

Singapore 2Q08 NODX Dives 5.4% y/y: Start of a Sustained Downward Trend in Exports?

Singapore's non-oil domestic exports shrank 5.4% y/y in 2Q08, compared to the marginal 0.6% rise in 1Q08. This comes as NODX dived 10.5% y/y in June (Mkt: -4.2%, UOB: -4.8%), matching the 10.5% y/y drop in May. On a seasonally adjusted basis however, NODX gained 2.4% m/m in June (Mkt: 3%, UOB: 7%), after dropping 9.8% m/m in May. This comes on top of prelim 2Q08 GDP figures that suggest manufacturing output contracting 5.6% y/y on softening global demand for Singapore exports.

Electronics exports posted their steepest decline in a year, contracting 14.6% y/y to S\$4.8bn - the lowest level in more than 3 years. Electronics exports also demonstrate a deepening contractionary trend, from -8.5% y/y in May, and marking the 17th straight month of decline. All major segments except parts of ICs shrank, led by consumer electronics (-32.9% y/y), ICs (-24.5% y/y) and disk drives (-18.5% y/y).

The outlook for the cyclical electronics industry is grey, with the SEMI book-to-bill ratio and US retail sales for electronics goods still in the doldrums. The Eurozone and the US are staring at slowing growth, as reflected in double-digit contractions in Singapore exports to these two top markets, and the prospect of a deepening slowdown is likely to translate into further weakness in electronics exports. Even exports to China (third largest export market) contracted in the double-digits in June, suggesting that tightening measures in China are filtering into slower growth.

Non-electronics exports remained in negative territory for a second month in a row, led by pharmaceuticals (-22.3% y/y) and chemicals (-11.1% y/y). **Pharmaceutical exports have contracted sharply year-on-year for 4 consecutive months, giving rise to doubt about the conventional wisdom that the defensive pharmaceuticals industry will be relatively insulated from a global downturn.** However, at S\$1.5bn, June drug exports did rebound m/m from the low levels in May, which at S\$1.1bn, was only half the drug shipments in the same period last year.

All in, we expect a downward bias to NODX for 2Q and 3Q - as Europe joins the US in a widening slowdown. High costs of production will diminish exporters' margins, while exports will also be subject to a strong Singapore dollar as well as weakness in external demand.

	June NODX (y/y, %)					
	4Q07	1Q08	Mar 08	Apr 08	May 08	June 08
Total NODX	-0.4	0.6	-5.9	5.4	-10.5	-10.5
Electronics	-8.2	-4.3	-8.5	-0.4	-8.5	-14.6
Disk Drives	-15	7.4	1.3	19.2	2.9	-18.5
ICs	-19.6	-5.2	-6.9	3.7	-12.6	-24.5
Parts of PCs	-3.3	-4.6	-14.4	-0.3	-9.3	-18.2
Parts of ICs	69.5	21.8	22.8	-4.4	15.2	41.7
Consumer Electronics	24.4	-33	-30.6	-31.3	-30.6	-32.9
Non-electronics	6.1	4.1	-4.2	9.8	-11.8	-7.9
Pharmaceuticals	-8	-21.3	-34.1	-11.7	-48.5	-22.3
Petrochemicals	7.7	1.3	-11.8	15.2	-2.6	-7.2

Source: Bloomberg