

Singapore's manufacturing begins to bear the Covid-19 brunt

The 7.4% industrial production contraction in Singapore was a surprise to many, but not for us. Data supports our view of the worst GDP contraction ever in 2Q20, though weak services are likely to be a bigger drag on GDP than manufacturing



Source: Shutterstock

7.4%

May industrial production fall

Year-on-year

Worse than expected

A big downside manufacturing miss

Singapore's industrial production contracted by 7.4% year-on-year in May, confounding the consensus which was looking for 7.7% growth.

But for us, the outcome wasn't a surprise given our forecast of -6.3%, the only negative estimate in the Bloomberg survey of 17 analysts. This follows two straight months of strong growth at 21.8% and 13.6% in March and April, respectively. Seasonally adjusted output was 16.5% lower than it was in April.

Weak industrial production growth squares with weak non-oil domestic exports (NODX) performance in May. Both NODX and manufacturing disproportionately benefited from a surge in pharmaceutical demand in the global pandemic as did manufacturing. But that ended in May with 4.5% YoY fall in NODX, bringing pharmaceutical exports down by 7%.

Indeed, pharmaceuticals were a source of manufacturing weakness in May, reflected by a 47% month-on-month plunge in output though that still left the yearly growth in the positive territory, +14.7% (vs. +141.7% in April). But it wasn't limited to pharma. Most other key manufacturing clusters - electronics, chemicals, transport, and engineering, all posted a fall in output in May.

Worst quarter for GDP growth

We see both exports and manufacturing continuing to be weak in June and this is likely to push GDP growth deeper into negative territory in 2Q20 from -0.7% YoY in the previous quarter. However, more than manufacturing, services are likely to prove to be a bigger hit to GDP as more than two months of Covid-19 circuit-breaker restrictions brought services activity (outside non-essential services) to a near-standstill. If anything, crashing retail sales (-40.5% YoY in April) provides a glimpse of it.

Our 2Q20 GDP forecast is -9.2% YoY, making it the weakest growth quarter on record.

A massive, 19% of GDP stimulus may help to reduce the economic pain in the second half of the year, though that depends on whether the global Covid-19 outbreak will be contained. The second wave surfacing around the world dampens such hopes. Continued negative GDP growth remains a baseline for the rest of the year.

Our full-year 2020 growth forecast is -6.1% - the steepest annual fall ever.