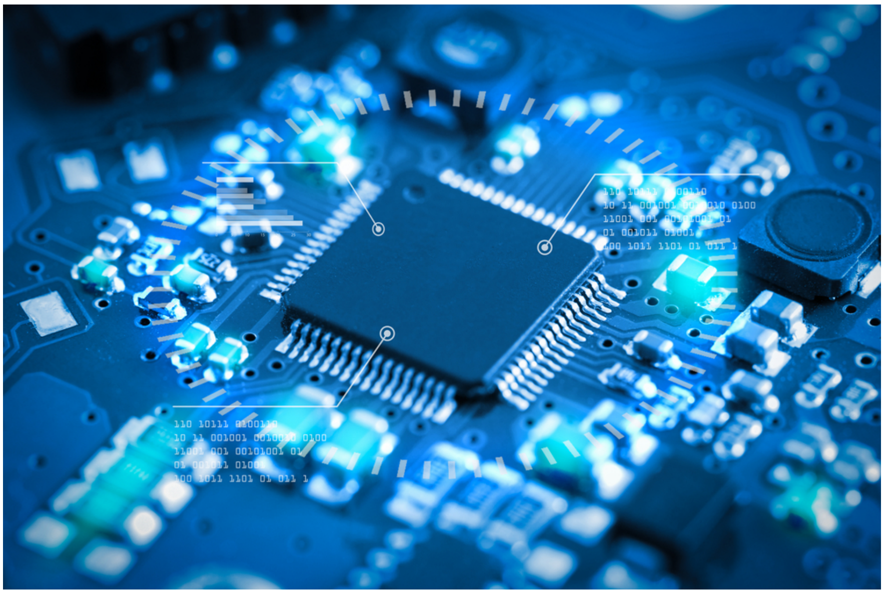
Singapore: Manufacturing growth softens in March

Yet at 7.6% year-on-year, industrial production growth is still better than the market expected and points to an upward revision in 1Q21 GDP growth, to 0.9% YoY from the initial estimate of 0.2%



Source: Shutterstock

7.6% March industrial production growth

Year-on-year

Base effect masks underlying IP strength

Singapore's industrial production (IP) growth softened to 7.6% year-on-year in March from 16.5% in February. Although substantially below our 14% YoY growth forecast, this is still a better outcome than the market expectations, which centred on close to a 5% YoY rise. The high base effect explains some slowdown in the year-on-year growth rate. Even so, it stands in stark contrast to the acceleration of non-oil domestic export growth in March (12.1% YoY vs. 4.2% in February) where the base effect was similarly pronounced.

A seasonally-adjusted -1.7% month-on-month IP contraction in the last month was also at odds with both our and the consensus view of a fifth straight month of sequential growth. This may be attributed to a wonky seasonal factor. A 23% MoM jump on an unadjusted basis is consistent with the historical pattern of the Lunar New Year-related production slack in January-February being clawed back in March.

Electronics remains a key driver

Retaining its recent status as a star performing sector, electronics output staged a 33.7% YoY (15.7% MoM NSA) bounce in March. And, reflecting a disproportionate benefit from the global chip shortage, semiconductors continued to be the key driver here with a 38% YoY (12.4% MoM) output surge. Petrochemicals also stood out with a 21.7% YoY rise (17.1% MoM).

Pharmaceuticals appeared to be a weak spot in terms of year-on-year growth, which swung to a -9.6% YoY contraction from 17.2% in February. But again, this was mainly the base effect masking underlying strength, evident from the more than 90% MoM jump in pharma output in the last month. The same was true in the transport sector, which posted a -20.6% YoY fall but gained 15.2% MoM.

Upward 1Q21 GDP revision

Year-on-year IP growth is closely correlated with manufacturing GDP growth, which according to the advance 1Q21 GDP estimate released earlier this month was +7.5% YoY. However, today's release brings 1Q IP growth of 10.7% YoY, suggesting that the advance headline GDP growth number for the last quarter, +0.2% YoY, is prone to upward revision.

Assuming everything else remains constant, we estimate 1Q GDP growth of +0.9% YoY. The final estimate is due to be released in mid-May.

With the export-led recovery at constant threat from the global pandemic, we believe the authorities will ignore the recent activity strength and will maintain the accommodative macroeconomic policy setting throughout this year.