SG OUTLOOK

OCBC Bank

S'pore's 3Q17 GDP growth surged to its fastest pace since 1Q14

Friday, 13 October 2017

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Highlights:

- **The 3Q17 GDP growth surged to 4.6% yoy (+6.3% qoq saaar), the strongest pace since 1Q14,** lifted by a stellar manufacturing at 15.5% yoy (23.1% qoq), while services grew 2.6% yoy (1.5% qoq), whereas construction shrank again by 6.3% yoy (-9.3% qoq). Although GDP growth in the first three quarters is now at a robust 3.3% yoy, nevertheless there was no change to the official 2017 growth forecast of 2-3% yoy, albeit "in the upper half of the 2-3% forecast range", which implies that 4Q17 growth could slow sharply to around 2.2% yoy. While manufacturing is likely to decelerate in 4Q17, not least because there is a relatively higher base in 4Q16 at 11.5% yoy, the broadening growth drivers in services is reassuring. Services momentum has picked up speed at around sub-1% in 2H16 to around 2.5% in 2Q-3Q17, partly due to improved optimism in financial services & insurance, wholesale & retail trade, and transportation and storage sectors. Moreover, manufacturing growth was also supported by biomedical manufacturing, beyond electronics and precision engineering, in 3Q17.

- **As anticipated, MAS will maintain the rate of appreciation of the S$NEER policy band at zero percent, with no change to the width of the policy band and the level at which it is centred.** The surprise was how dovish the MAS statement read. Basically, MAS sees growth as steady but likely to slow slightly from this year, and more importantly, headline and core inflation outlook is tipped at a modest 0-1% and 1-2% yoy in 2018. MAS also noted that core inflation is expected to trend towards but average slightly below 2% over the medium term. All these essentially reinforces that there is no need to jump the gun on tightening now, even as it leaves the adjustment window open in 2018. Notably, MAS referenced that its stance in the October 2016 MPS was that the neutral policy stance would be appropriate for an extended period, and given the economic outlook at this stage and consistent with medium-term price stability, MAS will maintain the rate of appreciation of the S$NEER policy band at zero percent, with the width of the policy band and the level at which it is centred also unchanged.

- **A careful read of the inflation outlook and drivers is warranted.** On the external pricing front, imported inflation is also likely to rise only mildly on the back of slightly higher oil and food commodity prices. From the domestic cost perspective, while services like healthcare and education will continue to see moderate price hikes, economy-wide cost pressures should remain relatively restrained. In addition, while labour market conditions have improved recently, the slack that had previously accumulated will take time to be fully absorbed, and wage pressures are thus unlikely to accelerate in the near term and other non-labour costs such as commercial and retail rentals will stay subdued. Even on the property front, the MAS view is that accommodation costs will continue to dampen headline CPI in 2018, albeit to a lesser extent than this year, while the positive contribution of private road transport costs will fall as previous administrative measures dissipate.

- **Our outlook remains that full-year 2017 GDP growth could potentially exceed the 3% yoy handle depending on how 4Q17 growth materializes, and 2018 growth could be in a 2-4% range (midpoint 3%), supported by broader engines of growth apart from electronics and productivity gains,** even as the global economic recovery matures. Our headline and core inflation forecasts are 0.6% and 1.3% yoy respectively for 2017, but should edge up modestly to 0.8% and 1.5% in 2018. The key to watch would be the domestic labour market conditions, which currently remains subdued. The window for any MAS monetary policy adjustment remains open in April and October 2018 depending on how the economic and price stability picture evolves over the next six months, especially with the G7 central banks increasingly jumping on the policy normalization bandwagon.

Gross Domestic Product at 2010 Prices

	3Q16	4Q16	2016	1Q17	2Q17	**3Q17***
Percentage change over corresponding period of previous year						
Overall GDP	1.2	2.9	2.0	2.5	2.9	**4.6**
Goods Producing Industries						
Manufacturing	1.8	11.5	3.6	8.5	8.2	**15.5**
Construction	-2.2	-2.8	0.2	-6.9	-6.8	**-6.3**
Services Producing Industries	0.4	1.0	1.0	1.5	2.5	**2.6**
Quarter-on-quarter annualised growth rate, seasonally-adjusted						
Overall GDP	-0.4	12.3	2.0	-2.0	2.4	**6.3**
Goods Producing Industries						
Manufacturing	-5.0	39.8	3.6	0.2	3.2	**23.1**
Construction	-12.6	0.8	0.2	-17.2	2.4	**-9.2**
Services Producing Industries	1.1	8.4	1.0	-2.6	3.3	**1.5**

*Advance estimates

Source: MTI