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Macro Note

Singapore: An Upbeat Reading For Manufacturing PMI

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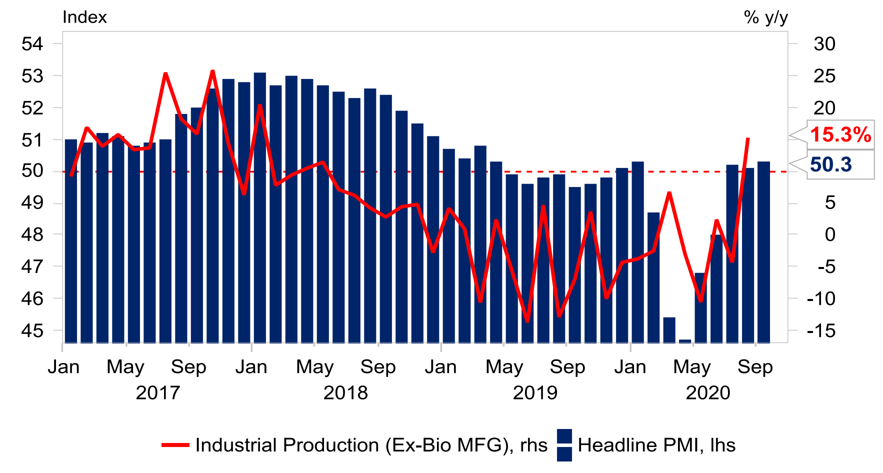
Highlights

- Singapore's manufacturing PMI reported by SIPMM rose 0.2 points to register 50.3 in September 2020, marking its third straight month of expansion. Similarly, the electronic PMI rose at a faster pace at 0.3 points to end at 50.9, the highest level since a year ago.
- The latest PMI data is relatively more upbeat, considering first-time expansions in new orders in 8 months, as well as faster rates of expansions in new exports and factory output. Overall, the data continue to suggest a relatively rosier economic backdrop as compared to the first half of 2020.
- However, the employment index continues to contract for its 8th straight reading at 48.8 in September 2020, suggesting that hiring sentiments stayed soft. The outlook for Singapore's labour market remains weak in the months ahead.
- In a separate survey by IHS Markit, Singapore's private sector economy continued to contract for its 8th straight month, albeit at a slower pace in September 2020. Specifically, the whole economy PMI rose to 45.1 in September, up from 43.6 in the previous reading.
- Overall, the higher readings in both manufacturing and electronic PMIs signal that a recovery is taking place, while recent high-frequency data points toward a relatively better economic environment in 2H20. The continued improvements in Singapore's economic backdrop supports our view for MAS to keep its monetary policy parameters unchanged in its upcoming meeting that will be held no later than 14 October 2020.

Chart 1: A Noticeable Improvement In Both Industrial Production and Manufacturing PMI In 3Q20

Source: Macrobond, UOB Global Economics & Markets Research



Singapore's manufacturing and electronic Purchasing Managers' Index (PMI) reported by the Singapore Institute of Purchasing & Materials Management (SIPMM) continued to rise in September 2020. Headline manufacturing PMI gained 0.2 points to register 50.3, marking its third straight month of expansion. Similarly, the electronic PMI rose at a faster pace at 0.3 points to end at 50.9, the highest level since a year ago.

The latest PMI data still reflects a relatively rosier economic backdrop, compared to when PMI remained below its 50.0 mark in the period between February and June 2020. The latest PMI data is relatively more upbeat, considering first-time expansions in new orders (50.1 points) in 8 months, as well as faster rates of expansions in new exports (Sept 2020: 50.4 points, versus Aug's 50.2) and factory output (Sept: 50.8, Aug: 50.6). These data continue to suggest that Singapore's manufacturing and exports continued to recover post Circuit Breaker and Phase One restrictions in 2Q20. Encouragingly, the uptick in the PMI data also coincides with the expansions in both industrial production and Non-Oil Domestic Exports (NODX) in August. Specifically, Singapore's industrial production surged 13.7% y/y (+13.9% m/m sa), the fastest pace since March 2020, while NODX grew for its third straight month by 7.7% y/y in August 2020. For more details, please refer to our reports[1] in the footnote below.

However, the employment index continues to contract for its 8th straight reading at 48.8 in September 2020, suggesting that hiring sentiments stayed soft. We opine that labour conditions are expected to weaken further into 2H20, following the tapering of the subsidies under the Job Support Scheme into 4Q20. Specifically, the wage support enjoyed by businesses at 75% for the first S$4,600 of gross monthly wages paid to Singaporean employees during the months April – May 2020 will be reduced to a range of between 0% and 50% in 1Q21. A softer labour market has also been echoed by Deputy Minister Heng Swee Keat, which in his ministerial statement on 17 August, mentioned that retrenchments will be inevitable despite the Government's best efforts. For more details on the Job Support Scheme, please see the appended table below.

Table 1: Job Support Scheme Details

Source: Singapore Budget 2020

Month of Payout	Payout based on wages paid in	Tier 1	Tier 2	Tier 3
Apr 2020	Oct - Dec 2019	75%	50%	25%
Jul 2020	Feb - Mar 2020	75%	50%	25%
	Apr 2020 (Circuit Breaker)	75%	75%	75%
Oct 2020	May 2020 (Circuit Breaker)	75%	75%	75%
	Jun – Aug 2020	75%	50%	25%
Mar 2021 [Extended]	**Sep – Dec 2020**	**50%**	**30%**	**10%**
Jun 2021 [Extended]	**Jan – Mar 2021**			**10% (0% for sectors that are managing well)**

[1] United Overseas Bank, Will A Strong Pace In Manufacturing Help To Dispel COVID-19 Concerns?, 25 Sept 2020
[1] United Overseas Bank, NODX Rose For The Third Month; Expected To Expand Further In 4Q20, 17 Sept 2020

In a separate survey by IHS Markit, Singapore's private sector economy continued to contract for its 8th straight month, albeit at a slower pace in September 2020. Specifically, the whole economy PMI rose to 45.1 in September, up from 43.6 in the previous reading. Despite the contraction, the average PMI reading in 3Q20 at 44.8 is markedly higher compared to the average reading in 2Q20 at merely 32.8, suggesting that the economy had seen a rebound from the peak negative impacts of COVID-19. Across the sub-sectors, business activities continued to fall, as seen from the "reduced output concentrated in sectors relating to accommodation & food services as well as administrative & support services". On the flip-side, construction activities reportedly "returned to growth", while manufacturing output was "broadly stable".

Overall, the higher readings in both manufacturing and electronic PMIs reinforces our view that a recovery is taking place, coupled with the above-mentioned expansions in industrial production and NODX which underlines a relatively better economic environment in 2H20. Coupled with the positive growth momentum in Singapore's NODX and manufacturing environment, we maintain our view that the trough in Singapore's economic performance is likely seen in 2Q20 (-13.2% y/y), with GDP pencilled to contract by a smaller margin of 5.0% for this year. More importantly, the continued improvements in Singapore's economic backdrop supports our view for the Monetary Authority of Singapore (MAS) to keep its monetary policy parameters unchanged in its upcoming meeting that will be held no later than 14 October 2020. For more details on our outlook on monetary policy, please refer to our MAS Outlook Report[2] in our 4Q20 Quarterly Global Outlook Report.

[2] United Overseas Bank, MAS Preview: What More Can Be Done When Gears Are In Neutral?, pg 25

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