

Singapore manufacturing contracts in July, again

The disconnect between Singapore's exports and manufacturing growth persists in July, though underlying trends in both remain mildly positive. Even so, we see nothing on the horizon to turn the negative GDP trend around just yet



8.4%

July manufacturing fall

Year-on-year

Worse than expected

Pharma dents manufacturing

Singapore's July industrial production contracted by 8.4% year-on-year but was up 1.6% month-on-month (seasonally adjusted). The outcome was slightly weaker than consensus median estimates of -7.0% YoY and +3.7% MoM seasonally adjusted.

In July, pharmaceuticals were a weak spot with a 39% MoM and 31% YoY plunge while electronics

saw a 24% MoM surge (-1.4% YoY) making up for the pharma weakness. Chemicals including petrochemicals also posted month-on-month gains but were down on a year-on-year basis.

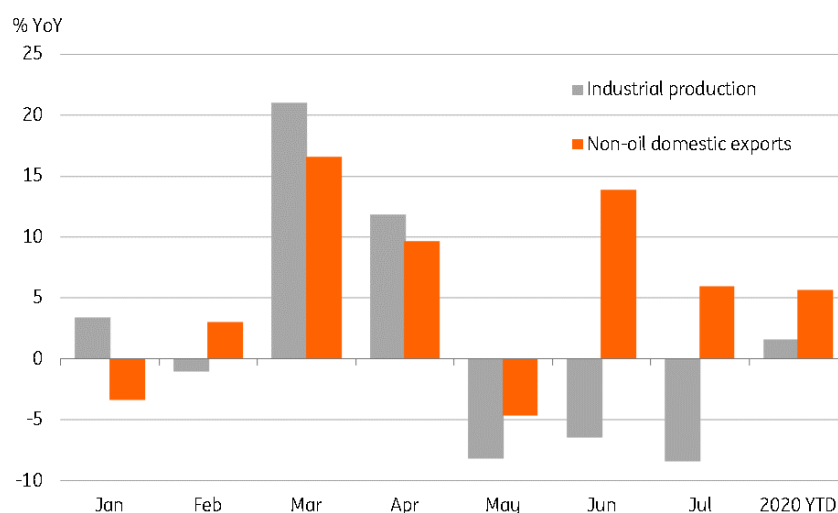
Export-manufacturing disconnect

This was the third consecutive month that the year-on-year fall in industrial production contrasted with growth in non-oil domestic exports on the same basis. NODX was up 6% YoY in July.

The industrial production and NODX disconnect is largely explained by the base year effect, which has been favourable for NODX but not so much for IP lately. But the underlying trends in both have been mildly positive, thanks to disproportionate benefits from a surge in pharmaceuticals demand during the pandemic.

Despite weakness in July, year-to-date pharma exports are up 28% and production is up 27%. Another key driver, electronics, has also eked out some gains – exports are up 3.8% and production is almost flat (-0.6%). This brings the year-to-date growths in total NODX and IP of 5.7% and 1.6%, respectively.

Year-to-date exports and production performance



Source: CEIC, ING

Continued GDP contraction

The surprising resilience of exports and manufacturing persists in 3Q, however, that won't be enough to come back from the 13% YoY GDP contraction recorded in 2Q. We see exceptionally weak construction and service sector activity keeping GDP growth deep in the negative territory. Our forecast for GDP growth in 3Q is -8.2% and that for the full-year 2020 is -6.9%.

There is nothing more expected on the macro policy front to turn this negative trend around over the remainder of the year. The next key policy event is the central bank's semi-annual policy review in October. We anticipate no change from the current policy stance of zero appreciation of Singapore Dollar Nominal Effective Exchange Rate (S\$-NEER).