

Singapore Economics

MAS Preview: Time to Normalize

Flash 1Q GDP Growth to Exceed 4%

The MAS biannual monetary policy decision and 1Q flash GDP will be released in mid-April, probably 13 April. First quarter GDP growth likely came in at around +4.2% on a year-on-year basis, led by manufacturing surging by +13% in Jan-Feb. Services likely continued to expand by more than 3%, as the recovery broadened more firmly to domestically-oriented services, including retail sales, property-related and business services.

Labour Market Showing an Upturn

Employment finally rebounded in 4Q17, rising by +12.7k after three consecutive quarters of decline. Wage growth picked up in 4Q17, with average monthly earnings rising by +4% from a year ago. ManpowerGroup’s Employment Outlook Survey points to an improving labour market in 2Q, especially for the finance, insurance & real estate, public administration & education sectors. We see net employment growth recovering to +20k in 2018, after contracting by -3.6k in 2017.

Core Inflation Creeping Up

Core inflation has been creeping higher, reaching +1.7% in Feb 2018. Headline inflation remains muted due to administrative measures such as Service & Conservancy Charges (S&CC) rebates. Risk is on the upside for core inflation as rising wage costs translate into higher services inflation. Government is maintaining its tight foreign worker policy, raising the qualifying salaries for S-passes in Jan 2019 & Jan 2020, despite complaints about worker shortages in certain pockets. Water prices will be raised again by +30% in July. Upcoming hikes in public transport fares and Changi Airport fees will also push up transport and recreation costs.

Time to Normalize after an “Extended Period”

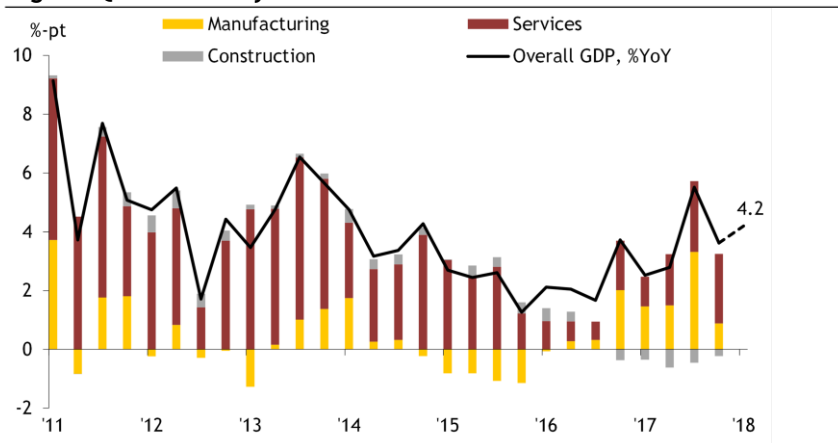
We expect the MAS to normalize and shift to a “slight appreciation bias” for the S\$NEER band from its current neutral stance, which has been in place for an extended period of 2 years (since April 2016). The Singapore dollar is currently trading at about +0.8% above the mid-point of the band, by our estimates. Risks of a full-blown China-US trade war may be a factor in the policy decision, but will not likely delay the decision to normalize given the MAS’ more medium-term horizon focus.

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Fig 1: 1Q18 GDP Likely Rebounded to +4.2%



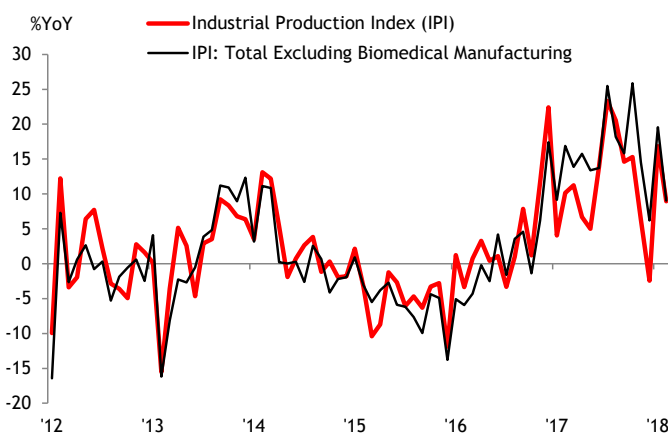
Source: CEIC, Maybank Kim Eng

Robust Flash 1Q GDP, Manufacturing Rebounds

Flash 1Q18 GDP growth estimate will come in at around +4.2%, given the strong manufacturing rebound in January and February. This is an acceleration from the +3.6% recorded in 4Q17. On a quarter-on-quarter seasonally adjusted annualized basis, we expect GDP to expand slightly by +0.7% from 4Q.

