SINGAPORE: 1Q17 GDP & MAS

SPORE: 1Q17 GDP GROWTH & MAS MPS

Thursday, April 13, 2017

1Q17 GDP expanded by 2.5% yoy (-1.9% qoq saar), close to our forecast of 2.4% yoy (-1.7% qoq saar), and a moderation from 2.9% yoy (+12.3% qoq saar) seen in 4Q16. Manufacturing outperformed (+6.6% yoy), followed by services (+1.5% yoy) whereas construction was the laggard (-1.1% yoy) in 1Q17. In qoq terms, both manufacturing and services sectors moderated 6.6% and 2.2% from the strong 4Q16.

MAS also left its monetary policy stance unchanged at a neutral policy for an extended period, with the band width and center also static, citing that the current band provides flexibility for inflation weakness. The official growth and inflation forecasts were left unchanged at 1-3% and 0.5-1.5% yoy respectively, with core inflation remaining at 1-2% as well.

MAS rhetoric noted that the global outlook has improved slightly since the Oct16 MPS but S'pore's growth at 1-3% this year will not be markedly different from 2% in 2016. For inflation, energy-related components are the key drivers of the pickup in pricing power, coupled with some administrative price adjustments (namely carpark charges and household refuse collection fees from Dec16 and Jan17, as well as upcoming hikes in water prices and S&CC) which will contribute to a temporary increase in CPI, but demand-driven inflationary pressures will be restrained, and core inflation is expected to trend towards but average slightly below 2% over the medium-term.

In our view, the extended period for monetary policy will extend to at least Oct17. Our house forecast remains at 2% for GDP growth and 1.0% and 1.6% for headline and core inflation forecasts respectively. The green shoots remain less than broad-based and inflationary pressures are mainly arising from higher oil prices and

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domestic policy-driven pricing pressures. Despite the healthy manufacturing clip, the rest of the manufacturing sector is tipped to "remain patchy" apart from the domestic semiconductor and precision engineering industries. Note construction saw its third straight quarter of on-year contraction due to weakness in private sector construction activities and another contraction in 2Q17 looks plausible. Housing rents are also tipped to continue to decline this year, and the lackluster domestic environment will deter businesses from fully passing on higher costs to consumers.

Domestic SGD interest rates, especially at the front end of the curve, remains reluctant to follow LIBOR higher, notwithstanding the FOMC's gradual policy normalization trajectory. With the SGD NEER bearing the brunt of the adjustments from the unwinding of the Trump trade as far as the USD is concerned, and the MAS maintaining its neutral policy stance for an extended period, the potential for SIBOR and SOR to stay subdued for longer remains a risk at this juncture. While we anticipate that the FOMC may deliver at least another two 25bp rate hikes this year, our end-2017 forecast for 3-month SIBOR and SOR had been revised to 1.25% and 1.35% respectively.

Gross Domestic Product at 2010 Prices

	1Q16	2Q16	3Q16	4Q16	2016	**1Q17***
Percentage change over corresponding period of previous year						
Overall GDP	1.9	1.9	1.2	2.9	2.0	**2.5**
Goods Producing Industries						
Manufacturing	-0.4	1.5	1.8	11.5	3.6	**6.6**
Construction	3.1	2.7	-2.2	-2.8	0.2	**-1.1**
Services Producing Industries	1.5	1.1	0.4	1.0	1.0	**1.5**
Quarter-on-quarter annualised growth rate, seasonally-adjusted						
Overall GDP	-0.5	0.8	-0.4	12.3	2.0	**-1.9**
Goods Producing Industries						
Manufacturing	12.9	3.6	-5.0	39.8	3.6	**-6.6**
Construction	-1.6	3.1	-12.6	0.8	0.2	**5.4**
Services Producing Industries	-4.2	-0.7	1.1	8.4	1.0	**-2.2**

*Advance estimates

Source: MTI