SINGAPORE: 4Q17 GDP

SPORE: A SWEET END TO 2017

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A slowdown from 3Q17 GDP growth, but still a sweet end to 2017.

The S'pore economy saw a slower but still healthy 4Q17 GDP growth of 3.1% (2.8% qoq saar). This is close to our forecast of 3.0% yoy (3.2% qoq saar), but significantly higher than the Bloomberg consensus forecast of 2.6% yoy (1.6% qoq saar), and capped a year of upside surprises on the growth front after a relatively soft start in 1Q17. Note PM Lee's New Year Day message had earlier flagged that 2017 GDP growth was 3.5% yoy. This is significantly better than the 2% registered in 2016 and the highest annual growth since 2014 (3.6% yoy).

Manufacturing has slowed, but services sectors are taking flight.

Manufacturing outperformed with 6.2% yoy, aided by electronics and precision engineering clusters, but contracted 11.5% qoq saar as momentum moderated as expected with a high base in 4Q16. Meanwhile, what was encouraging was the broadening of growth engines with the services sectors picking up speed at 3.0% yoy (7.5% qoq saar) on the back of finance & insurance, wholesale & retail trade and transportation & storage sectors. Unsurprisingly, construction remained the laggard at -8.5% yoy (-3.6% qoq saar) in 4Q17, dragged down by private sector construction activity weakness.

Upward revisions in 2Q and 3Q17 were the driver.

Notable was that both 2Q and 3Q17 GDP growth estimates were revised higher, contributing to the full-year 2017 GDP growth coming in above our 3.3% yoy forecast even though the 4Q17 growth was very close to our expectations. The 3Q17 growth was revised up to 5.4% yoy (9.4% qoq saar), the strongest since 3Q13, while 2Q17 was also upgraded to 3.0% yoy (2.6% qoq saar) to bring full year growth to 3.5% yoy.

We remain sanguine on 2018 growth outlook for now, but watch for potential policy tightening risks.

For 2018, we tip GDP growth to be 2-4%, which is a tad higher than the official forecast range of 1.5-3.5%. The next key event to focus on would be the FY18 Budget which will be announced on 19 February. The FY18 Budget is likely to focus on familiar issues of economic restructuring, education, healthcare, environment and infrastructure, but possibly also herald some tax changes. Market speculation is for possible GST hikes, but the magnitude (1% or 2% increments) and the implementation schedule (effective from when?) would also matter, as it may sway private consumption patterns (with a likely frontloading followed by a potential slowdown after), albeit some likely offsets through GST vouchers and other rebates would help ease the transition for the low-income households.

MAS policy reversion to a gradual appreciation policy is potentially also on the cards.

The domestic labour market remained somewhat sluggish in 2017, but is expected to improve modestly this year, and it is likely the FY18 Budget would see greater government support through the SkillsFuture and the Adapt & Grow initiatives to help local workers reskill and gain employment through this period of digital disruptions and economic restructuring. That said, the inflation story is likely evolving at a faster pace. Crude oil prices have topped US$60 per barrel at end-2017 and our end-2018 forecast is for US$65 per barrel for WTI. Property market sentiments have also turned more upbeat. The URA private residential property price index also rose by 0.7% qoq for the second straight quarter in 4Q17 to bring the whole of 2017 increase to 1% yoy which is a sharp turnaround from the 3.1% yoy decline in 2017. A stronger domestic growth outlook, coupled with a possible GST hike, may accelerate inflationary expectations and warrant the MAS potentially tweaking its monetary policy settings from its currently neutral stance to a slightly appreciation bias at some point this year. The 3-month SIBOR surged to 1.50171% on 29 December, while the 3-month SOR was relatively subdued at 1.11071%, and this implies some upside risks to our end-2018 forecasts of 1.55% and 1.60% respectively.