

Singapore Economics

IP Beats Estimates But Watch Inventories, See 2Q GDP at 4.3%

Industrial Production Maintains Strong Momentum

Manufacturing continued to beat expectations in May, driven by electronics and the biomedical clusters, despite the uncertainties surrounding the US-China trade dispute. Industrial production (IP) surged by +11.1% in May from a year ago (vs. +9.1% in Apr) while IP ex-biomed increased by +9.8% (vs. +9.2% in Apr).

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Divergence and Rising Electronics Inventory

Electronics production gained momentum even as electronics exports continued to contract. Electronics (+17.1% vs. +11% in Apr) gathered pace with semiconductors (+27%) remaining the sole driver while the rest of electronics declined. The persistent divergence between electronics production and exports mirrors the episode in 2Q 2013 to 1Q 2014 during which electronics production was rising while exports were plunging. A positive interpretation of the divergence could be that orders are being booked in Singapore, but production and shipment are taking place elsewhere (eg. in Penang). A more cautious interpretation could be that firms are building up inventories in anticipation of higher future demand (see MTI, Economic Survey of Singapore 2013, Box 6.1: Recent Divergence in Singapore's Electronics Output and Domestic Exports Growth). The risk is that future demand could fall short of expectations, leading to an eventual sharp correction. In the current episode, the inventory component of Singapore's electronics PMI has been climbing since late 2016, and touched a 7-year high in April (see Fig 4).

Growth Across All Clusters

Biomedical manufacturing (+17.7% vs. +8.2% in Apr) was boosted by both pharmaceuticals (+19%) and medical technology (+14%). Chemicals (+8.6%) was driven by petrochemicals (+20%), and will likely continue enjoying robust growth with the opening of two new ExxonMobil plants this month. General manufacturing picked up to +5.2% (vs. +2.8% in Apr) with the surge in food, beverages & tobacco segment (+18%). Transport engineering (+3%) still expanded on the back of the aerospace segment (+12%) which offset the decline in marine & offshore (-0.6%) and land transport (-15%). Precision engineering (+0.8% vs. +7% in Apr) softened as precision modules & components turned negative (-1.6%).

Expect 2Q GDP at +4.3%, IP to Moderate in Second Half

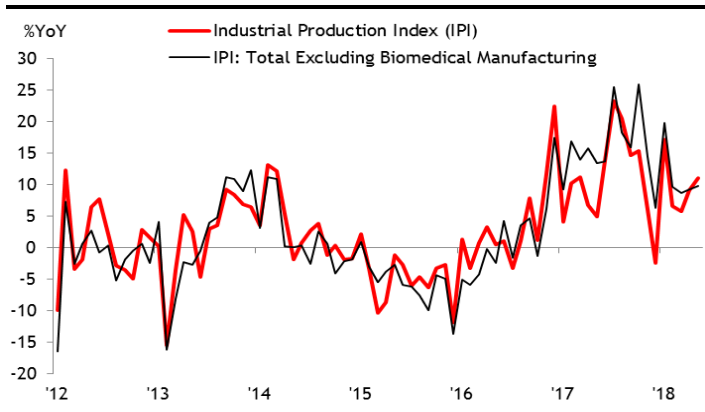
Today's number brings Apr/May manufacturing growth to +10.1% (vs. +9.8% in 1Q), but we expect June numbers to soften to low single-digit growth as high base effects kick in. Rising risk of a full blown US-China trade war may also disrupt the supply chain and hit growth in the second half of the year. We expect flash estimate 2Q GDP (out second week of July) to come in strongly at +4.3% (vs. +4.4% in 1Q), given robust manufacturing and services growth. Our full year GDP growth forecast currently stands at +3.5% in 2018 and +2.7% for 2019.

