Singapore: Manufacturing slows in August, again

As manufacturing slows down (again), we are reviewing our 3.3% forecast for third-quarter GDP growth for a downgrade. Couple this with steady core inflation under 2%, this should put to rest expectations of central bank tightening in October

Source: Shutterstock

The third consecutive month of a slowdown in manufacturing output in August suggests Singapore's GDP growth is poised for another quarterly slowdown in 3Q18. We think it 'll drag growth under 3% in 3Q18 from 3.9% in 2Q18.

This underpins our view for the central bank carrying forward with the tweaking it made to the S$-NEER policy band in the April meeting – a move to 'modest and gradual' appreciation of the trade-weighted exchange rate index – in October, without changing the slope, the width, or the mid-point of the band. We expect spot USD/SGD rate to trade around its current level, 1.37, through the end of the year.

3.3% August manufacturing growth

Lower than expected

Main drags were electronics and pharma

August manufacturing surprised on the downside with 3.3% year on year growth, undershooting the consensus estimate of 4.7%.

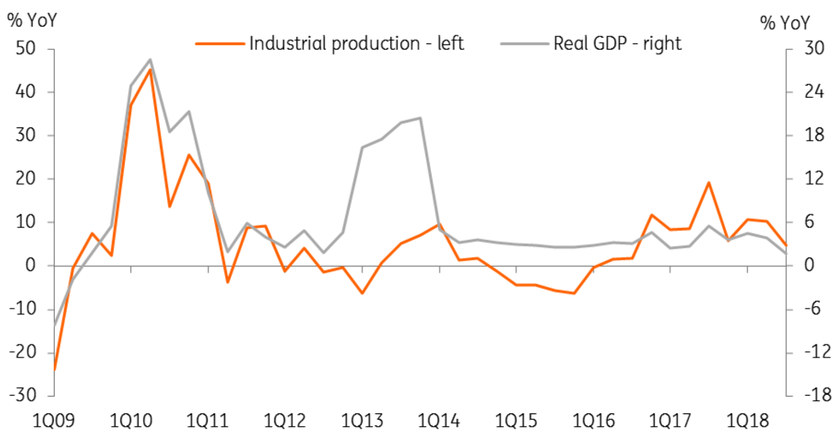
The slowdown from a 6.7% YoY growth in July, which was revised up from 6.0% initial estimate, was pretty much consistent across most sectors. In a continued clawback of an outsized 4.5% month-on-month (seasonally adjusted) bounce in June, August's 2% MoM decline followed the 1.2% decline in July. With over 40% combined weight in the total, electronics and pharma were the main drags on the headline growth in August.

Slower manufacturing points to slower GDP growth

On a monthly basis, September is a weak growth month. Assuming a monthly manufacturing change, in September, the average rate over the last three years, quarterly growth will have more than halved to 4.7% YoY in 3Q18 from 10.6% in 2Q. This will certainly be associated with a slowdown in GDP growth.

As for other GDP components, construction output has contracted by around 5% YoY in the last three quarters and services growth has started to taper off in 2Q after peaking at 4% in 1Q and both trends have prevailed in the current quarter. We see this nudging GDP growth below 3% in 3Q from 3.9% in 2Q, which is why we are looking to downgrade our current forecast of 3.3% GDP growth in 3Q. The latest Bloomberg consensus estimate is 2.2%.

Manufacturing drives GDP growth



Source: Bloomberg, ING

No more policy tightening in October

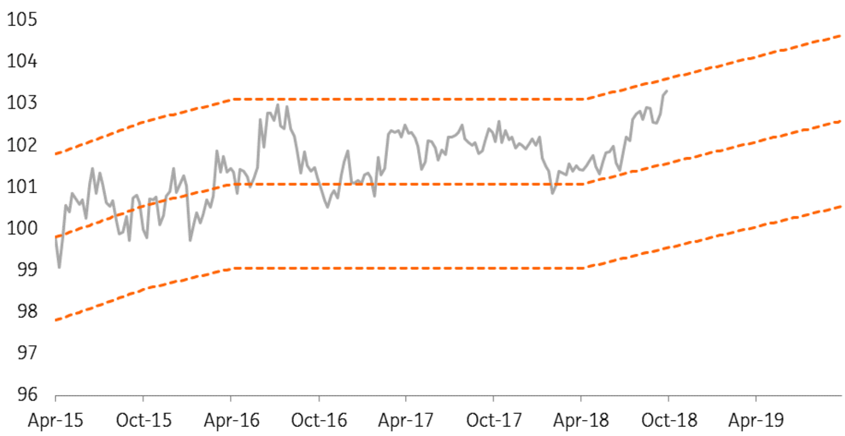
The central bank will release an advance estimate of 3Q GDP sometime during 8-12 October, and the central bank's policy statement is due around the same time. Slower GDP growth together, with steady core inflation under 2%, should put to rest expectations of a further policy tightening at the upcoming meeting.

The central bank shifted the policy from neutral to tightening at the last meeting in April – a move from zero percent Singapore dollar trade-weighted exchange rate (S$-NEER) policy band appreciation to a 'modest and gradual' appreciation path (see figure).

We expect no change to the slope, the width, or the level of the S$-NEER band from the prevailing level. As one of the better performing currencies since April, USD/SGD peaked at 1.38 in August and has since retraced to 1.37 currently.

We expect the pair to trade roughly close to current level through the end of the year.

ING's estimate of the MAS S$-NEER policy band (weekly data)



Source: Bloomberg, ING