

Global Markets Research
Economics - Singapore

Singapore economy surprised on the upside, growing at its best pace in three years in 2017

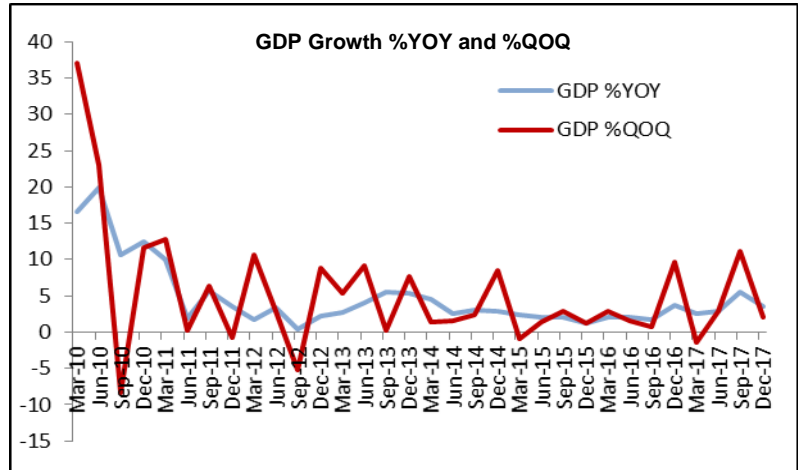
The Singapore economy grew at its best pace in three years, by 3.6% YOY in 2017 despite pulling back somewhat to 3.6% YOY in 4Q, thanks to a better external environment that has benefited the domestic sectors. While 2017 ended on a high note, growth outlook for 2018 is expected to return to a more moderate growth path of 1.5-3.5% amid global policy uncertainty, and as policy normalization in the US that could tighten financial conditions globally. We continue to expect continuous expansion albeit at more moderate pace going 2018, underpinned by still favourable growth outlook among the majors that will continue to buoy demand for Singapore exports. 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	2017	4Q16	1Q17	2Q17	3Q17	4Q17
Real GDP (% YOY)	1.9	2.4	3.6	3.7	2.5	2.8	5.5	3.6
<u>Supply Condition</u>								
Goods Producing Industries	-3.1	3.2	5.7	7.1	4.7	3.5	12.2	2.7
Manufacturing	-5.1	3.7	10.1	11.8	8.5	8.4	19.1	4.8
Construction	3.9	1.9	-8.4	-7.2	-6.9	-12.2	-9.3	-5.0
Services Producing Industries	3.2	1.4	2.8	2.5	1.5	2.6	3.5	3.5
Wholesale & Retail Trade	3.7	1.0	2.3	3.6	0.5	2.2	3.3	3.0
Transport & Storage	1.6	1.3	2.3	4.1	4.7	3.9	5.2	5.3
Accommodation & Food	0.7	3.8	4.8	2.3	-0.3	1.0	1.3	2.9
Information & Comm.	-0.6	3.6	1.2	2.1	1.6	0.8	5.1	6.0
Finance & Insurance	5.7	1.6	4.8	2.3	0.6	5.0	7.1	6.3
Business Services	3.9	-0.3	0.6	-1.4	1.3	0.4	0.5	0.4
Other Service Industries	1.2	3.5	2.6	4.8	2.4	3.3	2.0	2.7

Growth decelerated less than expected to 3.6% YOY in 4Q but full year growth topped estimate at 3.6%, fastest in three years

Growth in the Singapore economy retreated from a near 4-year high of 5.5% YOY in 3Q to 3.6% YOY in 4Q, better than the initial reading of +3.1%. This brings full year growth to 3.6% in 2017 (2016: +2.4% revised), its fastest in three years and exceeded MTI's forecast range of 3.0-3.5%. Continuous recovery in external demand has spilled over to the domestic sectors, providing a lift to overall economic growth. On a quarterly basis, GDP expanded 2.1% QOQ, easing from the revised 11.2% growth in 3Q.