Table 1: Industrial Production Breakdown (%YoY)

	<u>Nov-17</u>	<u>Dec-17</u>	<u>Jan-18</u>	<u>Feb-18</u>	<u>Mar-18</u>	<u>Apr-18</u>	<u>May-18</u>	<u>YTD2018</u>	<u>2017</u>
Industrial Production	6.1	(2.4)	17.1	6.5	5.7	9.1	11.1	9.8	10.4
Electronics	28.2	6.9	28.1	17.9	11.9	11.0	17.1	16.9	33.8
Biomedical Manufacturing	(21.2)	(34.4)	6.0	(7.5)	(6.2)	8.2	17.7	3.2	(8.4)
Chemicals	7.6	14.2	14.0	7.9	8.5	12.5	8.6	10.2	6.2
Precision Engineering	20.8	19.4	25.0	6.4	11.0	7.0	0.8	9.9	18.1
Transport Engineering	(9.0)	(10.3)	0.6	4.6	3.7	9.6	3.0	4.3	(6.9)
General Mfg. Industries	2.7	4.1	11.8	(6.6)	(0.3)	2.8	5.2	2.6	(1.4)
IP ex. Biomedical	14.3	6.3	19.8	9.6	8.6	9.2	9.8	11.3	15.5

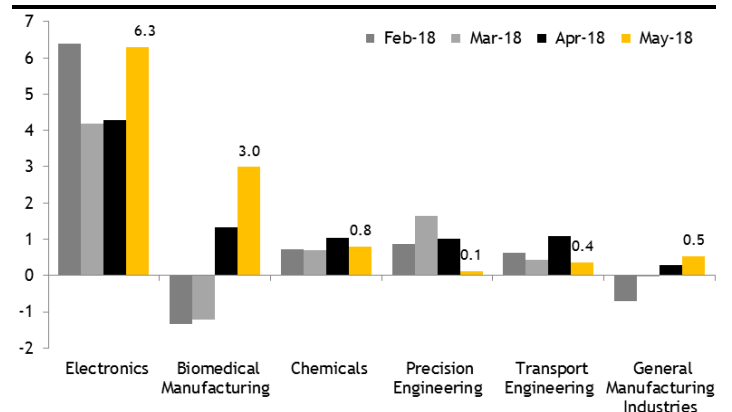
Source: CEIC, EDB

Fig 1: IP Picks Up Momentum in May-18



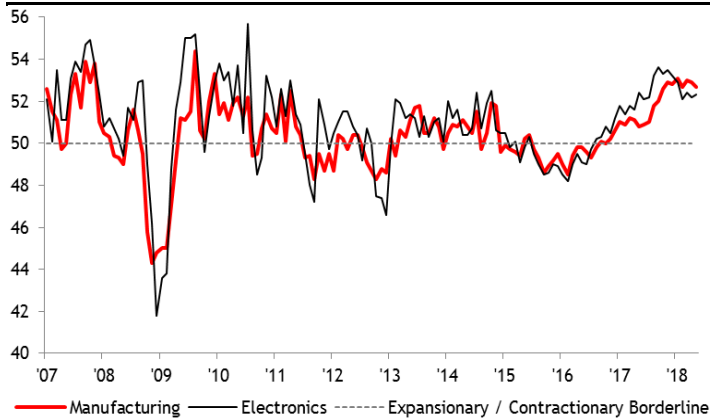
Source: CEIC

Fig 2: Contribution to Growth by Clusters (ppts)



