

1Q21 GDP growth turns positive but MAS maintains accommodative stance

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Highlights:

Green shoots recovery is evident in 1Q21: The S'pore economy returned to positive GDP growth of 0.2% yoy (2.0% qoq sa), in line with our forecast, after three consecutive quarters of contraction. The key driver was still the manufacturing sector that expanded 7.5% yoy (aided by electronics, precision engineering, chemicals and biomedical clusters). What disappointed was the services sector which still shrank 1.2% yoy in 1Q21, in contrast to our forecast for 0.0% yoy, weighed down by the wholesale & retail trade and transportation & storage (-4.1% yoy) and accommodation & food services, real estate, administrative & support services and other services (-3.9% yoy), even though info comms and finance & insurance activities were healthy. Nevertheless, the services sector did eke out a 0.4% qoq sa gain in 1Q21. The construction sector remained the laggard and brought up the rear at -20.2% yoy (+8.4% qoq sa), which was still a tad better than the -28.3% we expected, amid the pickup in both public and private sector construction activities.

MAS remains understandably cautious still on its monetary policy outlook despite the upgrade in 2021 GDP growth and headline inflation expectations. As expected, MAS maintained a zero percent per annum rate of appreciation of the policy band, with no change in the band width and level at which it is centred, and reiterated that an accommodative policy stance remains appropriate, albeit without the reference to "some time" in its guidance. The references to the upturn in external demand sustaining an above-trend pace of growth for the rest of 2021 and how the full-year GDP growth is likely to exceed the upper end of the official 4-6% forecast range, barring a setback to the global economy, was balanced with the concerns about the remaining negative output gap, albeit narrowing, through the course of 2021 and the significant uncertainties including the possible further virus mutations and premature relaxation of social restrictions derailing the global and domestic recovery. The open-ended statement about how 2021 GDP growth will likely exceed the upper end of the official 4-6% forecast range without citing a revised range and a "significant uncertainties" caveat could potentially be implied to rein in any potential runaway economic optimism and premature monetary policy tightening expectations. Note the recent news about the blood clotting concerns for some Covid vaccines prompting some vaccine suspensions and new resurgences of infections in some major economies could pose possible hiccups to the vaccine-aided global demand recovery, and potentially forestall the actual re-opening of travel bubbles and international borders.

Even for the MAS inflation outlook, the cautious nuancing was evident – although core inflation is expected to rise gradually this year from its current low levels, partly reflecting the low base in 2Q20, it will remain short of its historical average. Notably, surplus oil production capacity will cap further large oil price increases, and domestically the improvements in the local labour market condition and private consumption will be gradual due to subdued wage growth. This is not a surprise per se, given that the domestic unemployment rates have only recently started stabilizing, it is too premature to assume that consumer confidence and private consumption will recover to pre-Covid levels just yet. As such, there is no change to the official core CPI forecast of 0-1%, even though the headline CPI forecast was upgraded from the previous -0.5% to 0.5% to now 0.5-1.5% yoy. Our GDP growth forecast remains intact at 6% yoy and our headline and core CPI forecasts are also unchanged at 1.0% and 0.5% respectively.

