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Macro Note

Singapore: Stronger June IP Suggests Upward Revision For 1H GDP

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- **Singapore's industrial production (IP) for June 2018 expanded 7.4% y/y (+3.9% m/m SA)**, higher than Bloomberg consensus estimates of a 3.3% y/y (+2.2% m/m) expansion. It was also notable that the May IP growth was revised higher to 12.9% y/y (from the preliminary estimate of 11.1% y/y) even though sequential expansion was slightly downgraded to +0.3% m/m (from preliminary estimate of 0.4% m/m). Excluding biomedical manufacturing, output grew 9.8% y/y (-1.2% m/m SA) in May.

- The **electronics cluster** continued to anchor Singapore's manufacturing activity, expanding for the 28th consecutive month although the pace of growth noticeably eased to 7.1% y/y in June (from 18.7% y/y in May). The main support for the electronics clusters continued to be the semiconductors (+26.9% y/y) segment, but the blistering double-digit expansion pace for the preceding 27 months (since March 2016) has been reduced to just 10.2% y/y in June. As for output in the other major electronic segments, performance was mixed in June with computer peripherals (-10.2% y/y) and data storage (-9.9% y/y) still in decline with infocomms & consumer electronics (+5.4% y/y) and other electronics modules & components (+9.2% y/y) staging a rebound in activity.

- **Growth in the biomedical manufacturing cluster** registered a 3rd straight month of growth at 13.8% y/y in June (from upwardly revised 19.7% y/y in May), with output of pharmaceuticals rising a strong 17.4% y/y, while the medical technology segment gained a smaller 1.9% y/y. Biomedical manufacturing is the second most important manufacturing cluster (after electronics), accounting for nearly 1/5 of Singapore's manufacturing activity of which pharmaceuticals is responsible for 75% while medical technology segment accounts for the remaining 25%. The next 2 months (especially August) will be a big test for this cluster as it will face a significantly high base in the same period last year.

- The **growth in chemicals cluster** moderated markedly to 1.6% y/y in June (from 8.6% May) with growth still led by the petrochemicals (+14.3% y/y in June from +19.6% y/y in May). The **transport engineering cluster** continued its 6th straight month of expansion by growing 12.4% y/y in June, from 8.4% y/y in June, as a resurgent marine and offshore engineering segments (+28.3% y/y in June from +11.6% y/y in May) led the cluster's growth after having been in the doldrums for more than 3 years. Meanwhile, the precision engineering cluster expanded a stronger 2.7% y/y in June (from 1.7% in May), the 23rd consecutive month of expansion while the general manufacturing industries clusters saw activity increasing at a slower 0.5% y/y pace (from 5.8% y/y in May).

- In the 2nd quarter of 2018, **Singapore's manufacturing activities grew by a still robust 10.2% y/y**, (from **+10.8% y/y** in 1Q), reflecting the continued resilience in the manufacturing sector, especially from the electronics manufacturing cluster. Importantly, the latest 1Q and 2Q manufacturing growth rates are better than that reported earlier in the advance GDP estimates for the second quarter of 2018 on 13 Jul 2018 (which was 9.7% y/y in 1Q and 8.6% in 2Q). **This implies that the headline GDP growth for 1Q (4.3% y/y) and 2Q (3.8% y/y) could be revised higher by 0.1 to 0.3ppt**, based on the improvements in the 1H manufacturing activity and assuming no major revisions to services and construction activity.

- However, we are mindful that manufacturing activity will turn softer in the second half of 2018 for two main reasons. The first reason is statistical as we are wary that the high base of the electronics cluster from 2017 may result in a slower pace of expansion in the months ahead. The second is that simmering US-China trade tensions could cloud global trade outlook and the potential negative spillovers will impact Singapore's manufacturers both in terms of a slowdown in export orders as well as business sentiments. China is Singapore's largest exporting partner and if trade slows down between China and the US due to the trade conflict, Singapore will definitely feel it. **For now, we remain cautious and maintain our forecast for Singapore's IP growth at 4.4% y/y in 2018 (2017: 10.5% y/y), primarily taking into consideration of the expected slowdown due to the high base effect.**

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Indicator (% y/y)	Share	Mar-18	Apr-18	May-18	Jan-May 2018
Electronics	27.4	11.8	18.7	7.1	15.6
Semiconductors	17.0	16.1	29.0	10.2	22.5
Biomedical Manufacturing	19.6	13.5	19.7	13.8	7.7
Pharmaceuticals	15.0	18.3	22.6	17.4	8.4
Chemicals	9.3	12.6	8.6	1.6	8.7
Precision Engineering	13.8	7.2	1.7	2.7	8.8
Transport Engineering	17.6	14.2	8.4	12.4	9.6
General Manufacturing	12.3	2.9	5.8	0.5	2.3
Total Manufacturing	**100.0**	**10.8**	**12.9**	**7.4**	**10.5**
Manufacturing Excluding Biomedical	80.4	10.3	11.5	5.9	11.1

Source: DOS, UOB Global Economics & Markets Research

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