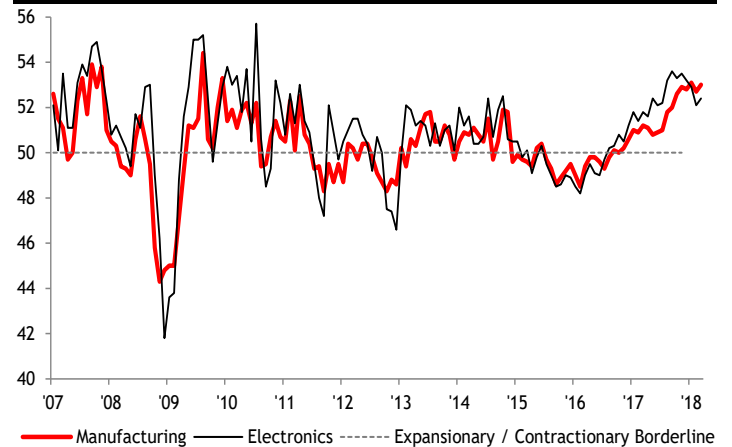
Manufacturing continues to lead growth, driven by semiconductors as global electronics demand remains resilient. We were looking for some cooling off in the manufacturing momentum, but industrial production instead expanded by a strong +13% in Jan-Feb period from a year ago. This is a material pick-up from the +5.8% in 4Q last year (see Fig 2). Production of semiconductors (+32% in Jan-Feb) showed no signs of letting up. Singapore's latest March PMI numbers suggests that manufacturing, particularly electronics, will continue to expand (see Fig 3). Stronger production is also starting to translate into higher investments: Micron Technology recently announced a multi-billion dollar facility expansion which will add more than 1k jobs to its existing 7.5k workforce¹.

Fig 2: Industrial Production Extends Strong Momentum



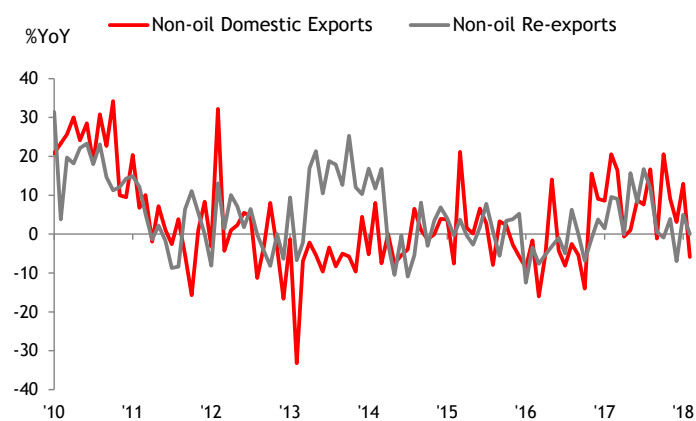
Source: CEIC, Maybank Kim Eng

Fig 3: Overall and Electronics PMI Still Elevated in March



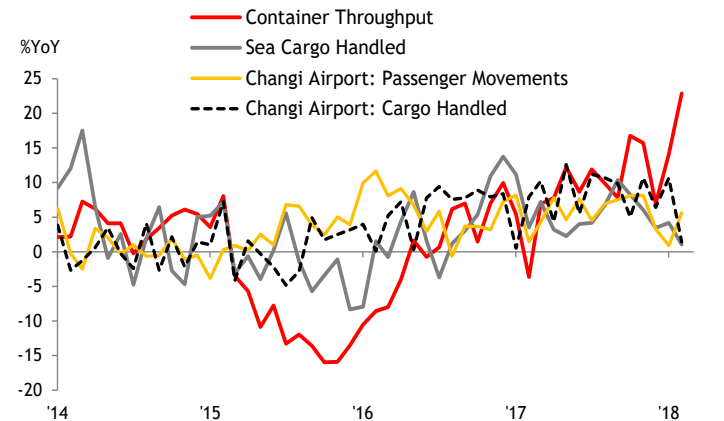
Source: CEIC, Maybank Kim Eng

Fig 4: Wholesale Trade - NODX Eased While NORX Rebounded in Jan-Feb 2018



Source: CEIC, Maybank Kim Eng

Fig 5: Transport - Indicators for Both Sea and Air Transport Activity Remain Strong



