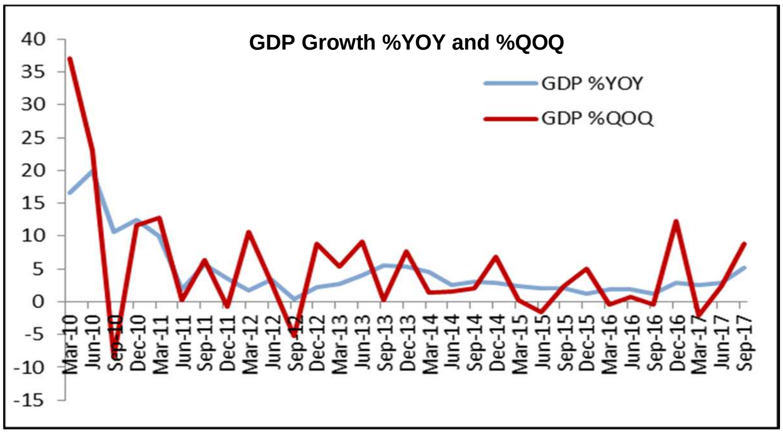
Fastest GDP growth in nearly four years

The Singapore economy grew at a faster pace of 5.2% YOY and 8.8% QOQ in 3Q (2Q: +2.9% YOY), spurred by quicker gains in manufacturing and services which offset continuous declines in construction. This marked its best gain in nearly four years capitalizing on improving external environment that has undoubtedly spilled over to the domestic sectors. Year-to-date, the Singapore economy expanded 3.5% YOY, and full year growth is set to surpass 3.0% in 2017. This has prompted the Ministry of Trade and Industry (MTI) to revise its full year forecast higher to 3.0-3.5%, up from 2.0-3.0% previously. Continuous improvement in macro outlook could reinforce the case for policy normalization by MAS. Already, in its October MPC statement, MAS shifted slightly away from its neutral policy stance, dropping the phrase of "extended period" while maintaining its policy of zero percent appreciation in the SGDNEER band back then.

	2015	2016	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Real GDP (% YOY)	**1.9**	**2.0**	**1.9**	**1.9**	**1.2**	**2.9**	**2.5**	**2.9**	**5.2**
Supply Condition									
Goods Producing Industries	-3.1	2.8	0.5	1.8	0.9	7.9	4.9	4.4	12.3
Manufacturing	-5.1	3.6	-0.4	1.5	1.8	11.5	8.5	8.4	18.4
Construction	3.9	0.2	3.1	2.7	-2.2	-2.8	-6.9	-9.1	-7.6
Services Producing Industries	3.2	1.0	1.5	1.1	0.4	1.0	1.4	2.5	3.0
Wholesale & Retail Trade	3.7	0.6	1.8	0.4	0.1	0.4	0.4	2.1	2.2
Transport & Storage	1.6	2.3	0.1	2.9	0.7	5.4	4.5	3.4	4.6
Accommodation & Food	0.7	1.7	2.1	2.4	2.5	-0.2	-1.6	-2.0	-2.1
Information & Comm.	-0.6	2.3	2.9	2.9	1.3	1.4	1.8	1.5	4.9
Finance & Insurance	5.7	0.7	1.9	1.9	0.1	0.6	0.7	4.2	5.9
Business Services	3.9	-0.9	0.3	0.3	-1.8	-1.9	1.1	1.3	1.4
Other Service Industries	1.2	3.1	2.4	2.6	3.6	3.9	3.0	3.2	2.0

Favourable external conditions led to a sharp pick-up in 3Q GDP growth to 5.2% YOY

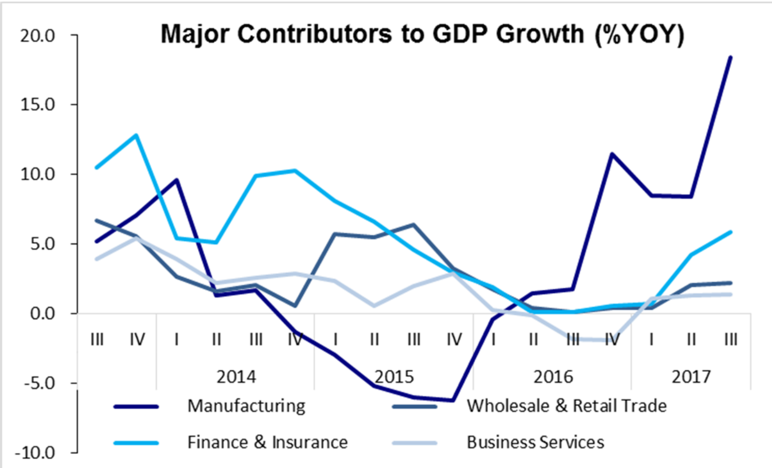
Growth in the Singapore economy accelerated to 5.2% YOY in 3Q, marking a sharp pick-up from the 2.9% YOY increase in 2Q, and **its best gain in nearly four years capitalizing on an improving external environment that has undoubtedly spill over to the domestic front.** Evidently, manufacturing value-added registered a marked improvement, increasing 18.4% YOY in 3Q (2Q: +8.4%) while the services sector grew at a faster pace of 3.0% YOY (2Q: +2.5%). This more than offset extended declines in construction (-7.6% vs -9.1% YOY in 2Q). On a quarterly basis, GDP expanded 8.8% QOQ, quickening from the 2.2% growth in 2Q, in line with improved global demand and brighter world growth prospects**.**



