Singapore

Nice new year surprise for the Singapore economy

Tuesday, January 03, 2017

Highlights:

- **The Spore economy expanded a better than expected 1.8% yoy (+9.1% qoq saar)** based on advance estimates of 4Q16 growth. This meant a technical recession was avoided. Note the earlier three quarters of GDP growth was also revised higher, lifting the full-year GDP growth to 1.8%, which is still a slowdown from 2015's 2.0% yoy and the slowest since 2009.
- **The key outperformer was manufacturing which rose 6.5% yoy (+14.6% qoq saar) in 4Q16**, which marked the strongest yoy quarter since 1Q14 and a sharp bounce from the 8.1% qoq saar contraction in 3Q16, driven by the electronics and biomedical clusters. Notwithstanding the November industrial production data surprise, this set of data assumes an implied December 6.4% yoy industrial production.
- **The services sector also saw its growth momentum pick up to +0.6% yoy (+9.4% qoq saar) in 4Q16**, which is an improvement from the three straight quarters of sequential slowdown previously. Support came from "other services industries", transportation & storage and business services sectors.
- **Construction, on the other hand, declined for the second consecutive quarter by 2.8% yoy** (-4.7% qoq saar), weighed down by private sector construction activities as cooling measures and cautious market sentiments persisted, especially with the FOMC hiking US interest rates in December 2016 and telegraphing a more hawkish rate hike trajectory for 2017.
- **The tide is gradually turning for 2017, with the long-awaited domestic manufacturing recovery finally taking root** at +2.3% yoy for 2016 vis-à-vis -5.2% yoy in 2015. **However, the 2017 outlook remains tentative**, with GDP growth likely still rangebound at around 1-2% (official forecast is 1-3%), amid key uncertainties like the Trump presidency potentially having spillover effects for global trade, China's slowdown, and heightened market volatility, especially on the currency and interest rate front, potentially weighing on corporate and consumer confidence.
- **Inflation is likely to pick up gradually into 2017, alongside higher commodity prices,** at +1.0% yoy (headline) and +1.6% (MAS core). Our view is that the FOMC could again over-promise and under-deliver on its rate hike expectations (ie. two of the three 25bp rate hikes), but the pressure is still on for the 3-month SIBOR and SOR to climb towards the 1.5%-1.55% region respectively as the year progresses, up from the near 1% handle currently.

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