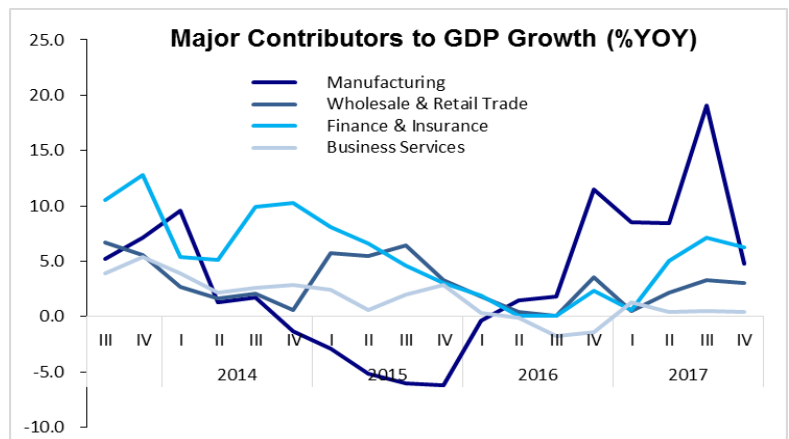
In 4Q17, the slower expansion was attributable to continued contraction in construction activities (-5.0% vs -9.3% in 3Q) and hefty pullback in the manufacturing sector (+4.8% vs +19.1% YOY). Meanwhile, the services sector saw sustained growth of 3.5% YOY in 4Q.



Slower growth in manufacturing; services sustained

Within the services sector, sectors that registered quicker expansion include accommodation & food services (+2.9% vs +1.3%) benefitting from increased tourism activities; information & communications (+6.0% vs +5.1%) spurred by robust demand for IT solutions, other services industries (+2.7% vs +2.0%) which was largely driven by the education and healthcare sectors. The transport & storage sector also saw slightly quicker growth (+5.3% vs +5.2%), thanks to improvements in the sea and water transport segment.