Hefty growth in manufacturing and pick-up in services

Taking a closer look, growth was mainly driven by external oriented sectors namely manufacturing, wholesale trade, finance & insurance, and transport & storage, which benefitted from more robust global economic activities. Broad-based growth was witnessed within the manufacturing sector, with the exception of transport engineering dragged by continued weakness in marine & offshore engineering.

Within the services sector, growth was led by finance & insurance (+5.9% vs +4.2%) as a result of robust growth in financial intermediation, insurance and fund management activities. Other key driving sectors include wholesale & retail trade (+2.2% vs +2.1%), transport & storage (+4.6% vs +3.4%) spurred by higher sea cargoes and air passengers and sustained growth in business services (+1.4% vs +1.3%) in terms of professional services.



Gradual recovery in the labor market to underpin consumption

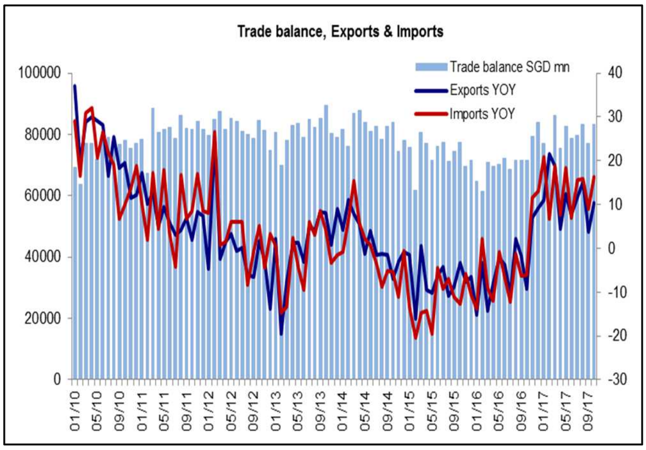
On the demand side, improved sentiments amid rosier growth outlook as well as gradual recovery in the labour market are expected to underpin private consumption. Unemployment rate improved to 2.1% in 3Q (2Q: 2.2%) and employment contracted at a much smaller pace of 700 jobs in 3Q (2Q: -7300). Exports of both goods and services were also more robust, which helped offset slower growth in fixed asset investment during the quarter.

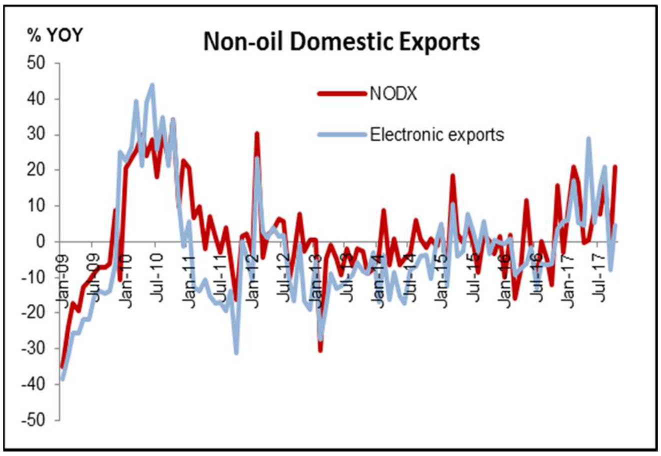
More moderate expansion in 4Q but full year growth set to surpass 3.0%

