Singapore Outlook

OCBC Bank

S'pore 1Q18 GDP growth & MAS April MPS

Friday, April 13, 2018

Highlights

Treasury Research
Tel: 6530-8384

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

- **S'pore's 1Q18 GDP growth printed at 4.3% yoy (1.4% qoq saar), picking up from 4Q17's 3.6% yoy (2.1% qoq saar).** This was largely powered by manufacturing (10.1% yoy) and services growth (3.8% yoy), whereas construction remained handicapped (-4.4% yoy). Interestingly, the manufacturing growth in 1Q18 was broad-based, with all cluster expanding, led by the electronics and precision engineering clusters. The services industries also saw its growth momentum accelerate slightly from 3.5% yoy in 4Q17 to 3.8% yoy in 1Q18, supported by finance & insurance, and wholesale & retail trade sectors, albeit this was a markdown in quarterly momentum at -2.1% qoq saar (similar to the -3.6% qoq saar seen in 1Q17). However, construction continued to shrink for the 6th consecutive quarter by 4.4% yoy (4.1% qoq saar), dragged down by both private and public sector construction activities.
- **MAS also tightened monetary policy settings by slightly increasing the slope of the S$NEER policy band** from 0% previously with the width and level where it is centered unchanged. MAS cited that upward pressures in MAS core inflation are expected to persist over the course of this year and beyond, albeit core inflation is expected to rise gradually, underpinned by an improving labour market. We read this as a pre-emptive step (a "measured adjustment" that takes into account the macroeconomic outcome uncertainties according to the MAS), after having retained the neutral policy stance since Apr16. That said, there is no immediate presumption for the Oct MPS in our view at this juncture as to whether a further move may be warranted unless the inflation trajectory picks up faster than expected. MAS is likely to allow the S$NEER to continue to drift within the slightly steeper slope towards the Oct MPS in a path consistent with a modest and gradual appreciation path, while closely monitoring economic developments. The MAS's tightening move is also testament to the confidence that the Singapore economy is on a steady expansion path this year, notwithstanding a possible escalation of the US-China trade dispute which could have "significant consequences for global trade".
- **Looking ahead, the S'pore economy's growth momentum should continue to sustain at a broadly steady pace ahead,** led by the trade-related industries, albeit their contribution should ease from last year's heady pace. The weaker segments like construction and domestic oriented services should also show some improvement. The recent enbloc fever and pickup in private residential property interest and transactions have not yet filtered down to the actual construction activities, but the pipeline should start to build in the coming quarters if not years. Separately, the domestic labour market improvements should continue to support private consumption. We retain our around 3% yoy GDP growth forecast for 2018 at this juncture. The largest downside risk remains the

rising trade tensions, albeit recent comments by US president Trump suggest a more conciliatory approach to China as well as possibly rejoining the Trans-Pacific Partnership.

- **The key to watch is the inflation outlook.** MAS has tipped imported inflation is likely to rise mildly with moderate increases in oil and food prices this year. WTI and Brent prices had spiked to around US$66 and US$71 per barrel respectively amid Middle East geopolitical tensions revolving around Syria, but Mas tips global oil prices to ease as supply response responsive. While domestic inflation should also pick up gradually, led by consumer services as domestic demand improves, albeit relatively subdued retail rents and constraints in firms' pricing power due to market competition should cap the increases. Private road transport inflation should also decline, and accommodation costs may prove less of a drag compared to last year. MAS tips headline inflation to be in the upper half of the 0-1% forecast range this year, with core inflation in the upper half of the 1-2% forecast range.
- **Our headline and core inflation forecast are 0.5% and 1.8% respectively for 2018, before rising further to 1.5% and 2.0% yoy in 2019.** While the MAS steepening of the S$NEER slope may allow some accommodative downside room for the 3-month SOR (which had indeed eased from the 1.59% high on 21 March to 1.36%), the 3-month SIBOR remains elevated at 1.50%. Given that the FOMC is likely to continue to pursue a gradual normalisation policy and proceed to hike another 25bps at the June meeting and LIBOR continues to climb to 2.34% currently, this is likely to continue to impart upward pressure on the 3-month SIBOR. Our year-end forecast for the 3-month SIBOR is 1.75%.

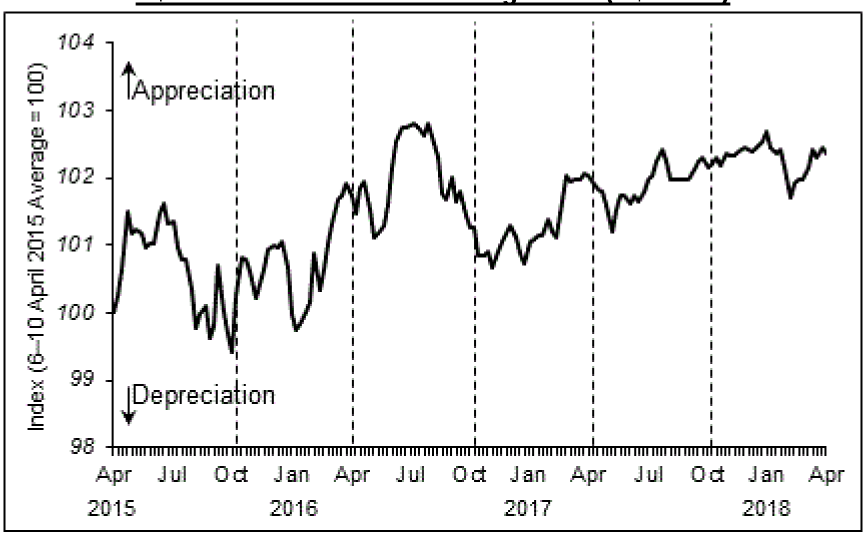
Gross Domestic Product at 2010 Prices

	1Q17	2Q17	3Q17	4Q17	2017	**1Q18***
Percentage change over corresponding period of previous year						
Overall GDP	2.5	2.8	5.5	3.6	3.6	**4.3**
Goods Producing Industries						
Manufacturing	8.5	8.4	19.1	4.8	10.1	**10.1**
Construction	-6.9	-12.2	-9.3	-5.0	-8.4	**-4.4**
Services Producing Industries	1.5	2.6	3.5	3.5	2.8	**3.8**
Quarter-on-quarter annualised growth rate, seasonally-adjusted						
Overall GDP	-1.5	2.8	11.2	2.1	3.6	**1.4**
Goods Producing Industries						
Manufacturing	1.3	3.8	34.9	-14.8	10.1	**23.3**
Construction	3.1	-18.5	-2.4	-0.2	-8.4	**4.1**
Services Producing Industries	-3.6	4.9	6.5	6.3	2.8	**-2.1**

*Advance estimates

Source: Ministry of Trade and Industry Singapore

S$ Nominal Effective Exchange Rate (S$NEER)



----- indicates release of Monetary Policy Statement

Source: Monetary Authority of Singapore