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Macro Note

Singapore: Oct's Industrial Production Benefited From Low-Base Levels And Strong Global Demand

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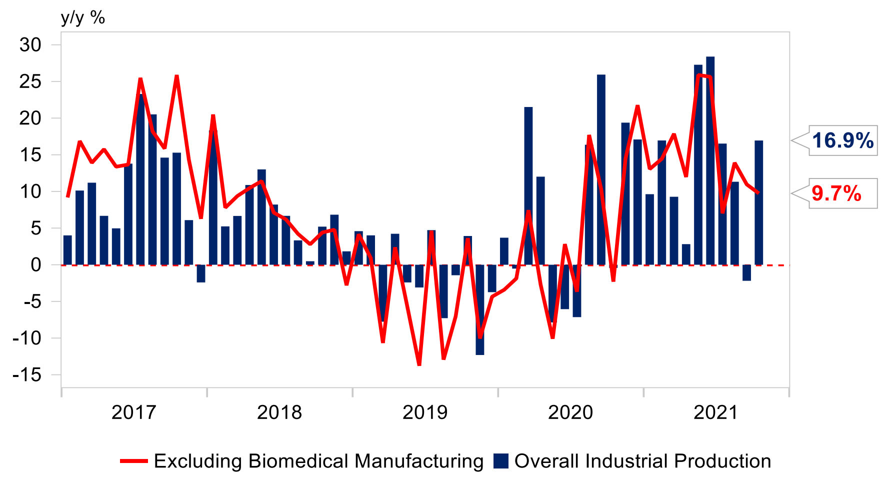
Highlights

- **Singapore's October industrial production expanded 16.9% y/y (+2.4% m/m sa), bucking the previous month's contraction of 2.2% y/y (-1.9% m/m sa).** The advance was faster than Bloomberg's estimate for a 14.5% y/y growth, as well as ours at 13.3% y/y. Excluding biomedical manufacturing, industrial production rose 9.7% y/y. Accounting for the latest data, Singapore's industrial production grew 12.8% year-to-date.

Exhibit 1: A Faster Than Anticipated Rise In Singapore's October Industrial Production at 16.9% Y/Y

Source: Macrobond, UOB Global Economics & Markets Research



- **The expansion was underpinned by a broad uptick in all key sectors.** Growth was led by the volatile biomedical manufacturing cluster, which expanded by 56.1% y/y, the fastest growth pace in three months (July 2021: +76.7% y/y). The pharmaceutical segment (+93.4% y/y) especially benefited from a low production base in the same period last year, although lower demand for medical devices weighed on the medical technology segment (-3.0% y/y). This is in contrast with the fall in biomedical manufacturing in September 2021 (-35.9% y/y) against a very high base last year as Singapore responded to the high demand for biomedical-related products on the back of the COVID-19 pandemic in September 2020.

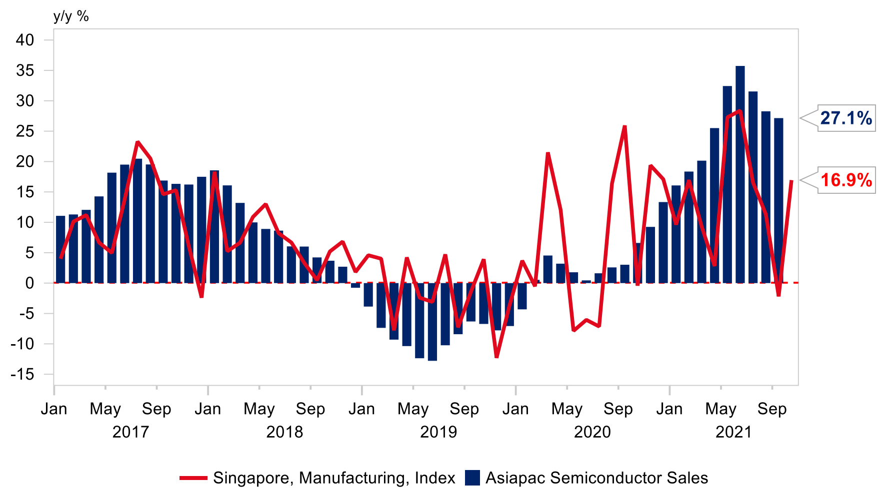
- **Similarly, a mix of low base effects and a stronger production momentum has also benefited the transport engineering, chemicals and general manufacturing clusters.** Specifically, the marine & offshore engineering and the aerospace segments both staged a very strong rebound of 77.6% y/y and 26.9% y/y respectively, on the back of shipbuilding, repairing, maintenance and overhaul activities. In addition, the return of export demand for the petrochemicals and petroleum products buoyed chemicals output. Lastly, general manufacturing benefited from the increased demand for construction-related production, which effectively cushioned the fall in production in the printing, F&B and tobacco segments.

