SINGAPORE

SINGAPORE: IMPROVED 2016 GROWTH AND STRONG JAN17 NODX

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A stronger-than-expected 4Q16 finish lifted 2016 growth to 2% yoy.
Singapore's 4Q16 GDP growth prints were revised to 2.9% yoy (12.3% qoq saar which is the fastest pace since 1Q11), up from the flash estimate of 1.8% yoy (9.1% qoq saar), and better than our forecast of 2.3% yoy (+12.6% qoq saar). This brought the full-year 2016 GDP growth to 2% yoy, which is a marginal improvement from 2015's 1.9% growth, as manufacturing, reversed the 5.1% slide in 2015 to expand by 3.6% yoy (strongest since 2011) as electronics and biomedical clusters rebounded. Aiding the manufacturing turnaround was the sharp 8.5% drop in unit business cost of manufacturing last year as compared to the 0.4% hike in 2015. However, both construction and services saw slower growth momentum last year at 0.2% yoy (slowest since 2004) and 1.0% yoy (slowest since 2009) respectively, down from the 3.9% yoy and 3.2% yoy seen in 2015, in a reversal of roles vis-à-vis manufacturing.

MTI maintained its 1-3% yoy growth forecast for 2017.
MTI kept its official 2017 growth forecast unchanged at 1-3% yoy, citing that "uncertainties and downside risks in the global economy remain", namely Brexit, anti-globalisation sentiments, lack of policy clarity in the new US administration, and potential for China's monetary conditions to tighten further and contribute to a sharper slowdown in Chinese growth. At the sectoral level, the manufacturing pickup should sustain into 2017 due to a continued recovery in global semiconductor and semiconductor equipment demand, while transportation & storage should also benefit from the global trade flow improvement. Information & communications and "other services" like education, health & social services are also tipped to be resilient.

Room for optimism but still some clouds over the horizon
We maintain our 2017 growth at 1-2%, bearing in mind that the manufacturing momentum may falter should the Trump administration harden its trade policy stance, especially towards China, Japan and other key trading partners. Within the Singapore economy, sluggish private sector construction works in terms of contracts awarded in the last two years also imply a weak near-term outlook for the overall construction sector. Moreover, marine & offshore, retail and food services sectors are not out of the woods yet.

Inflation to accelerate and be mildly positive in 2017.
Headline CPI contracted for the third year running by 0.5% yoy in 2016, but is likely to expand by around 1% yoy in 2017, amid more supportive s energy prices with OPEC's production cuts and demand-supply rebalancing. Core inflation will also rise modestly to 1.6% yoy this year and keep MAS on status quo at the April policy review, while awaiting the US cues, namely Trump's grand economic plans and FOMC's monetary policy normalization.

MAS has indicated that SGD interest rates would take cues from the normalization of US interest rates and the domestic financial sector should see modest improvement in 2017. Currently, the 3-month SIBOR and SOR are hovering around 0.94% and 0.81% respectively, but could be vulnerable to some upward pressure as the year progresses as implied in our year-end forecasts of around the 1.5% handle.

But labour market conditions could soft amid subdued hiring intentions.
The unemployment rate crept higher from 1.9% in 2015 to 2.1% in 2016 as employment growth moderated from 32,300 jobs to 16,400 jobs over the same period. The pace of increase in the unit labor costs also eased from 3.6% yoy in 2015 to 2.4% in 2016 and may continue to moderate further this year amid the softening labour demand. This should provide some relief to domestic businesses struggling with the elevated cost environment. Monday's Budget 2016 announcement will also likely see some cost relief and support measures, especially for SMEs, while providing greater policy emphasis to aiding Singaporean workers to cope with job restructuring, skills mismatch and disruptive technologies.

A healthy January NODX print kicked off a strong start in 1Q17.
NODX continued its strong performance streak in Jan17, expanding by 8.6% yoy (+5% mom sa) after chalking up 9.1% yoy (-2.4% mom sa) in Dec16 and 15.6% yoy in Nov16. Electronics exports in particular grew for the third straight month by 6.1% yoy in Jan17, marking a healthy start to the new year, boost by exports of ICs and parts of ICs, whilst non-electronics exports also expanded by 9.9% yoy as higher exports of petrochemicals (+37.1% yoy) offset weakness in pharmaceuticals (-12.6% yoy).

One question is how long the strong China credit trend can endure?
By key markets, S'pore's NODX to China surged (+36.9% yoy), Taiwan (+75.3% yoy), Korea (+51.5% yoy) and Hong Kong (+16.7% yoy), giving credence to the Greater Chinese market trade pickup story on the back of strong credit growth. However, with the PBOC focusing on managing financial risks and deleveraging this year, it is uncertain how long the current credit boom can sustain, especially with the PBOC already moving to tighten funding costs for reverse repo and MLF rates. For now, the main drags on Singapore's NODX growth were the EU28 market which shrank for three of the last four months by 25.2% yoy and Malaysia which shrank for the second consecutive month by 3.7% yoy. With potential bouts of market uncertainty revolving around the triggering of Article 50 for Brexit, upcoming elections in the Netherlands, France and Germany.

