

Singapore Economics

Services Boost, Raising GDP Forecast to 3.5% in 2018

1Q18 GDP Raised with Upward Revision for Services

GDP growth for the first quarter came in slightly higher than flash estimates as the acceleration in services offset the downward revision in manufacturing and construction. Final 1Q GDP rose by +4.4% from a year ago (vs. +4.3% advance estimate and +3.6% in 4Q17) as services gained momentum (+4.1% vs. +3.5% in 4Q) to record the fastest pace in ten quarters. On a quarter-on-quarter seasonally adjusted annualized basis, GDP rose by +1.7% (vs. +2.1% in 4Q).

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Finance & Insurance Leads Services Growth

Services growth was upgraded to +4.1% in 1Q (vs. advance estimate of +3.8%), led by the finance & insurance sector which accelerated by +9.1% (vs. +6.3% in 4Q) and contributed +1.2% points to headline GDP. MTI attributed the surge to “robust growth in the fund management, financial intermediation (ACU loans) and insurance segments”. Growth in other externally-oriented sectors remained healthy, as seen in transport & storage (+2.8%) and wholesale trade. Performance of domestically-oriented sectors were a mix bag, with robust growth in information & communications (+5.7%) and business services (+2.8% vs. +0.4% in 4Q), but a slowdown in accommodation & food services (+2% vs. +2.9% in 4Q) due to the steeper decline in food & beverage sales (-3.2% vs. -0.6% in 4Q). Retail sales volume also declined by -2% (vs. +3% in 4Q) due to the plunge in motor vehicle sales (-16%), recording the first contraction in 4 years.

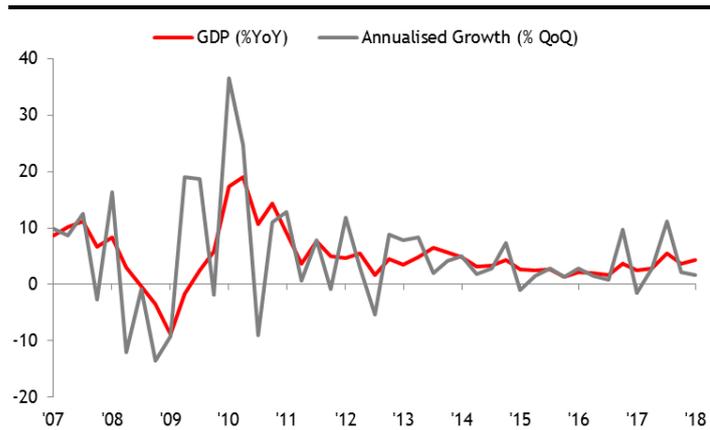
Manufacturing Still at Healthy Clip, Expect Moderation

Manufacturing surged by +9.8% in 1Q (vs. +4.8% in 4Q), boosted by electronics, precision engineering and chemicals. We expect the momentum to slow in the next three quarters as high base effects kick in. PMI seems to have peaked, particularly for electronics. Construction continued to weigh on growth, extending its decline in 1Q (-5% vs. -4.4% advance estimate) at the same pace as the previous quarter. Both private and public certified progress payments fell by -14% in 1Q.

Raise GDP Forecast to +3.5% in 2018, +2.7% in 2019

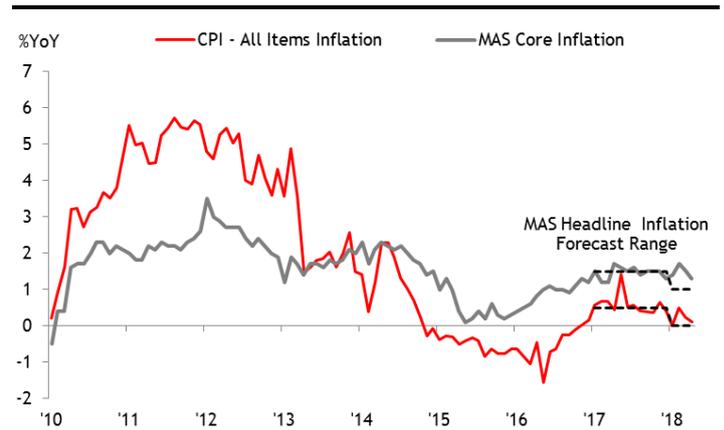
We raise our GDP forecast to +3.5% for 2018 (from +3.1%) and +2.7% for 2019 (from +2.5%), to reflect the stronger services uplift and more modest manufacturing slowdown. We expect continued resilience in outward-oriented services and firmer recovery in domestically-oriented services, which will help offset the easing in manufacturing and trade. US-China trade tensions have subsided after both sides recently announced that they were putting tariffs on hold. Construction will likely recover by year end given strong en bloc sales and improving numbers for contracts awarded, which finally saw a reversal for the private sector in 1Q (+16% vs. -7.6% in 4Q). MTI narrowed its GDP forecast for 2018 to the upper range of 2.5% to 3.5%, adding that the external demand outlook for Singapore has improved slightly. Our revised forecast of 3.5% is at the upper bound of MTI's range. We expect MAS to maintain the current “slight appreciation bias” at the next policy meeting in October. The S\$NEER is currently trading at about +0.5% above the mid-point, by our estimates.

