Singapore Outlook

OCBC Bank

# Manufacturing and trade to underpin growth

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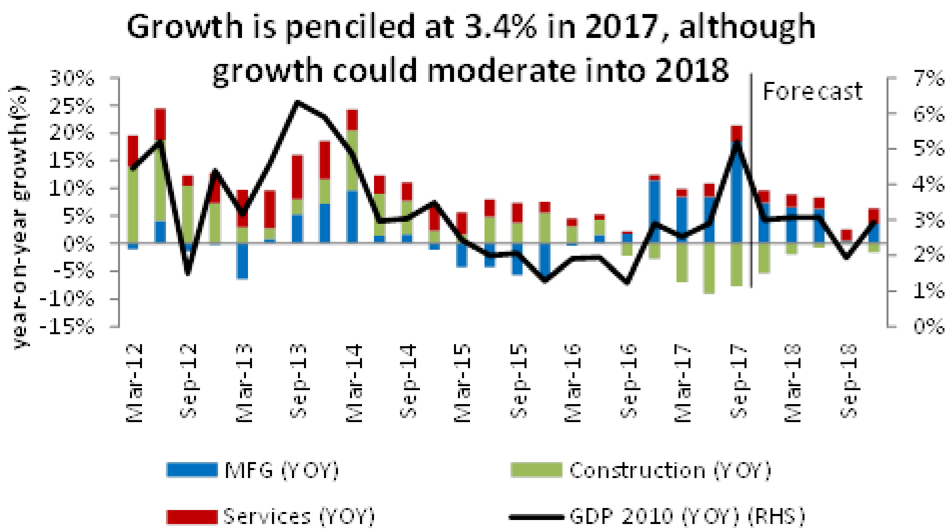
## Highlights:

- **GDP surprised higher at 5.2% y/y (+8.8% qoqsaar) in 3Q17, up from our expectations of 4.8% y/y (+7.5% qoqsaar) and starkly higher than the previous official flash print of 4.6% y/y (+6.3% qoqsaar).** Accounting for the strong growth, MTI upgrades full-year growth for 2017 to range between 3 – 3.5%, up from a previous estimate of between 2 – 3%. Growth for 2018 is expected to range between 1.5 – 3.5%.

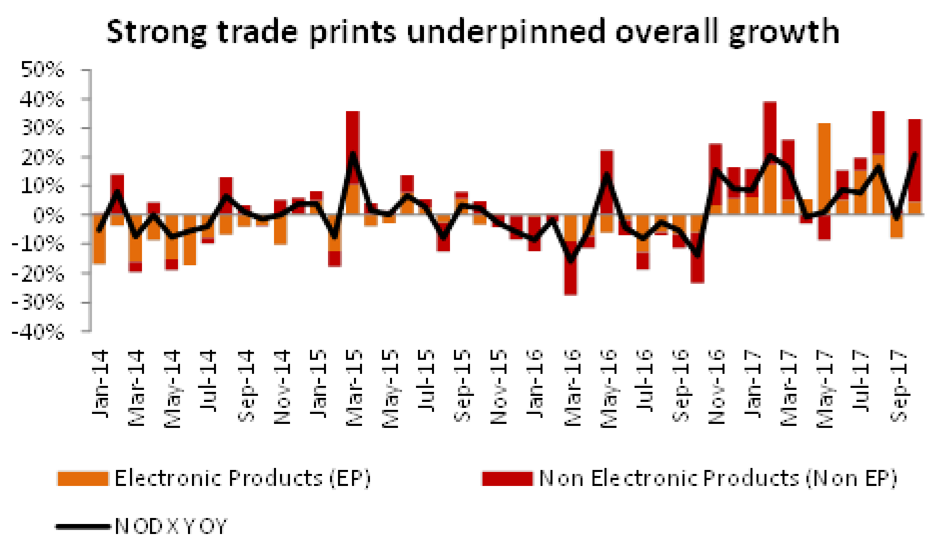
- **Manufacturing and trade activities remains to buttress overall growth.** The manufacturing sector surged 18.4% y/y and marking it fastest on-year growth since the first quarter of 2011. All clusters in the manufacturing, save for the transport engineering cluster, expanded into 3Q17. Notably, the transport engineering cluster was primarily dragged by sustained weakness in the marine & offshore segment. In addition, the pickup in global trade activities has benefited Singapore immensely, given the city-state's high reliance on trade to buoy growth as non-oil domestic exports expanded a year-to-date average of 9.9% in October 2017 (highest growth over the same period since 2010) led by exports of both electronic products and non-electronic products.

- **Elsewhere, sustained expansion in the services industry provided another avenue of growth:** the services industry saw its strongest on-year growth since 3Q15 given its robust 3.0% print in 3Q17. All clusters, except for the Accommodation & Food Service cluster, expanded into 3Q17. Growth was especially seen in the Financial Services (+5.9%, fastest since 2Q15), underpinned by robust growth in financial intermediation, insurance and fund management activities, while a turnaround in forex trading volume also aided growth. However, the construction sector growth print continued to contract into 3Q17, marking its 5th consecutive quarter of negative headlines given further weakness seen in both private and public sector construction activities.

- **We continue to stay positive on Singapore's manufacturing momentum, on the back of sustained external demand likely to be seen into 2018.** Growth will likely be underpinned by sustained growth in externally-oriented sectors including Wholesale Trade, Transportation & Storage and Finance & Insurance, which in turn will provide the needed positive spill-over benefits into Singapore's manufacturing sector although growth could taper given the less favourable base effects . While the expanding global growth likely to be seen into 2018 will provide the needed impetus for further growth expansion in Asian economies, downside risks remain including global policy uncertainty in part due to the US administration's policy amid lingering concerns over the rise of protectionist sentiments. Elsewhere, geopolitical tensions continue to brew in the background, which could impede global risk appetite should it intensify further into the next year. Lastly, further monitoring on inflation pressures is warranted, given the increased likelihood for global prices to inflate higher on stronger oil prices, which could potentially motivate a faster-than-expected rate hikes in developed economies. All-in-all, we upgrade our 2017 year-end growth to 3.4% (up from an initial outlook of 3.3%) and at the higher end of the official revised GDP outlook of 3 – 3.5%, while keeping our 2018 growth outlook to range between 2 – 4%, slightly higher than MTI's conservative outlook of 1.5 – 3.5%.




Source: Bloomberg, OCBC Bank

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