

Friday, 26 December 2008

Flash Notes

Singapore: Continued Decline in Industrial Production for November, But Less Than Expected

Manufacturing output registered a second month of consecutive contraction in the month of November, after October's revised 12.1% y/y decline. This is the 6th contraction in 8 months starting April this year. Industrial production shrank 7.5% y/y in Nov, much less than market expectations of -16%. The surprise came from pharmaceutical production, which expanded 17.5% y/y, compared to the hefty 30.9% contraction in October. Compared to a month before, adjusted for seasonal factors, manufacturing output rose 6.2% in Nov, due to the higher level of production in the biomedical manufacturing sector.

A change in the mix of pharmaceutical ingredients being produced, helped push up pharmaceutical production. Pharmaceutical production – which accounts for about 22% of the manufacturing output- usually has a volatile production record which waxes and wanes according to its own sector dynamics, instead of following economic cycles. On the back of the surge in pharmaceutical production, the biomedical manufacturing cluster grew 14.9% y/y. Despite this expansion, we still see pharmaceutical production possibly remaining under pressure as worldwide demand for drugs wane, and cheaper generic drugs become more popular.

The other major contributor of industrial production, which accounts for nearly 30% of industrial production, is the electronics sector, and this sector has continued to show consistency in its declines. Electronics production shrank 19.4%y/y- the biggest decline since Feb 2002- due to a global demand slump in all segments, such as semiconductors, data storage, infocomms and consumer electronics. This is likely to continue, as appetite for electronics in recession-hit US and EU diminishes.

Other sectors had a mixed set of results, with some reporting declines, while others grew slightly. The Chemicals sector shrank 20.1%, as the petrochemicals segment was hit by a slowdown in export orders, while temporary shutdowns due to weak external demand affected the specialties segments. The precision engineering segment recorded a drop of 19.1% y/y due to lower output of machinery and systems, as well as precision modules and components. General manufacturing declined 1.7%, with the drop in printing production more than offsetting the growth in food, beverages and tobacco manufacturing.

The transport engineering sector saw a 5.2% growth, helped by deliveries on contracts in the aerospace segment, and also a low base from last year. Marine and offshore engineering grew 3.4% due to more ship and parts repair.

Overall, even though Nov's contraction looks to be milder than the declines in prior months of this year, this does not point to an uptick in the economy. The months of May, Jul, Aug and Oct, saw steep declines of -13.3%, -21.8%, -12% and -12.1% respectively, compared to Nov's relatively moderate -7.5%. This however came largely from pharma production which tends to be unpredictable. The global economic outlook is still deteriorating.

Also released today was the tourist arrival data for Nov, which showed visitor arrivals contracting 9.7% y/y in Nov. Visitor arrivals to Singapore have declined since June, reflecting worldwide tightening of purse strings as consumers cut back on discretionary spending. 760,000 tourists visited Singapore in Nov, down from 842,000 a year ago. Arrivals and revenue from tourism is expected to fall below STB's target of 10.8 million and S\$15.5 billion respectively this year, STB said.

Impact on growth prospects:

We are maintaining our forecast of full-year GDP growth at 2.3%, with a 0.8% growth in 4Q08.

November Industrial Production (y/y%)					
	VA Share (%)				
	<u>2007</u>	<u>2007</u>	<u>Sep-08</u>	<u>Oct-08</u>	<u>Nov-08</u>
Industrial Output	100	5.8	3.2	-12.1	-7.5
Electronics	29.7	4.0	-14.7	-13.3	-19.4
Chemicals	11.8	3.3	2.9	-7.1	-20.1
Precision Engineering	13.0	0.0	-3.4	-12.1	-19.1
Transport Engineering	11.9	23.5	11.8	11.7	5.2
General Manufacturing	9.2	6.3	3.9	2.8	-1.7
Biomedical Manufacturing	24.4	-0.6	43.4	-29.7	14.9
Pharmaceuticals	21.8	-2.5	50.2	-30.9	17.5
Source: EDB					

Disclaimer: This analysis is based on information available to the public. Although the information contained herein is believed to be reliable, UOB Group makes no representation as to the accuracy or completeness. Also, opinions and predictions contained herein reflect our opinion as of date of the analysis and are subject to change without notice. UOB Group may have positions in, and may effect transactions in, currencies and financial products mentioned herein. Prior to entering into any proposed transaction, without reliance upon UOB Group or its affiliates, the reader should determine, the economic risks and merits, as well as the legal, tax and accounting characterizations and consequences, of the transaction and that the reader is able to assume these risks. This document and its contents are proprietary information and products of UOB Group and may not be reproduced or otherwise.