Singapore manufacturing defies odds in January

While manufacturing data was a pleasant upside surprise, we would caution against any exuberance as the spread of the coronavirus could dent activity in February and the months to come

Source: Shutterstock

3.4%

January manufacturing growth

year-on-year

Higher than expected

A surprising manufacturing bounce

Singapore's January manufacturing data caught the consensus, which was centred on a 5.8% year-on-year fall, on the wrong footing. Instead, output surged by 3.4%, defying the unfavourable base year effect as well as continued weak non-oil domestic exports in January. The outbreak of Covid-19 was another factor behind the expectations for a weaker reading.

A seasonally-adjusted 18.2% monthly bounce, on top of a 6.3% rise in December (revised up from 4.1% initial estimate) also contrasts with the expectation of a decline. This could be surmised as either front-loading ahead of the Lunar New Year holiday or a positive response to the phase one trade deal between China and the US. On the flip-side, it probably did not capture the impact of an extended post-holiday slump due to the Covid-19 outbreak.

59% surge in pharma explains it all

Unsurprisingly though, just as the coronavirus emerged as a serious health emergency, the pharmaceutical sector kicked into high gear. Indeed, it was the main source of overall manufacturing strength with a 59% year-on-year (78% month-on-month unadjusted) leap in output. Growth in all the other main manufacturing sectors, except precision engineering, remained in negative territory.

An 18% surge in engineering may reflect the delivery of ongoing projects, while the sector has yet to succumb to the broader slack elsewhere. And, electronics was a mixed bag in January with continued weak exports, yet a bit firmer output.

But it failed to cheer markets

While this was a pleasant upside surprise, it failed to cheer the markets - the Strait Times Index of stock prices remained in the red and the Singapore dollar was little moved. Investors are likely pricing in more disappointing data ahead.

The risk of this entire bounce being reversed in February can't be ignored in light of prolonged slack due to the spread of the virus this month. The combined January-February growth will remove the Lunar New Year impact and also act as an initial gauge of the impact of the disease that's now spreading beyond Asia.

We continue to see a likelihood of the economy sliding into a recession in the first half of the year, before accelerated fiscal policy support, and possibly an easing by the Monetary Authority of Singapore in April helps the recovery over the rest of the year.