- **We remain very positive on semiconductors and its related industries, which had been a strong driver for growth and manufacturing momentum year-to-date.** According to the press release by the Economic Development Board (EDB), officials have observed the strong capital investment in the global semiconductor industry, which in turn supported the precision engineering cluster. Even so, output was unfazed even by the high base in October 2020 (+10.9% y/y), and is led by the machinery & systems segment (+19.6% y/y) albeit dragged by the precision modules & components (-11.2% y/y). Elsewhere, the electronic segment encouragingly saw a broad expansion pace across all sub-segments, led by the production of computer peripherals & data storage (+27.9% y/y), consumer electronics (+22.0% y/y) and other electronic modules & components (+17.9% y/y).

- **The expansion in Singapore's industrial production is also reinforced by a favourable export backdrop.** Singapore's NODX recorded a 17.9% y/y expansion in October 2021, beating market expectations for a milder growth of 15.0% y/y print. Electronic exports continued its key role in Singapore's NODX expansion, rising by 14.9% y/y in October (up from 14.1% in September), adding to the impressive streak of 8 straight months of double-digit growth. Non-electronic exports grew at a faster pace of 18.9% y/y in Oct, up from 11.4% in Sep and reaffirmed our view that the August contraction (-1.5% y/y) was temporary. For more details, please read our report.

Exhibit 2: Healthy Semiconductor Sales in Asia-Pacific Has Invariably Lifted Singapore's Manufacturing Momentum

Source: Macrobond, UOB Global Economics & Markets Research



- **The broad-based expansion in Singapore's key industrial production segments was in part led by the low base data in the same period last year.** However, one should not discount the stronger production momentum seen year-to-date, especially for industries that were previously negatively impacted by COVID-19-related issues. These sectors include the transport engineering cluster which enjoyed higher production activity just as many global economies embark on reopening their respective borders on the back of the growing vaccination rates. The higher export demand for oil-related products, which is correlated to the recovery in the global economy, had also benefited the chemical segment. Most importantly, the growing demand for semiconductors and its related products underpinned Singapore's electronics and precision engineering clusters, and we continue to see these sectors supporting Singapore's overall manufacturing landscape.

- **Given the strong performance in Singapore's industrial production in the first ten months of 2021, we upgrade our full-year manufacturing growth to 12.0% y/y,** where we pencil industrial production growth at 9.3% y/y and 7.1% y/y in November and December 2021 respectively. This compares to our initial 2021 projection of 8.0% with upside risks as indicated in our previous manufacturing report. The upgrade in our manufacturing outlook also coincides with our recent full-year GDP growth revision to 6.8% (from 6.5%) in 2021. For more information, please read our latest GDP report. Into the rest of 2021 and 2022, the ongoing global economic recovery, coupled with a strong global trade backdrop and higher COVID-19 vaccination rates in Singapore's key trading partners are key drivers for Singapore (and potentially ASEAN's) growth into the new year.

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