![UOB]

Global Economics & Markets Research
Email: GlobalEcoMktResearch@uobgroup.com
URL: www.uob.com.sg/research

Macro Note

Singapore: Will A Strong Pace In Manufacturing Help To Dispel COVID-19 Concerns?

Friday, 25 September 2020

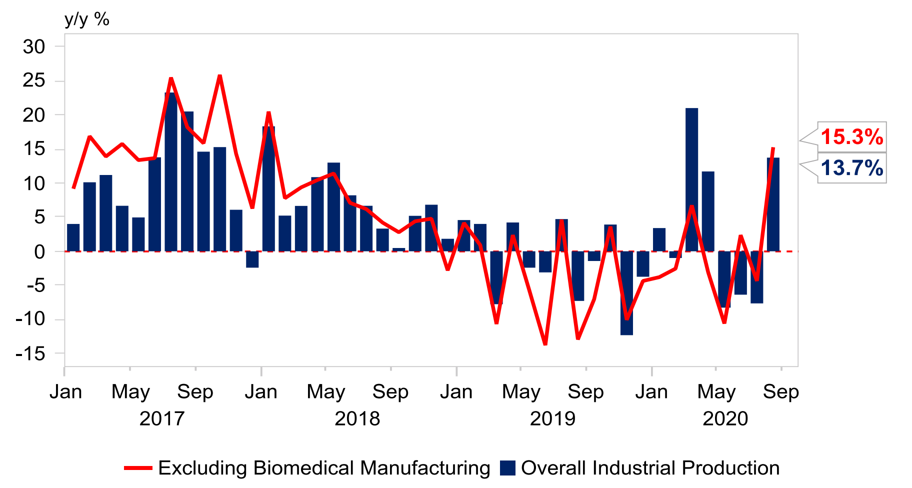
Barnabas Gan
Economist
Barnabas.GanSC@uobgroup.com

Highlights

- Singapore's industrial production surprised market expectations with a 13.7% y/y (+13.9% m/m sa) surge in August 2020. This compares with Bloomberg expectations for a softer expansion of 2.2% y/y (+1.7% m/m sa). Excluding biomedical manufacturing, industrial production grew 15.3% y/y.
- Coupled with the continued demand for biomedical products, the mix of a relatively low-base print in August 2019 and increased demand for digital solutions and semiconductor equipment were the key reasons for August's expansion.
- Notably, biomedical manufacturing expanded 8.4% y/y in August 2020, bucking the contraction pace seen in the previous two months. This was on the back of export demand for medical instruments and higher output of biological products.
- Nonetheless, low oil prices expected for the rest of 2020 will likely depress the chemicals and transport engineering clusters. Meanwhile, COVID-19-related factors may continue to weigh on the general manufacturing cluster.
- Given the upside surprise in August's manufacturing pace, year-to-date manufacturing growth is now at a respectable +3.1% y/y, up from -0.5% y/y in the same period last year. As such, we upgrade our full-year industrial production outlook to average +2.5% in 2020, up from our prior outlook of -2.0%.

Exhibit 1: Industrial Production Surged 13.7% y/y in August 2020, The Fastest Pace in 5 Months

Source: Macrobond, UOB Global Economics & Markets Research



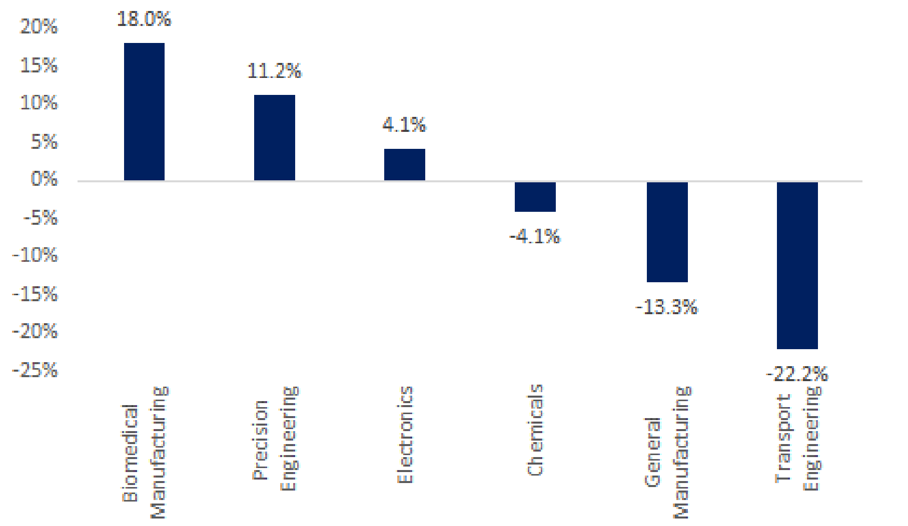
Singapore's industrial production surprised market expectations with a 13.7% y/y (+13.9% m/m sa) surge in August 2020, the fastest pace since March 2020 (+21.0% y/y). This compares with Bloomberg expectations for a softer expansion of 2.2% y/y (+1.7% m/m sa). Excluding biomedical manufacturing, industrial production grew 15.3% y/y. Accounting for the latest data, Singapore's manufacturing environment had expanded 3.1% in the first eight months of 2020, up from -0.5% y/y in the same period last year.

