.7	**0.4**

*Advance estimates

Source: Singapore Ministry of Trade and Industry (MTI)



Source: Bloomberg, OCBC Bank