Fig 1: 1Q18 GDP Expands by +4.4%



Source: CEIC, Ministry of Trade & Industry, Maybank Kim Eng

Fig 2: Both Headline and Core CPI Dipped in Apr 2018



Source: CEIC, Maybank Kim Eng

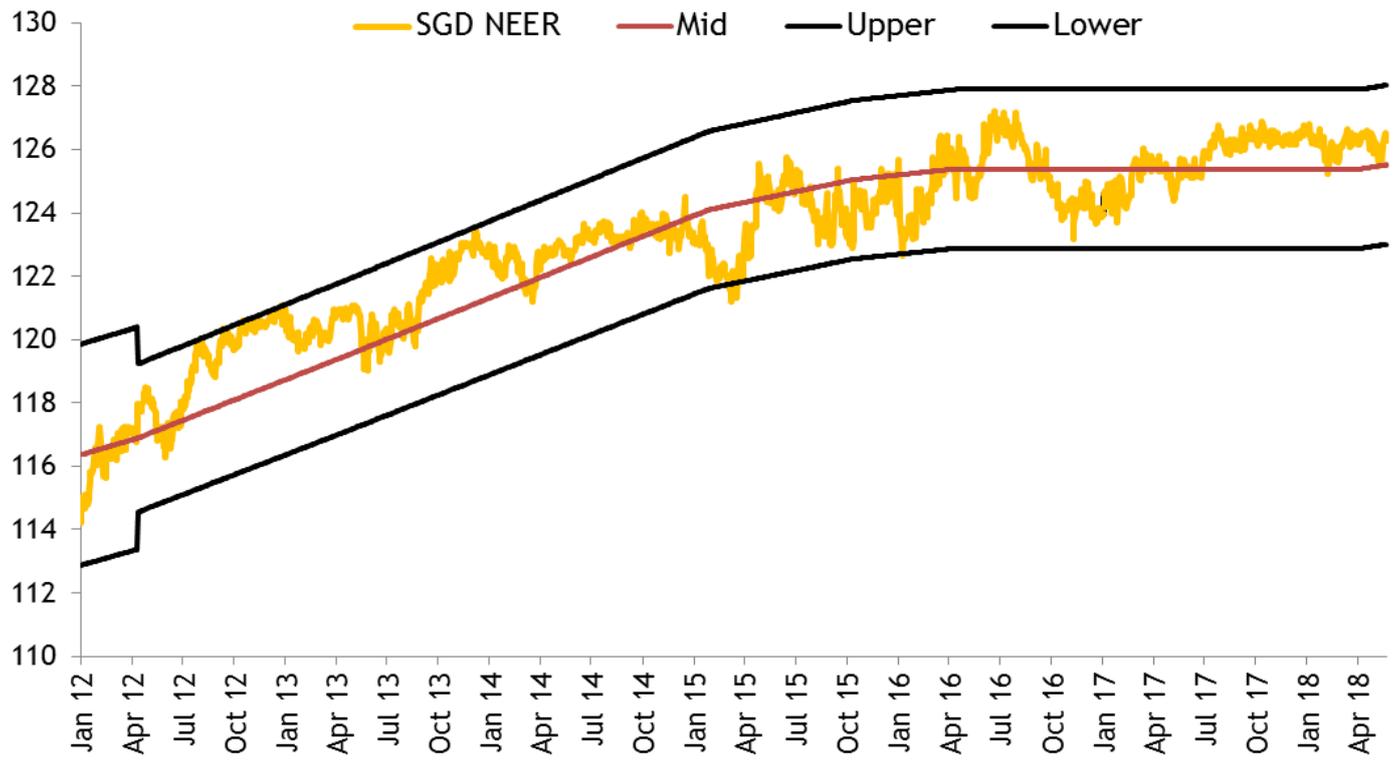
Table 1: Sector Growth Rates

	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2018F	2019F
	%YoY Change							
Total	2.5	2.8	5.5	3.6	3.6	4.4	3.5	2.7
Goods Producing Industries	4.7	3.5	12.2	2.7	5.7	6.4		
Manufacturing	8.5	8.4	19.1	4.8	10.1	9.8		
Construction	-6.9	-12.2	-9.3	-5.0	-8.4	-5.0		
Services Industries	1.5	2.6	3.5	3.5	2.8	4.1		
Wholesale & Retail Trade	0.5	2.2	3.3	3.0	2.3	3.0		
Transportation & Storage	4.7	3.9	5.2	5.3	4.8	2.8		
Accomm & Food Services	-0.3	1.0	1.3	2.9	1.2	2.0		
Info & Communications	1.6	0.8	5.1	6.0	3.3	5.7		
Finance & Insurance	0.6	5.0	7.1	6.3	4.8	9.1		
Business Services	1.3	0.4	0.5	0.4	0.6	2.8		
Other Services Industries	2.4	3.3	2.0	2.7	2.6	1.9		
	Annualised QoQ Growth % (SA)							
Total	-1.5	2.8	11.2	2.1	3.6	1.7	3.5	2.7
Goods Producing Industries	1.5	-1.3	26.0	-11.8	5.7	16.9		
Manufacturing	1.3	3.8	34.9	-14.8	10.1	22.1		
Construction	3.1	-18.5	-2.4	-0.2	-8.4	1.7		
Services Industries	-3.6	4.9	6.5	6.3	2.8	-1.1		
Wholesale & Retail Trade	-11.8	9.5	9.0	6.5	2.3	-11.2		
Transportation & Storage	4.9	3.0	5.2	7.2	4.8	-3.9		
Accomm & Food Services	-1.7	5.0	6.2	2.2	1.2	-4.6		
Info & Communications	4.1	3.5	11.7	4.8	3.3	3.0		
Finance & Insurance	-6.0	7.9	11.7	12.6	4.8	4.5		
Business Services	2.5	-1.8	0.0	1.0	0.6	12.3		
Other Services Industries	-1.2	4.1	2.5	5.2	2.6	-3.8		

Note: Numbers in blue refer to upward revision from advance estimates, while numbers in red refer to downward revision.

Source: CEIC, Ministry of Trade & Industry, Maybank Kim Eng

Fig 3: SGD NEER Currently Trading Above the Implied Mid-point



Source: Bloomberg, Maybank GM FX Research

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