

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.

Treasury Advisory
Corporate FX & Structured Products
Tel: 6349-1888 / 1881
Interest Rate Derivatives
Tel: 6349-1899
Investments & Structured Products
Tel: 6349-1886

GT Institutional Sales
Tel: 6349-1810

Selena Ling Siew Sing
+65 6530 4887
LingSSSelena@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W