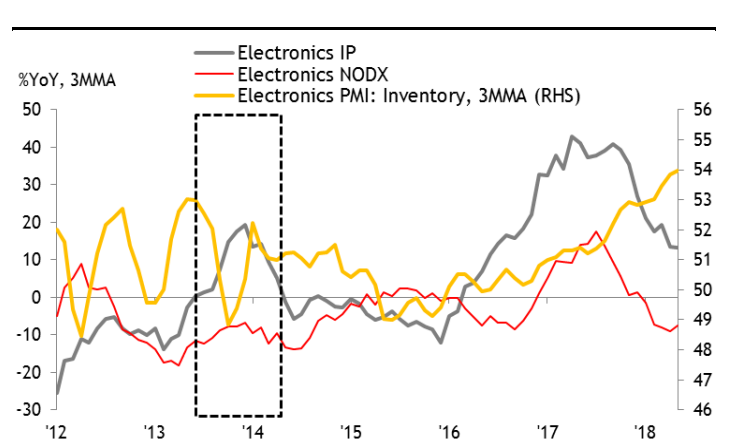
Source: CEIC

Fig 3: Manufacturing Purchasing Manager Index (PMI) Coming Off Its Peak



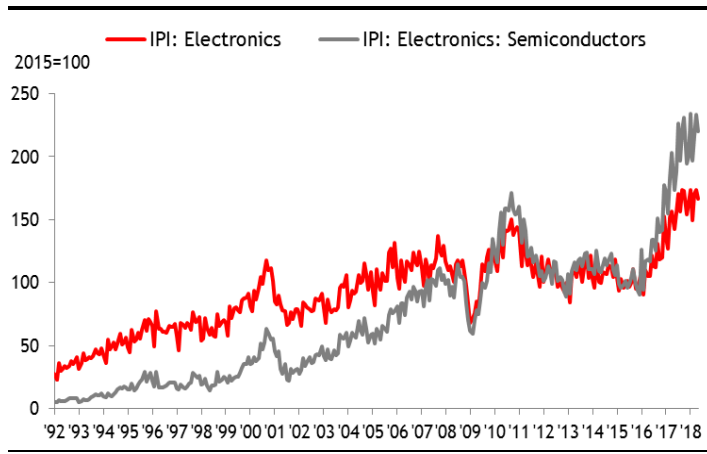
Source: CEIC

Fig 4: Electronics Inventory Has Risen to 7-Year Highs



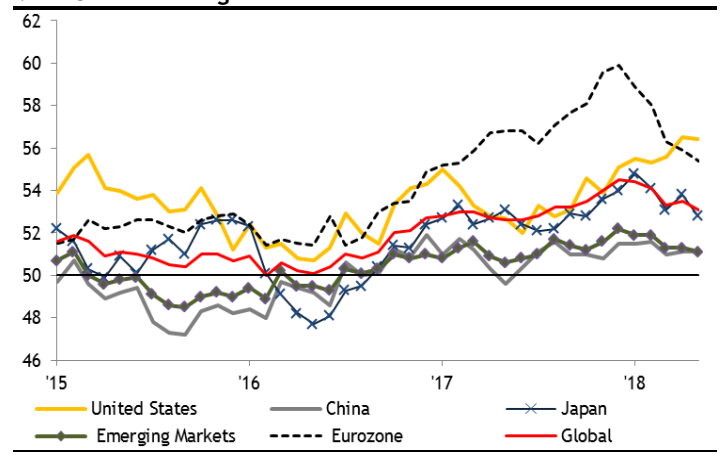
Source: CEIC

Fig 5: Semiconductors and Electronics Output Stay High



Source: CEIC

Fig 6: Markit Manufacturing PMI Still in Expansion Phase for Most Countries/Regions



Source: CEIC, Markit

Table 2: Manufacturing PMI

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Manufacturing	52.0	52.6	52.9	52.8	53.1	52.7	53.0	52.9	52.7
New Orders	53.1	53.7	54.1	54.3	54.7	54.5	54.9	54.6	54.5
New Export Orders	52.7	52.9	53.3	53.4	53.7	53.6	53.9	53.5	53.3
Production	53.3	53.8	54.4	54.1	54.9	54.0	54.8	54.7	54.3
Inventory	52.2	52.6	52.7	52.1	52.4	52.8	52.9	53.0	52.8
Stocks of Finished Goods	51.1	50.9	51.3	51.0	51.2	51.5	51.7	52.0	52.3
Imports	51.9	52.3	52.9	53.0	53.3	52.9	53.2	53.4	53.0
Input Price	50.1	50.8	51.6	51.8	51.1	51.4	50.9	51.2	51.5
Employment	50.3	50.7	50.9	51.0	50.8	50.6	50.4	50.6	50.5
Supplier Deliveries	50.1	49.4	49.3	49.6	49.7	50.2	50.6	50.8	50.4
Order Backlog	51.1	51.3	51.5	50.9	51.0	50.9	51.1	50.7	50.3

Source: CEIC

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