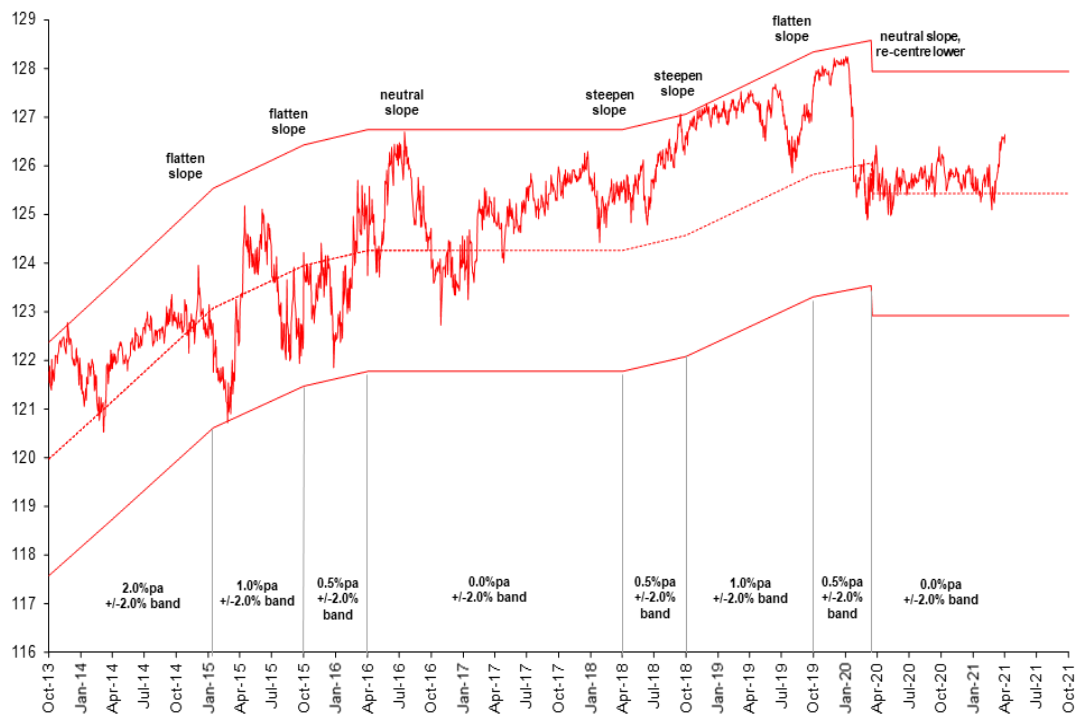
In summary, the rollback of the dovish bias in the official rhetoric was in line with our expectations given the recent improvement in the macro outlook for both growth and inflation. That said, the policy statement was cautiously nuanced to tilt away from the previously dovish bias to one that is more upbeat and watchful, but probably falls short of outright hawkishness that would suggest a tightening at the October policy meeting is imminent. Essentially, the MAS decision may have been a non-event for currency and rates traders, but S\$NEER is likely to continue to trade around the +0.5% to +1.0% of its parity range in the interim. Front-end short-term SGD interest rates are likely to be non-reactive post-MAS MPS and remain well anchored. Core CPI would need to further normalise back to 1-2% range to firmly call for a recalibration of monetary policy settings in our view. Going ahead, we expect to see an outsized GDP rebound of around 15% yoy due mainly to the low base last year during the Circuit Breaker period, with manufacturing, services and construction sectors all likely to register double-digit yoy growth as well. But base effects will fade and 2H21 growth will come back down to earth. Hence, an upgrade to the official 2021 GDP growth forecast range would likely only come earliest after the 2Q21 GDP growth data is released in our view.

Gross Domestic Product in Chained (2015) Dollars

	1Q20	2Q20	3Q20	4Q20	2020	1Q21*
Percentage change over corresponding period of previous year						
Overall GDP	0.0	-13.3	-5.8	-2.4	-5.4	0.2
Goods Producing Industries	6.7	-10.0	1.1	3.9	0.3	3.3
Manufacturing	8.3	-0.4	11.0	10.3	7.3	7.5
Construction	-0.3	-65.6	-52.5	-27.4	-35.9	-20.2
Services Producing Industries	-1.9	-12.7	-8.3	-4.7	-6.9	-1.2
Wholesale & Retail Trade and Transportation & Storage	-5.2	-14.7	-11.7	-6.4	-9.5	-4.1
Information & Communications, Finance & Insurance and Professional Services	4.7	-2.4	0.1	1.4	0.9	3.7
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services	-5.3	-22.2	-14.0	-9.9	-12.8	-3.9

	1Q20	2Q20	3Q20	4Q20	2020	1Q21*
Quarter-on-quarter growth rate, seasonally-adjusted						
Overall GDP	-0.6	-13.1	9.0	3.8	-5.4	2.0
Goods Producing Industries	7.9	-15.4	11.9	1.8	0.3	7.2
Manufacturing	10.5	-7.6	9.7	-1.4	7.3	7.6
Construction	-1.5	-65.6	37.5	55.6	-35.9	8.4
Services Producing Industries	-3.2	-10.4	5.5	4.1	-6.9	0.4
Wholesale & Retail Trade and Transportation & Storage	-1.6	-10.4	2.0	4.1	-9.5	0.9
Information & Communications, Finance & Insurance and Professional Services	-2.9	-3.8	3.4	5.1	0.9	-0.7
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services	-7.6	-17.7	12.0	5.7	-12.8	-1.4

*Advance estimates



Source: MTI, OCBC Bank

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