

Global Markets Research
Economics - Singapore

Singapore GDP growth moderated to 3.9% YOY in 2Q18

The Singapore economy grew at a slower pace in the second quarter of 2018, easing from the higher growth in the preceding quarter as nearly all sub-sectors within both goods and services industries saw softer expansions. Growth in manufacturing industry was held steady while that of the services sector slowed. Looking ahead, the economy is projected to grow by 2.5-3.5% YOY taking into the still solid growth in the first half of 2018, despite a rather mixed outlook of global economies. Uncertainties regarding trade policies remained as US-initiated trade spat has escalated. We expect MAS to maintain its neutral policy stance and leave monetary policy unchanged in its next MPC meeting in October.

	2015	2016	2017	1Q18	2Q18
Real GDP (% YOY)	1.9	2.4	3.6	4.5	3.9
Goods Producing Industries	-3.1	3.2	5.7	7.1	7.1
Manufacturing	-5.1	3.7	10.1	10.8	10.2
Construction	3.9	1.9	-8.4	-5.2	-4.6
Services Producing Industries	3.2	1.4	2.8	4.0	2.8
Wholesale & Retail Trade	3.7	1.0	2.3	2.5	1.5
Transport & Storage	1.6	1.3	2.3	2.7	1.3
Accommodation & Food	0.7	3.8	4.8	2.0	4.0
Information & Comm.	-0.6	3.6	1.2	5.4	5.2
Finance & Insurance	5.7	1.6	4.8	9.2	6.7
Business Services	3.9	-0.3	0.6	2.6	2.1
Other Service Industries	1.2	3.5	2.6	2.3	0.7

Source: MTI Singapore

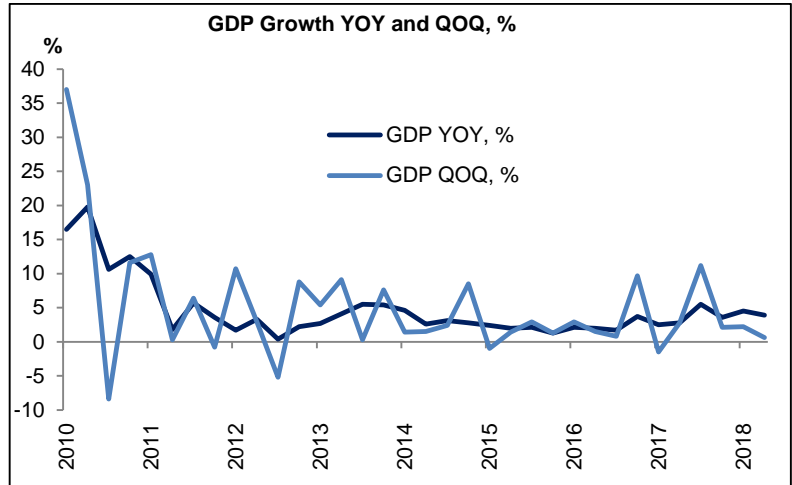
Growth softened to 3.9% YOY in 2Q18, better than initial estimates, but slower than 1Q18

The Singapore economy grew slower than expected as the final reading of 2Q18 real GDP growth clocked in at 3.9% YOY (1Q: +4.5%), but still higher than the initial estimate of 3.8% YOY. The figure is fairly lower than a Bloomberg consensus estimate of 4.1% YOY. On a quarter-on-quarter seasonally adjusted annualized basis, real GDP growth fell to 0.6% QOQ (1Q: +2.2%).

Growth softened as nearly sub-sectors within goods and services industries observed an easing in expansion. Goods producing industries growth was held steady at 7.1% YOY (1Q: +7.1%) while growth in services producing industries slowed substantially to 2.8% YOY (1Q: +4.0%).

Within the goods sector, manufacturing sector remained robust albeit growing at a slower pace of 10.2% YOY (1Q: +10.8%) while constructions extended further contraction of 4.6% (1Q: -5.2%), weighed down by continuous weakness in both public and private sector construction activities due to cooling measures introduced by authorities to curb speculations.

Within the services sector, all categories slowed except for accommodation & communications which rose 4.0% YOY (1Q: +2.0%). Growth in finance & insurance eased notably from the higher gain in the preceding quarter.