Source: CEIC, Maybank Kim Eng

Trade momentum is still healthy, but will likely moderate in 2018 due to high base effects. Non-oil domestic exports growth (NODX) moderated to +3.6% in Jan-Feb following the +10.4% surge in 4Q17. On the other hand, non-oil re-exports (NORX), a proxy for wholesale trade services, rebounded by +2.6% in Jan-Feb after contracting (-1.4%) in 4Q (see Fig 4). Trade-related indicators, such as

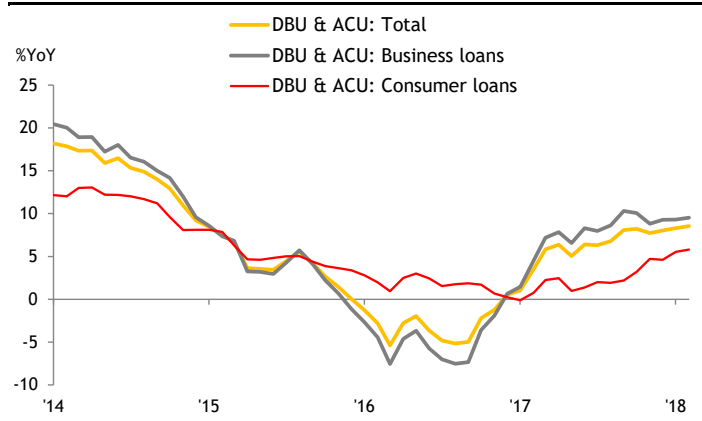
¹ Straits Times, "Micron's new plant to provide 1,000 jobs", 5 Apr 2018.
April 5, 2018

container throughput (+18% in Jan-Feb) and air cargo (+6.2%), remain strong (see Fig 5). The US-China trade spat have not impacted regional trade activity as yet.

Finance & insurance services likely continued growing strongly in 1Q, boosted by healthier loans growth and trading activities. Total loans, DBU and ACU combined, are growing almost +9%, which is a 3-year high (see Fig 6). ACU loans (+14% in Feb) are now driving overall loan growth, as DBU loan growth slows (+3.7% in Feb). Business loans (+9.5% in Feb) have been leading growth, but consumer loans (+5.8% in Feb) are also showing a visible upturn. We expect consumer loans to grow more strongly in the coming years, as the en bloc property sales translate into higher new launches. Trading volumes continued to post robust growth with turnover on SGX securities (+27%) and derivatives (+50%) volume accelerating in Jan-Feb.

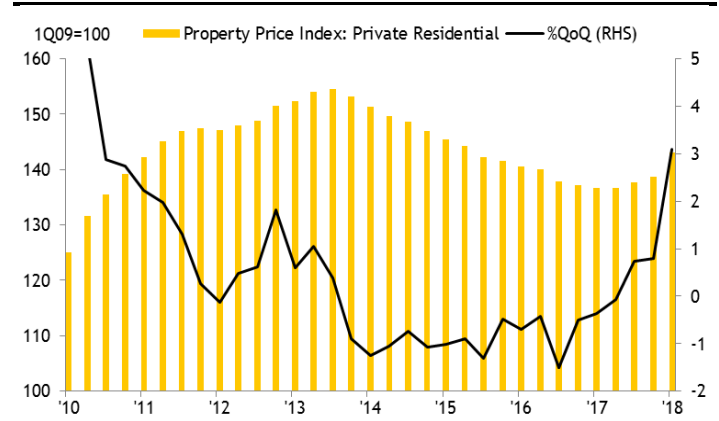
Business services likely held up in 1Q with property prices rising significantly in 1Q18, suggesting healthy demand. URA's private property price index rose by +3.1% in 1Q18 from the previous quarter, the strongest quarterly upturn since 2Q10 (see Fig 7). Total residential sales however dipped by -14% in Jan, reversing from the +33% surge last quarter, on the back of fewer private launches.