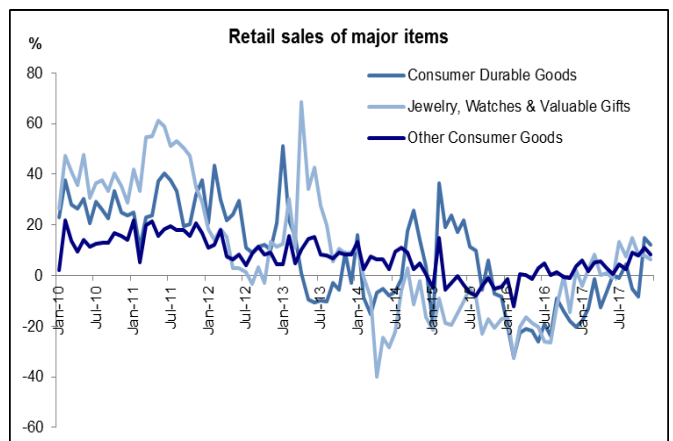
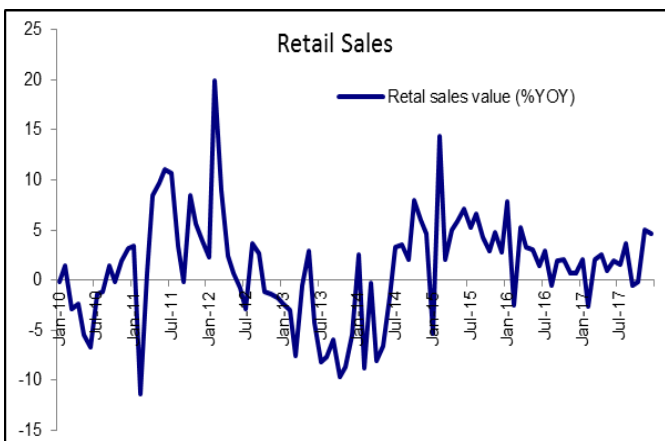
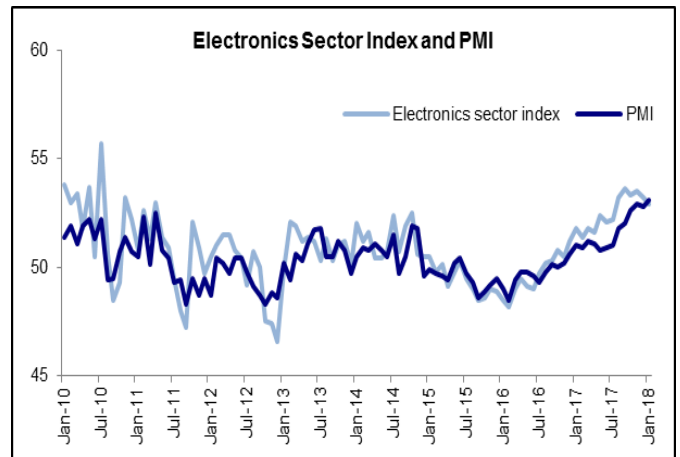
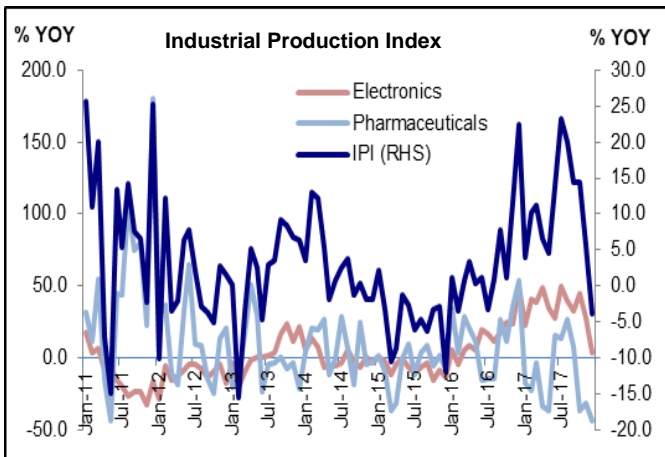
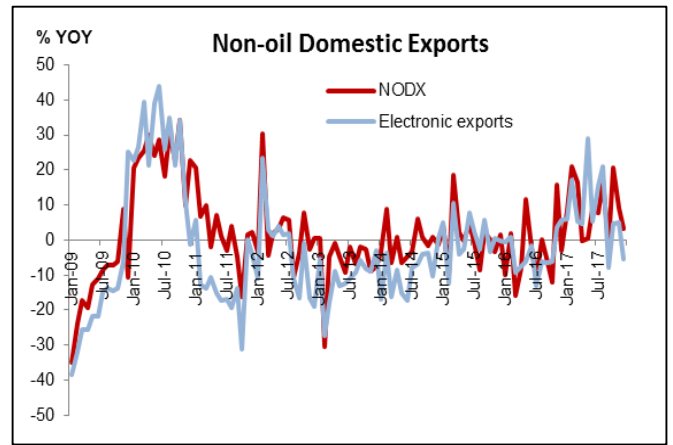
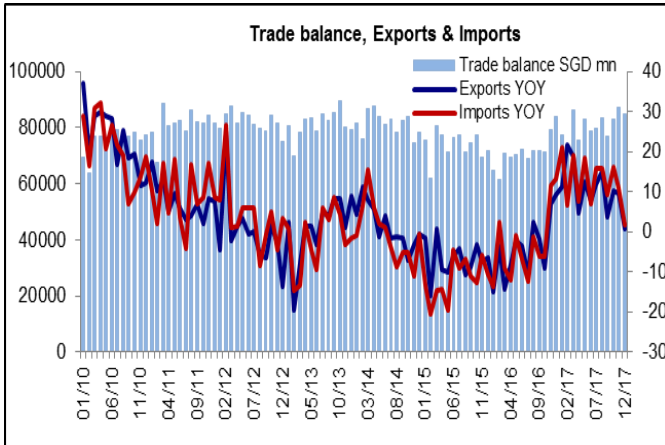
For manufacturing, growth was mainly driven by the electronics and precision engineering segment capitalizing on continuous expansion in global semiconductor and optical products. On a less upbeat note, transport engineering and biomedical segment contracted, the latter due to lower production of pharmaceutical components and biological products.



More moderate expansion of 1.5-3.5% expected for 2018

While 2017 ended on a high note, growth outlook for 2018 is expected to return to a more moderate growth path of 1.5-3.5% amid global policy uncertainty, and as policy normalization in the US that could tighten financial conditions globally. We continue to expect continuous expansion albeit at more moderate pace going 2018, underpinned by still favourable growth outlook among the majors that will continue to buoy demand for Singapore exports. 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.

Singapore Graphical Overview:



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