Singapore Outlook

S'pore's 1Q19 growth slowed and MAS on hold

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Highlights

- **Flash 1Q19 GDP growth softened to 1.3% yoy (2.0% qoq saar)**, lower than our forecast of 1.8% yoy (1.1% qoq saar) and also Bloomberg consensus forecast of 1.4% yoy (2.2% qoq saar). This is the weakest start to the year since 1Q09 amid the sharper than expected slowdown in the global economy and sluggish trade. The Singapore economy as a small open economy is seen as a harbinger for the other regional growth prints to come. Next up will be China which releases its 1Q19 GDP growth estimates on 17 April (our forecast: 6.3% yoy).

- **Manufacturing growth was the main drag at -1.9% yoy (-12.0% qoq saar)**, which is also the worst performance since 1Q16. The weakness was precipitated by weakness in precision engineering and electronics clusters, which offset the expansions in the biomedical manufacturing and transport engineering clusters. However, pending the US-China trade negotiations, the US potentially levying tariffs on Europe and/or Japan, and dampened global trade prospects, it may be too early to call a bottom for the domestic manufacturing and electronics industries for now, even though the March manufacturing and electronics PMIs saw modest improvements to 50.8 (+0.4) and 49.8 (+0.3) respectively.

- **The silver lining as construction which rebounded to expand for the first time after 10 consecutive quarters of decline** by 1.4% yoy (7.8% qoq saar) amid an improvement in the private sector construction activities. Given the ongoing caution in the private residential property market due to the cooling measures, we do not anticipate a quick turnaround in the construction sector at this juncture. **Services momentum also improved slightly to 2.1% yoy** (4.8% qoq saar), aided by the infocomms and business services growth, but remains at less than half the pace of the same period last year. While the digitalisation push, Smart Nation initiative and cybersecurity concerns will continue to drive the infocomms sector, the other services segments outside of financial services and maybe tourism-related services may remain a mixed bag.

- **MAS kept its S$NEER policy settings static as expected**, but the inflation rhetoric was slightly dovish. In addition to expecting that the pace of growth will be slightly below potential this year, with the level of output coming closer to its underlying potential, MAS also downgraded its core inflation forecast from 1.5-2.5% to 1-2% and noted it is likely to come in near the mid-point of the revised range. MAS opined that the pace of growth will be slightly below potential this year, following two years when it was above trend, but as the

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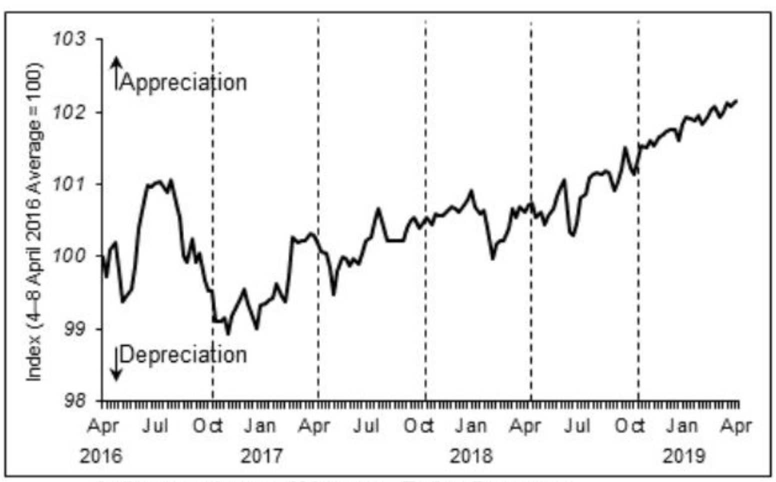
positive output gap narrows, inflationary pressures will be kept in check. With external inflation pressures likely to be benign as global oil prices ease from 2018 levels and food prices to only pick up slightly on average, the domestic inflation picture comes to the forefront. Notably, an acceleration in inflationary pressures is unlikely against the backdrop of slower GDP growth and uncertainties in the global economy, and continuing effects of MAS' monetary policy tightening in 2018.

- **We revise our full-year 2019 GDP growth forecast to 1.8%-2.0% yoy**, with headline and core inflation tipped at 0.5% and 1.5% yoy respectively. This factors in the weaker-than-expected 1Q19 growth momentum and assumes a potentially soft 2Q19 as well. While we see some potential for stabilization in 2Q19, but the question remains if global green shoots will take root and sprout, led by China with the coordinated easing of fiscal and monetary policies, such that the 2H19 improvement can sufficiently offset the 1H19 weakness. Until we see a clear bottom and subsequent improvement in the China and global growth prospects, the overall picture for the S'pore economy remains cautious.

- **Market reactions**: USDSGD initially responded by rising slightly from the 1.3560 to the 1.3580 region to the worse than expected 1Q19 growth deterioration and somewhat dovish inflation rhetoric even as MAS kept its S$NEER policy unchanged with respect to its width, level and slope, but has since stabilised back to where it started. Swap rates also have firmed by around 5-7bps this morning, led by the front end of the curve, whereas the SGS bond reaction was more muted with yields up around 3bps. This is likely a kneejerk reaction to the softer growth and inflation dynamics for the S'pore economy and the MAS signal to hold its S$NEER policy for the next six months. That said, we would not read the current MAS statement as unduly bearish or to portend a more dovish action at the October MPS.



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Source: MAS

Gross Domestic Product at 2010 Prices

	1Q18	2Q18	3Q18	4Q18	2018	**1Q19***
Percentage change over corresponding period of previous year						
Overall GDP	4.7	4.2	2.4	1.9	3.2	**1.3**
Goods Producing Industries						
Manufacturing	10.1	10.6	3.5	5.1	7.2	**-1.9**
Construction	-6.0	-4.2	-2.3	-1.0	-3.4	**1.4**
Services Producing Industries	4.4	3.0	2.7	1.8	3.0	**2.1**
Quarter-on-quarter annualised growth rate, seasonally-adjusted						
Overall GDP	4.7	0.0	1.4	1.4	3.2	**2.0**
Goods Producing Industries						
Manufacturing	16.7	7.4	0.7	-2.7	7.2	**-12.0**
Construction	-2.0	-8.5	0.7	5.1	-3.4	**7.8**
Services Producing Industries	4.2	-2.2	2.6	2.8	3.0	**4.8**

*Advance estimates

Source: MTI