Fig 6: DBU & ACU Loans Growing at Above +8% with Both Business & Consumer Loans Picking Up



Source: CEIC, Maybank Kim Eng

Fig 7: Private Property Price Index Reached a 3-Year High Level in 1Q18



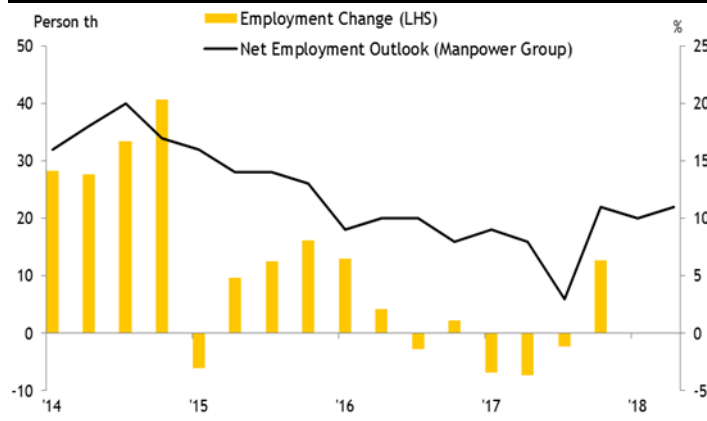
Source: CEIC, Maybank Kim Eng

The construction sector likely contracted for the sixth consecutive quarter in 1Q18. Latest data available for contracts awarded and certified progress payments (a proxy for construction output) came in at lower levels compared to a year ago for Jan/Feb. We think that the sector has bottomed out and will likely recover in 2018 on the back of a stronger property market and bringing forward of some public infrastructure projects. Overall growth for the construction sector will however be near zero for 2018.

Employment finally rebounded in 4Q17, rising by +12.7k after three consecutive quarters of decline in employment (see Fig 8). The job vacancy to unemployed person ratio climbed to 92% in 4Q17 (vs. 89% in 3Q), the highest rate since 1Q16. Average monthly earnings have also trended upwards, rising by +4% in 4Q17 (vs. +3.2% in 3Q) (see Fig 9). ManpowerGroup's Employment Outlook Survey points to an improving labour market in the second quarter, especially for the public administration & education and finance, insurance & real estate sectors. We are (bravely) projecting net employment growth of +20k for 2018, a strong turnaround from the disappointing numbers (-3.6k) in 2017.

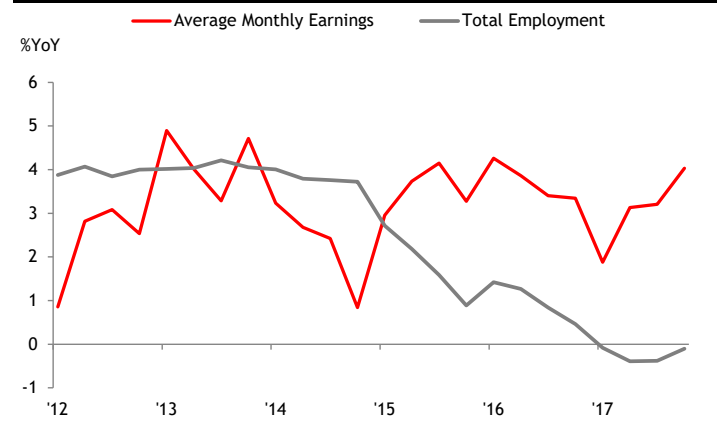
We are forecasting GDP growth at +3.1% in 2018 and +2.5% in 2019. Risks are slightly on the upside, predicated that the US and China avoid a full blown trade war. The manufacturing recovery remains intact, while services are now on a firmer footing, with an improving job market. Construction is past its worst and should return to positive growth by late 2018 and 2019.