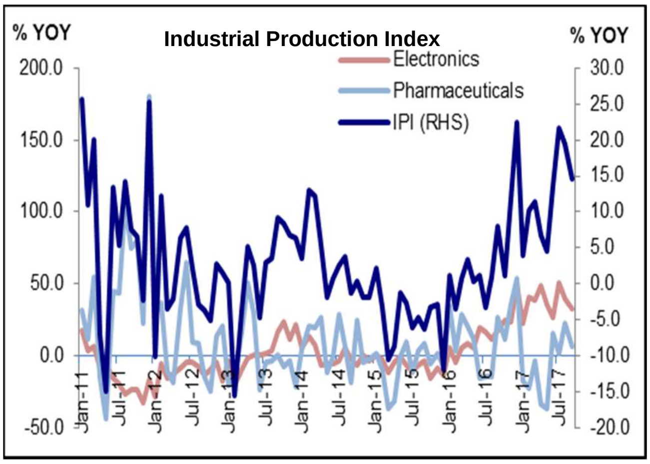
Looking ahead, we expect continuous expansion albeit at more moderate pace in 4Q, underpinned by still favourable growth outlook among the majors that will continue to buoy demand for Singapore exports. Taking cue from better than expected traction in the US and Eurozone, full year growth will surpass 3.0% in 2017. Year-to-date, the Singapore economy expanded 3.5% in the first nine months of the year, back to levels last seen in 2014. Continuous improvement in macro outlook could reinforce the case for policy normalization by MAS. Already, in its October MPC statement, MAS shifted slightly away from its neutral policy stance, dropping the phrase of “extended period” while maintaining its policy of zero percent appreciation in the SGDNEER band back then.

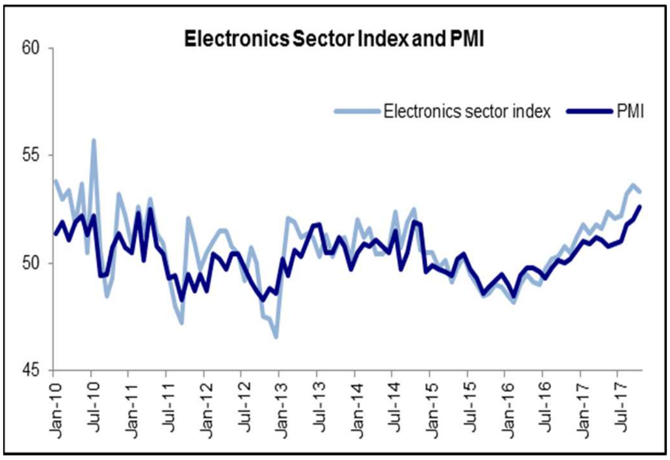
As a result of the surprisingly upbeat 3Q growth, MTI has revised its full year growth forecast higher to 3.0-3.5% for 2017 (previous 2.0-3.0%). Growth outlook for 2018 was however more moderate at 1.5-3.5% amid global policy uncertainty, and policy normalization in the US that could tighten financial conditions globally.

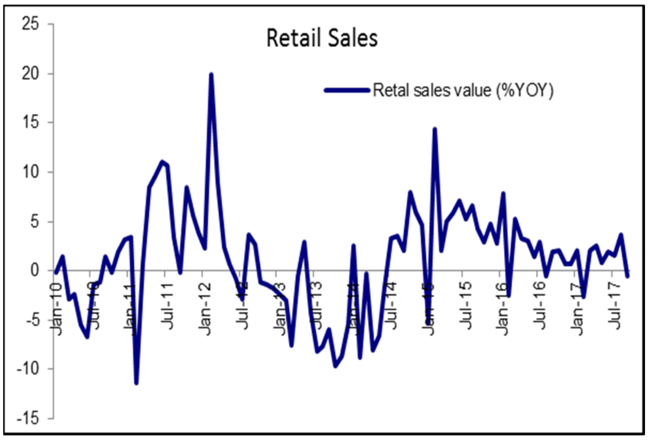
Singapore Graphical Overview:

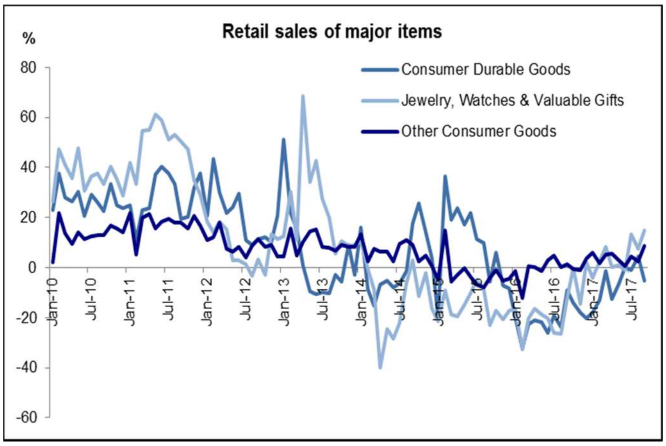












Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Menara Hong Leong
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my