SINGAPORE: 1Q17 GDP REVISION

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1Q17 GDP growth was revised up to 2.7% yoy (-1.3% qoq saar) as expected as we anticipated, up from the earlier estimate of 2.5% yoy (-1.9% qoq saar), due to the manufacturing outperformance at 8.0% yoy versus (initially estimated at 6.6% yoy) which was primarily driven by electronics and precision engineering clusters. Services growth was also revised up marginally by 0.1% point to 1.6% yoy, powered by transportation & storage at 4.2% yoy growth (mainly attributable to the pickup in sea cargo handled and container throughput), information & communications at 1.7% (due to healthy IT solutions demand). The manufacturing surge, coupled with steady services growth, managed to offset the weakness in construction (-1.6% yoy versus earlier estimate of -1.1% yoy), which was dragged down by sustained weakness in private sector construction works.

MTI tipped GDP growth is likely to be above 2% this year, even though it maintained its 1-3% full-year GDP growth forecast. MTI noted that the global growth outlook had improved slightly since 2017, led by the developed economies, especially the US, while key ASEAN economies are also expected to pick up this year. Domestically, growth support would rely on the trade-related sectors like manufacturing and transportation & storage sectors. In particular, the outlook was distinctly more upbeat on the electronics and precision engineering clusters which are expected to see momentum sustained for the rest of the year on the back of the strong recovery in global demand for semiconductors and semiconductor manufacturing equipment. In addition, the transportation & storage sector is a beneficiary of the anticipated improvement in global trade flows.

IESingapore also upgraded its 2017 NODX growth forecast again from 0-2% to 4-6%. This came after NODX growth surged 15.2% yoy in 1Q17, led by NODX growth to all top NODX markets with the exception of EU (-0.4%). 1Q17 also marked the strongest quarter for NODX growth since 4Q10 (+17.6% yoy), and underpins the strength of the global demand and trade improvement.

MAS assessment of GDP growth and CPI inflation is essentially unchanged from the April monetary policy statement. Our view is that the 1Q17 GDP growth upgrade has been largely anticipated and concur that it does not move the needle for policymakers significantly at this juncture. The fact that an essentially more optimistic outlook statement came with the usual caveat of risk warnings about anti-globalisation/protectionist threats and monetary conditions tightening and slower-than-expected growth in China, suggests an improved but still cautious perspective. The domestic risks are that the sluggish labour market conditions and cautious consumer sentiments may continue to weigh on the food services and retail trade segments, while the construction sector will still be adversely impacted by private sector construction activities even though recent buying sentiments have picked up post-March rules tweaks.

Our 2017 GDP growth forecast of 2.5% yoy remains unchanged, with manufacturing growth to lead at 4.1% yoy, followed by services at 1.7% and construction may return to positive growth territory in 2H to clock 0.7% for 2017. Note that although headline CPI inflation returned to positive territory at 0.6% yoy in 1Q17, marking the first positive quarterly print since 3Q14, this is well within the official 2017 inflation forecast of 0.5-1.5% yoy. Moreover, domestic labour market conditions have clearly softened with net employment contacting by 8.5k in 1Q17. Accompanying the uptick in the overall unemployment rate to 2.3%, the overall unit labour cost (ULC) declined 1.0% yoy for the first quarter since 3Q13, which should come as some relief for domestic businesses, especially SMEs. Domestic demand softening may also weigh on some services industries, with wholesale & retail, accommodation & food services, finance & insurance and other services industries already registering quarterly contractions in 1Q17.

We also retain our end-2017 forecast for 3-month SIBOR and SOR remains at 1.25% and 1.35% respectively. With the SGD NEER currently treading north of 0.5% of its central parity, further SGD strength may be limited without further inherent USD weakness may give rise to official discomfort as MAS is in neutral gear for an extended period of time. The 3-month SIBOR is currently stable and anchored around 0.99%, whereas the 3-month SOR has dipped back to 0.81%, notwithstanding that the unwinding of Trump trades is possibly nearing an end and the June FOMC rate hike is also largely priced in. As such, there is still some modest upside risks to domestic short-term interest rates as FOMC starts to taper its balance sheet later this year, and other major central banks like the ECB also start to inch towards a less dovish stance.

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