Fig 8: Net Employment Outlook for 2Q18 Turns More Optimistic



Source: CEIC, Maybank Kim Eng

Fig 9: Average Monthly Earnings Rose by +4% in 4Q17, the Fastest Pace Since 1Q16



Source: CEIC, ManpowerGroup, 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	4.2	3.1	2.5
Goods Producing Industries	4.7	3.5	12.2	2.7	5.7			
Manufacturing	8.5	8.4	19.1	4.8	10.1			
Construction	-6.9	-12.2	-9.3	-5.0	-8.4			
Services Industries	1.5	2.6	3.5	3.5	2.8			
Wholesale & Retail Trade	0.5	2.2	3.3	3.0	2.3			
Transportation & Storage	4.7	3.9	5.2	5.3	4.8			
Accomm & Food Services	-0.3	1.0	1.3	2.9	1.2			
Info & Communications	1.6	0.8	5.1	6.0	3.3			
Finance & Insurance	0.6	5.0	7.1	6.3	4.8			
Business Services	1.3	0.4	0.5	0.4	0.6			
Other Services Industries	2.4	3.3	2.0	2.7	2.6			
	Annualised QoQ Growth % (SA)							
Total	-1.5	2.8	11.2	2.1	3.6	0.7	3.1	2.5
Goods Producing Industries	1.5	-1.3	26.0	-11.8	5.7			
Manufacturing	1.3	3.8	34.9	-14.8	10.1			
Construction	3.1	-18.5	-2.4	-0.2	-8.4			
Services Industries	-3.6	4.9	6.5	6.3	2.8			
Wholesale & Retail Trade	-11.8	9.5	9.0	6.5	2.3			
Transportation & Storage	4.9	3.0	5.2	7.2	4.8			
Accomm & Food Services	-1.7	5.0	6.2	2.2	1.2			
Info & Communications	4.1	3.5	11.7	4.8	3.3			
Finance & Insurance	-6.0	7.9	11.7	12.6	4.8			
Business Services	2.5	-1.8	0.0	1.0	0.6			
Other Services Industries	-1.2	4.1	2.5	5.2	2.6			

Note: 1Q18, 2018 and 2019 numbers are Maybank Kim Eng's forecast.

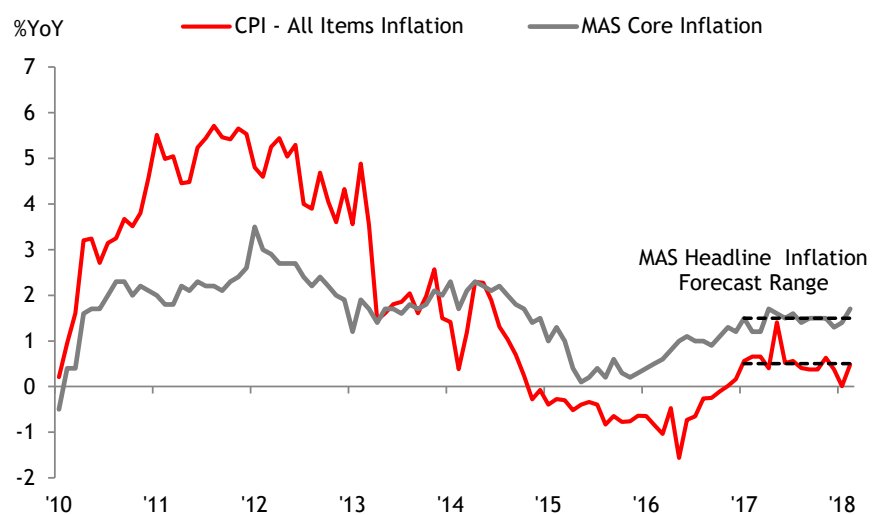
Source: CEIC, Maybank Kim Eng

MAS Preview: Time to Normalize

We expect MAS to normalize and shift to a policy of modest and gradual appreciation, with a slightly steeper bias for the S\$NEER at this April meeting. We think the neutral stance is no longer appropriate or necessary given the strong growth recovery and rising core inflation.

Core inflation has crept up gradually since 2Q17 and would likely reach +2% by the end of the year as wage pressures translate to higher services inflation (see Fig 10). The government is maintaining its tight foreign worker policy, raising the qualifying salaries for S-passes in Jan 2019 & Jan 2020, despite growing labor demand and shortages in certain segments². Anticipated hikes in public transport fares and Changi Airport fees (\$13.30 rise starting 1 July) will push up transport and recreation costs. We expect headline and core inflation to average +0.9% and +1.7% respectively in 2018 (up from +0.6% and +1.5% in 2017).

