Singapore's September manufacturing beats expectations

We estimate an upward revision to 3Q GDP growth to 2.1% QoQ annualised from 0.6% in the advance estimate. Singapore avoids a recession, but a lack of stimulus will make a recovery difficult to achieve

Source: Shutterstock

3.7%

Singapore industrial production

Growth in September, MoM, SA

Better than expected

Electronics saved the day

Singapore's industrial production (IP) eked out a 0.1% year-on-year growth in September which was a surprise seeing as we were expecting continued contraction coming from weak exports, The consensus was a 4.8% YoY drop, nearly double the 2.6% drop implied by the third-quarter manufacturing GDP growth of -3.5% YoY reported in the advance GDP data earlier this month. The seasonally adjusted 3.7% month-on-month industrial production bounce was a partial claw-back of the 7.3% fall in August.

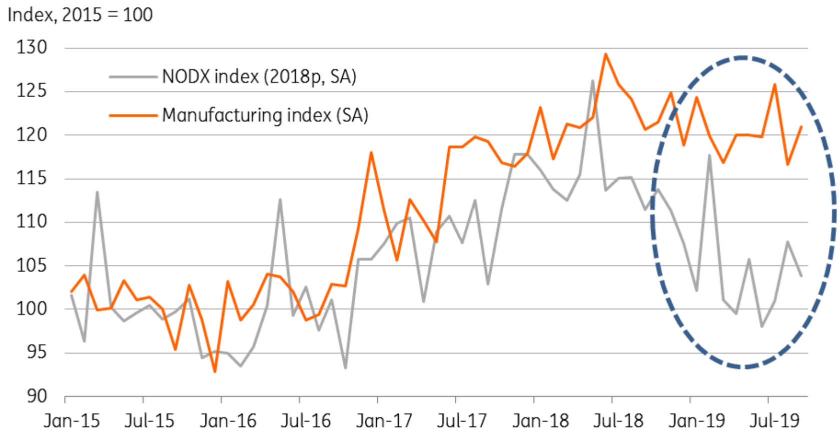
A 26% YoY surge in pharmaceutical output was a stand-out. However, this was more due to a base effect than an underlying improvement. This sector's output actually shrank by 7.9% MoM. The real hero was electronics with a chunky 21% MoM bounces in output, led by a 23% bounce in semiconductors, though the year-on-year growth rates continue to be negative. Among other sectors, petrochemicals, machinery, aerospace and land transport engineering did well in September.

No recession for now

The economy narrowly escaped a recession in the last quarter. But, a 0.6% quarterly annualised GDP growth in 3Q was only a small retracement of a 2.7% fall in 2Q, while yearly growth was close to flat, 0.1% in both quarters. This, together with the subsequent release of non-oil domestic export figures for September (-8.1% YoY and -3.3% MoM SA), sustains recession worries.

Today's strong manufacturing data put these worries to rest. However, this relief may not last long as the performance gap between exports and manufacturing continues to be wide and global trade tensions are deterring any export recovery. That said, based on today's data, we estimate an upward revision to 3Q GDP growth to 2.1% QoQ annualised (0.5% YoY). The authorities will release the GDP revision numbers in the middle of November.

Weak exports, yet firmer manufacturing - what's going on here?



Source: Bloomberg, CEIC, ING

Not out of woods just yet

The recession is averted but the economy's troubles are far from over. A positive quarterly manufacturing GDP growth in 3Q (derived from today's data) follows three quarters of negatives – nothing impressive and no guarantee that this will be sustained ahead. Among other main GDP components, construction has just slipped into recession with another quarter of output contraction. And the services sector hasn't been doing that well either. All this comes together to push the unemployment rate up to 2.3% in the last quarter, the highest level since the global financial crisis of 2009.

The economy is in need of stimulus. The Monetary Authority of Singapore (MAS) seems to have missed the boat in October as it maintained a tightening policy stance, albeit a slight reduction in the appreciation rate of the SGD-NEER policy band. The MAS's head, Ravi Menon, admits to having policy space and that he'll use it if necessary as he also sees the current cycle bottoming soon. Without any meaningful stimulus, hopes of recovery could be far-fetched.