Source: MTI Singapore

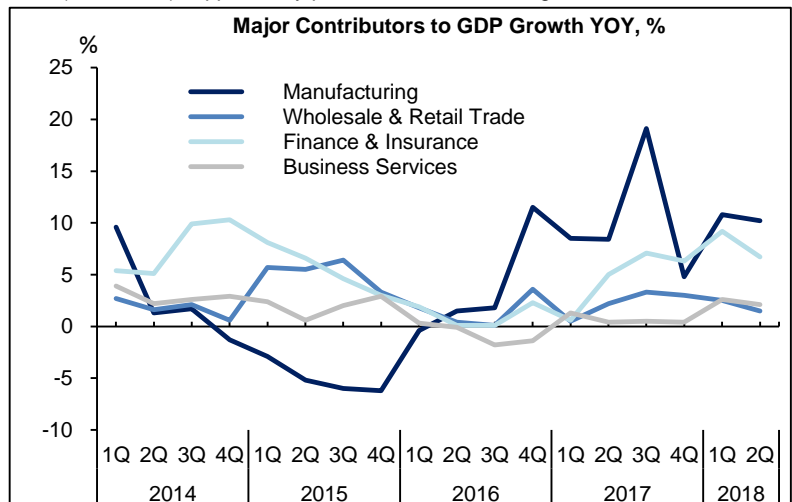
Manufacturing sector remained robust, services sector softened

The manufacturing sector remained in a solid state in the second quarter albeit growing at a softer pace. All clusters were seen expanding led by growth in electronics, biomedical manufacturing and transports engineering.

Within the services sector, wholesale and retail trade moderated from the faster gain in the previous quarter rising 1.5% YOY (1Q: +2.5%). The wholesale trade segment was supported by growth in the machinery, equipment & supplies sub-segment. Retail trade meanwhile was held up by both motor vehicular and non-vehicular sales.

Transportation & storage eased, growing 1.3% YOY (1Q: +2.7%). Accommodation & food services bounced up considerably by 4.0% YOY (1Q: +2.0%) mainly driven by the accommodation sector where an increase in visitor arrivals led to higher gross lettings at gazetted hotels. Food services segment saw lacklustre growth due to the weak performance of restaurants and eating places.

Information & communications slowed slightly growing 5.2% YOY (1Q: +5.4%) as demand for IT solutions remained healthy. Meanwhile, growth in the finance and insurance eased substantially to 6.7% YOY coming off from the hefty gain in the preceding quarter (1Q: +9.2%). Business services posted a modest gain of 2.1% YOY (1Q: +2.6%) supported by professional services segments.



Source: MTI Singapore

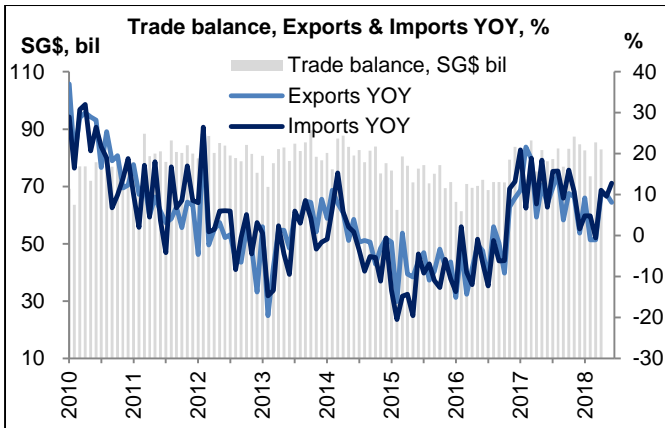
*2018 growth projection maintained at 2.5 – 3.5%,
MAS to leave monetary policy unchanged*

Following a robust first quarter, the Singapore economy is expected to moderate against a rather softer global economic backdrop. Demand for Singaporean goods is likely to slow as outlook of its key trading partners remained mixed – 2Q growth in the Eurozone and China softened, while that of Japan rebounded mainly due to a contraction in the previous quarter. The US economy accelerated but is projected to ease after the effect of tax cut wore off. Exports of goods and services grew only marginally higher by 3.6% YOY (1Q: +3.5%) but net exports growth eased to increase 6.8% YOY (1Q: +8.0%).

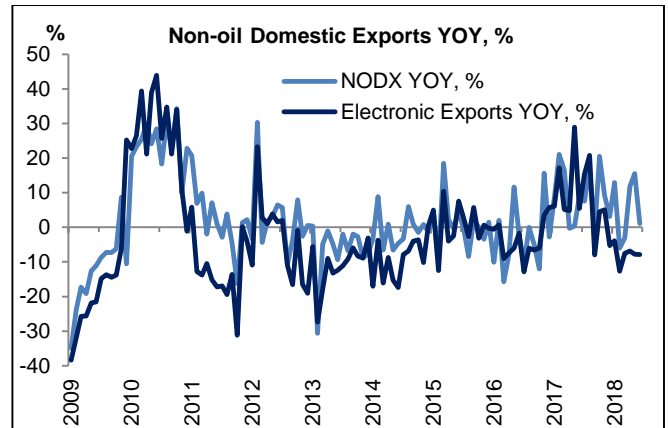
At the domestic front, private consumption slowed since the beginning of the year rising 3.2% YOY in 2Q (1Q: +3.4%), which is notably lower than the >5% growth in the last two quarters of 2017. Growth in government expenditure meanwhile came off from the high level in the first quarter (2Q +2.2% vs 1Q +8.7%). Looking ahead, the economy is likely supported by the continuous expansion of the manufacturing sector driven by a sustained growth in the electronics cluster whereas the services sector to be bolstered by finance & insurance, wholesale trade as well as transportation & storage.