Not all is rosy across our top 10 NODX markets either
For the full-year NODX fell by 2.8% yoy in 2016, compared to 1.5% growth in 2015. Both electronic and non-electronics NODX fell in 2016 by 4.0% and 2.3% yoy respectively, down from 0.5% and 1.9% growth in 2015. However, 4Q16 marked a turnaround in fortunes, with NODX returning to 2.7% yoy growth (3Q16: -5.4% yoy) amid improved shipments of electronics (+1.0% yoy) and non-electronics (+3.5% yoy). Nevertheless, 8 of our top 10 NODX markets saw a contraction in NODX last year, with Taiwan and Hong Kong being the key exceptions.

Robust 1H17 momentum may give way to a softer 2H patch

Looking ahead, the near-term momentum in manufacturing and exports should hold up at least in 1H17 due to the green shoots in the global and regional manufacturing PMI data, as well as growth stabilization within Asia. Meanwhile, Singapore is again ranked second after Hong Kong in the 2017 Index of Economic Freedom report by the Heritage Foundation, but the gap widened slightly from 0.8 point last year to 1.2% this year. While policy uncertainties pertaining to the Trump administrations remain, the NODX outlook for Singapore should stabilize and improve in 2017 – we tip NODX to revert to positive growth of 0-2% yoy, with some potential upside should the anti-globalisation and anti-trade sentiments not fully materialize.

Non-oil Domestic Exports to Top Markets (% Growth)

Top Market^	NODX		Electronic NODX		Non-Electronic NODX	
	2015	2016	2015	2016	2015	2016
China	0.9	-6.7	-8.4	-0.7	4.9	-9.0
Indonesia	-8.8	-11.1	-8.1	-7.7	-8.9	-11.6
Japan	-0.6	-8.3	-5.3	-13.4	1.8	-6.0
Malaysia	-3.5	-5.0	8.6	1.2	-8.7	-8.2
Thailand	6.8	-7.4	20.6	-1.7	-0.3	-11.0
EU 28	4.2	-2.2	-9.9	-12.6	7.7	0.0
US	6.5	-2.7	-3.3	-7.3	10.6	-0.9
South Korea	3.4	-2.3	13.8	-0.6	-0.9	-3.1
Taiwan	-9.9	4.8	-15.6	-5.0	-0.4	18.6
Hong Kong	3.0	19.8	8.2	5.5	-6.5	49.9

^: Ranked by percentage contribution to the change in NODX levels over the year.

	4Q15	2015	1Q16	2Q16	3Q16	4Q16	2016
	Year-on-Year % Change						
Total	1.3	1.9	1.9	1.9	1.2	2.9	2.0
Goods Producing Industries	-3.5	-3.1	0.5	1.8	0.9	7.9	2.8
Manufacturing	-6.2	-5.1	-0.4	1.5	1.8	11.5	3.6
Construction	5.6	3.9	3.1	2.7	-2.2	-2.8	0.2
Services Producing Industries	2.0	3.2	1.5	1.1	0.4	1.0	1.0
Wholesale & Retail Trade	3.3	3.7	1.8	0.4	0.1	0.4	0.6
Transportation & Storage	0.2	1.6	0.1	2.9	0.7	5.4	2.3
Accommodation & Food Services	1.4	0.7	2.1	2.4	2.5	-0.2	1.7
Information & Communications	-1.7	-0.6	2.9	3.5	1.3	1.4	2.3
Finance & Insurance	3.0	5.7	1.9	0.1	0.1	0.6	0.7
Business Services	2.9	3.9	0.3	-0.1	-1.8	-1.9	-0.9
Other Services Industries	-0.3	1.2	2.4	2.6	3.6	3.9	3.1
	Annualised Quarter-on-Quarter Growth % (SA)						
Total	5.1	1.9	-0.5	0.8	-0.4	12.3	2.0
Goods Producing Industries	-1.9	-3.1	9.1	3.4	-6.6	29.3	2.8
Manufacturing	-4.1	-5.1	12.9	3.6	-5.0	39.8	3.6
Construction	4.4	3.9	-1.6	3.1	-12.6	0.8	0.2
Services Producing Industries	5.9	3.2	-4.2	-0.7	1.1	8.4	1.0
Wholesale & Retail Trade	0.7	3.7	-3.1	0.8	1.7	2.2	0.6
Transportation & Storage	-4.7	1.6	4.4	5.3	-0.6	12.4	2.3
Accommodation & Food Services	2.9	0.7	1.8	-0.2	5.2	-7.2	1.7
Information & Communications	1.0	-0.6	3.2	5.0	-3.6	0.9	2.3
Finance & Insurance	34.1	5.7	-19.0	-8.1	0.7	36.5	0.7
Business Services	1.3	3.9	-3.6	-3.5	-1.0	0.3	-0.9
Other Services Industries	-0.3	1.2	5.0	3.9	5.7	1.3	3.1

Source: IESingapore, MTI