Fig 10: Core Inflation Creeping Up to Reach +1.7% in Feb 2018



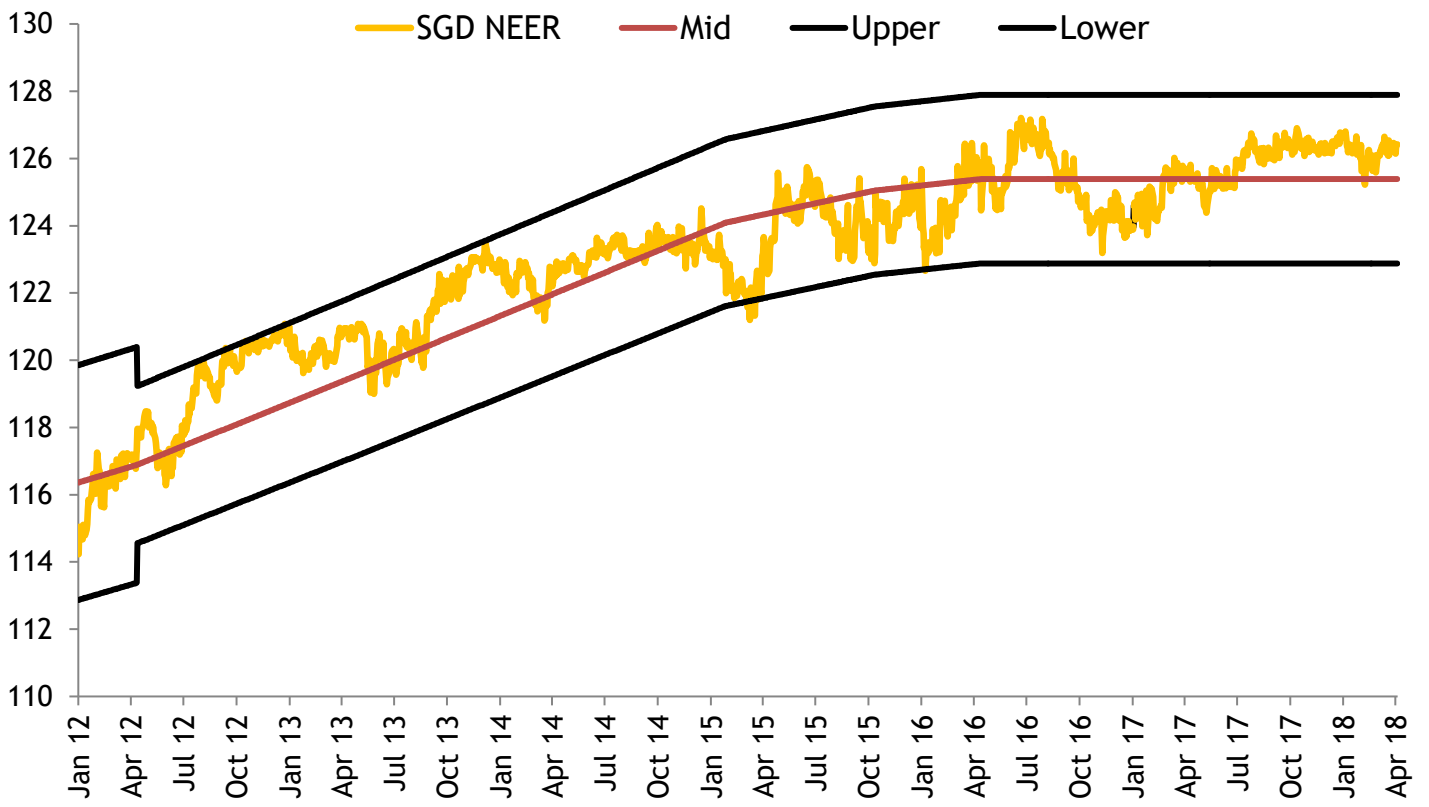
Source: CEIC, Maybank Kim Eng

The MAS has left monetary policy unchanged for two years, longer than the easing stance during the 2008/09 recession (which lasted 18 months). A zero appreciation stance is usually adopted under weak economic conditions such as a sharp downturn or recession. We think that the current period of 24 months probably qualifies as an “extended period”. The Singapore dollar is currently trading at about +0.8% above the mid-point of the band, by our estimates (see Fig 11). Our FX strategist Saktiandi remains bullish on the Singapore dollar, forecasting the SGD to strengthen to 1.24 against the US dollar by year-end.

While there are concerns regarding the looming US-China trade war, we think the risks are not significant enough to delay MAS’ normalization shift. Our base case is that the two countries will reach an agreement to avoid a full-blown trade war (see *Asia Economics - Trade War: The Battlelines*, 24 Mar 2018). The MAS moreover takes a more medium-term perspective on its policy direction.

² Today Online, “S Pass salary criteria to be raised to S\$2,400 over 2 years: Lim Swee Say”, 5 Mar 2018.

Fig 11: SGD NEER Currently Trading at +0.8% Above the Mid-point



Source: Bloomberg, Maybank GM FX Research

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