Uncertainties remained over trade policies ever since the US initiating what is now seen as a tit-for-tat trade war with China. Further escalation will only lead to a weakening business and consumer confidence posting a downside risk to domestic activities. Despite that, the Ministry of Trade and Industry maintained its 2018 GDP forecast at 2.5- 3.5% YOY, taking into account growth in first half of 2018. We expect MAS to maintain its neutral policy stance and leave the slope of its policy band as well as the width of the policy band at the level at which it is centered unchanged in its next MPC meeting in October.

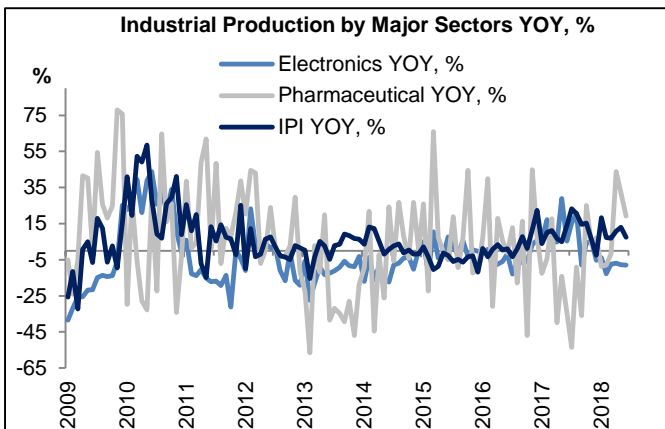
Singapore Overview:



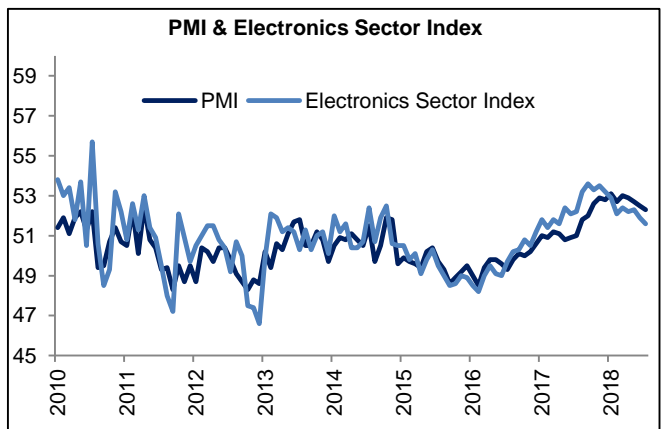
Source: MTI Singapore, Bloomberg



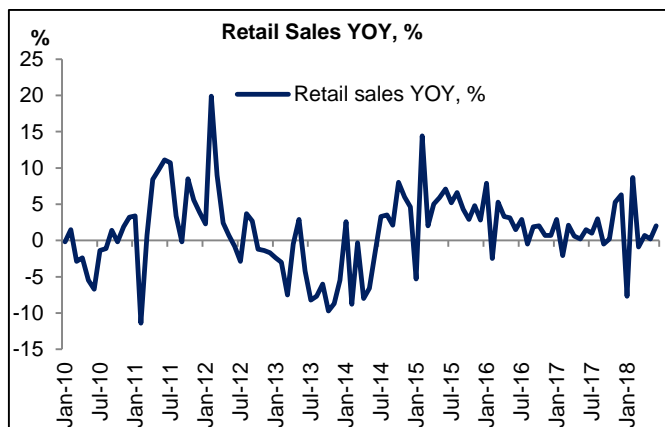
Source: MTI Singapore, Bloomberg



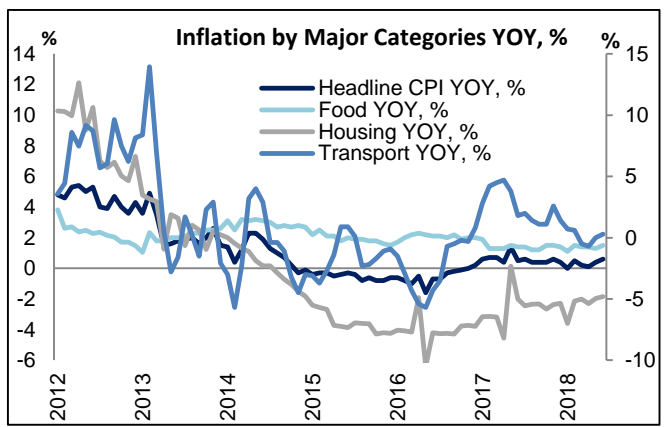
Source: MTI Singapore, Bloomberg



Source: MTI Singapore, Bloomberg



Source: MTI Singapore, Bloomberg



Source: MTI Singapore, Bloomberg

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.