Coupled with the continued demand for biomedical products, the mix of a relatively low-base print in August 2019 and increased demand for digital solutions and semiconductor equipment were the key reasons for August's expansion. Specifically, the upside surprise was largely centred on the growth in electronic production (+44.2% y/y), followed by precision engineering (+9.4% y/y) and biomedical manufacturing (+8.4% y/y). Growth in the electronic sector was supported by the demand from cloud services, data centres and the 5G market, while the production in precision engineering was led by higher output of semiconductor equipment.

Notably, biomedical manufacturing expanded 8.4% y/y in August 2020, bucking the contraction pace seen in the previous two months. Across the sub-clusters, the production of medical technology (+19.3% y/y, fastest pace in 8 months) was led by higher export demand for medical instruments, coupled with higher output of biological products which supported the overall production of pharmaceuticals. Year-to-date, Singapore's biomedical manufacturing remains to be the best performing cluster at +18.0%.

Exhibit 2: Biomedical Manufacturing Remains To Be The Best Performing Cluster Year-To-Date

Source: Macrobond, UOB Global Economics & Markets Research

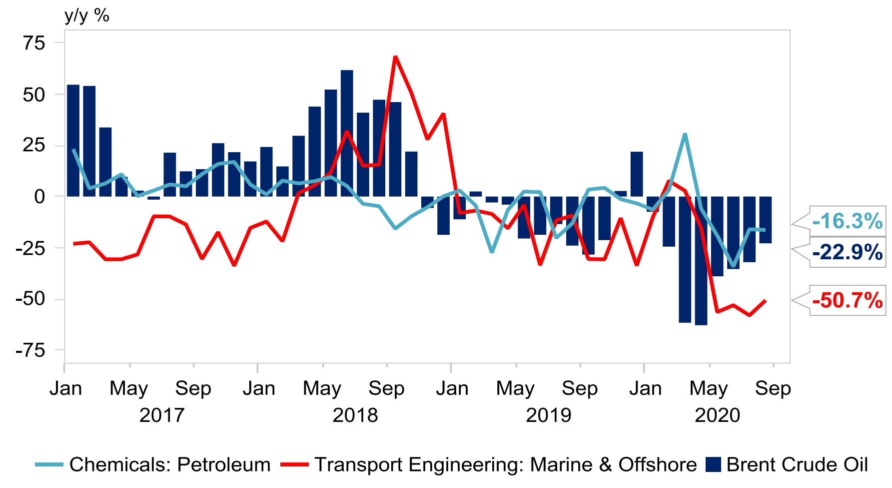


Nonetheless, low oil prices expected for the rest of 2020 will likely depress the chemicals and transport engineering clusters. Do note that OPEC has downgraded its outlook for global oil demand to an average of 90.2 (-0.4) mbpd and 96.9 (-0.4) mbpd in 2020 & 2021, respectively. OPEC added that the downgrade was made in view of a faltering economic recovery and stumbling fuel demand in the wake of the coronavirus pandemic, and looking ahead, a negative impact on oil demand in Asia is expected to persist through the first six months of 2021. Separately, COVID-19-related factors may continue to weigh on the general manufacturing cluster. According to the media release by the Economic Development Board (EDB), the contraction pace in August's printing output (-21.8% y/y) and miscellaneous industries (-24.1% y/y) were the results of the

“impact by the COVID-19 pandemic” as well as “lower output of construction-related products (and) the slow resumption of domestic construction activity.”

Exhibit 3: Soft Oil Prices Could Depress The Chemicals And Transport Engineering Clusters

Source: Macrobond, UOB Global Economics & Markets Research



Further expansion in Singapore’s industrial production environment cannot be ruled out. Comfortingly, the expansion seen in August’s manufacturing data outpaced the contraction in July, thus reinforcing our call that the decline in biomedical production may be transient amid a high base effect seen in the previous month. Note that July’s industrial production has been revised higher to -7.6% y/y, up from a previous print of -8.4% y/y. Back then, the contraction was chiefly led by the fall in transport engineering (-36.0% y/y) and biomedical manufacturing (-24.3% y/y) on the back of low oil prices and a high base print in July 2019. Please see our July’s Manufacturing Report for more details.

Given the upside surprise in August’s manufacturing pace, we are upgrading our full-year industrial production outlook to average +2.5% in 2020, up from our prior outlook of -2.0%. Perceived risks arising from the COVID-19 pandemic appears to have greatly diminished at this juncture, owing to the sharp fall in COVID-19 infection rates in Singapore. This is coupled with the Singapore authorities’ decision to ease office restrictions where workers who have been previously home-based can now return to offices for up to half of their total working time starting 28 September 2020. Other bright-spot as seen in the support from the electronics cluster could persist especially given consumer demand for digital solutions.

Notwithstanding the upgrade in Singapore’s manufacturing full-year growth, we continue to pencil a contraction pace of 5.0% for Singapore’s GDP in 2020. We expect the construction sector to remain in contraction zone in 2H20, coupled with intensified concerns on the spread of COVID-19 in worker dormitories given that some dormitories previously cleared of the virus have since reported new infection cases. Singapore’s services cluster may also see further headwinds, dragged by the absence of tourism-related demand amid soft domestic demand where retail sales had already contracted for the past 18 months.

Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.