

Singapore: October manufacturing beats expectations

We think the central bank will regard upward growth momentum as sufficient reason to leave policy on hold at its next review in April 2020



Source: Shutterstock

4% October manufacturing growth

Higher than expected

Electronics, pharma boost growth

Industrial production (IP) surprisingly bounced by 4.0% year-on-year in October, marking the second consecutive month of positive growth after a 0.7% rise in September (revised up from 0.1%). The consensus of a 1.4% fall in YoY industrial production was drawn from a steeper decline in non-oil domestic exports (-12.3% vs. -8.1%). It wasn't just the yearly growth which came in stronger than expected, on the month, IP (seasonally adjusted) rose 3.4% on top of a 4.0% surge

in September (also revised higher from 3.7%).

Electronics and pharmaceuticals were the weak spots in October NODX but they were the sources of strength in IP. Electronics production recovered to 0.4% YoY growth in October, up from -8.9% in September. And a 29.6% surge in pharma output was a touch better than 28.2%. Chemicals and transports sectors were the drags.

Underlying trend is improving...

As can be seen from the graphs below, significant seasonality and volatility make it hard to take both NODX and IP growth rates at face value. Adding to the noise are base year effects, which in the case of NODX were unfavourable in October but absent for IP.

Therefore, besides the year-on-year or the month-on-month growth rates, it pays to observe six-monthly annualised growth for a clear underlying trend. And this has been on an upward trend since the middle of the year for both NODX and IP.

Separating noise from trend



Source: Bloomberg, CEIC, ING

...And so is GDP growth

Firmer activity growth in recent months is a hopeful sign that the worst of the current economic cycle is behind us. GDP growth gained some traction in the third quarter (0.5% YoY was up from 0.1% in 2Q). We are looking for a further uptick to 0.8%, which will be subject to upside risk if the October momentum is maintained in the remaining months of the quarter.

Today's data should be music to the ears of the Monetary Authority of Singapore, which is the only central bank in the region (and probably in the world) to maintain its tighter policy stance this year, although there was some easing in October through a reduced slope of the S\$-NEER appreciation path. We believe the MAS will view upward growth momentum as sufficient reason to leave policy on hold at its next review in April 2020.