

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.

Treasury Advisory

Corporate FX &
Structured Products

Tel: 6349-1888 / 1881

Interest Rate

Derivatives

Tel: 6349-1899

Investments &
Structured Products

Tel: 6349-1886

GT Institutional Sales

Tel: 6349-1810

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

Selena Ling

+65 6530-4887

LingSSSelena@ocbc.com

m

Barnabas Gan

+65 6530-1778

BarnabasGan@ocbc.com

m

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%.

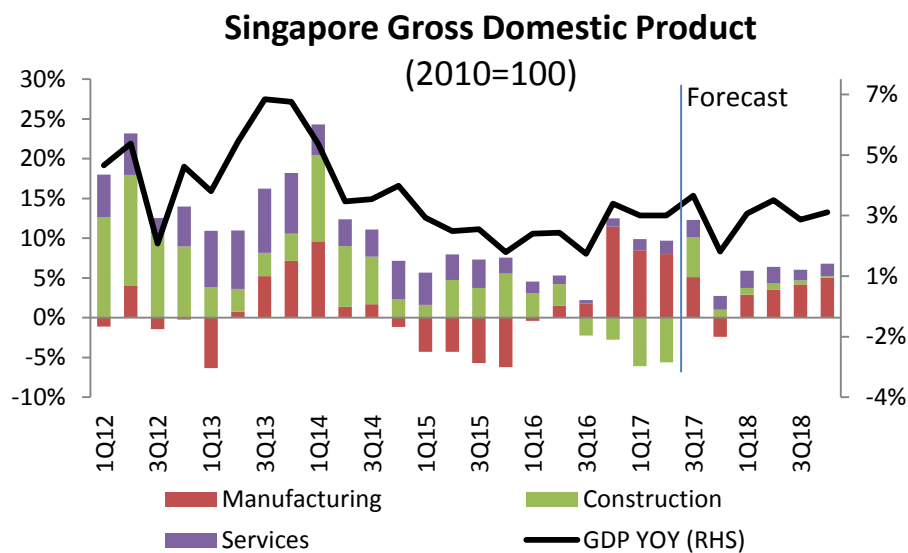
We also anticipate static neutral monetary policy settings at the October MPS. Given that growth and inflation trajectories are largely going according to plan, there is little impetus to move ahead of other major central banks like the FOMC which is embarking on its balance sheet unwinding intentions 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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W