

Singapore Economics

Manufacturing Resilient, Upgrade 2018 GDP to 3.1%

Manufacturing On Track Despite CNY Effect

Manufacturing remained resilient (+8.9%), dispelling concerns after non-oil domestic exports contracted (-5.9%) in Feb. Industrial production expanded despite fewer working days in Feb this year because of the timing of Chinese New Year holidays, boosted by semiconductors. The softer electronics exports may however translate into weaker electronics output in coming months.

Industrial production (IP) expanded by +8.9% in Feb-18 from a year ago (vs. +16.9% in Jan) while IP ex-biomed also grew by a strong +9.1% (vs. +19.6% in Jan). For Jan/Feb combined to account for seasonal factors, IP and IP ex-biomed grew by +13% and +14.4% respectively, a strong start to 2018.

Semiconductor Boom Continues

Electronics output remains the key driver despite our expectations of a moderation due to the high base. Electronics production accelerated by +17.4% (vs. +28% in Jan) on the back of semiconductors (+27%), but other major segments such as computer peripherals (+0.9%), consumer electronics (-9.1%), data storage (-22%) and other electronic modules & components (-24%) softened or declined. Precision engineering eased to a 16-month low of +3.4% (vs. +23% in Jan). Machinery & systems (+6.6%) was supported by higher demand for semiconductor related equipment but the precision modules & components segment fell (-1.6%) partly due to the holiday effect.

Broad Based Growth Except for General Manufacturing

All clusters recorded gains in Feb except general manufacturing (-6.3%), which saw declines across all segments due to fewer production days. Chemicals (+8%) continued to rise on the back of petrochemicals (+17%) while biomedical manufacturing (+8.4%) was boosted by the increase in pharmaceuticals (+15%). Transport engineering (+5.4%) was supported by the surge in aerospace (+57%) due to higher volume of repair & maintenance work, but land transport (-11%) and marine & offshore (-29%) both declined.

Raise 2018 GDP to +3.1% as IP Beats Expectations

We raise our 2018 GDP forecast to **+3.1%** (from +2.8%) given the upside surprise in manufacturing. First quarter GDP growth will be around 4%. The ongoing trade spat has not impacted Singapore's manufacturing growth as yet. With growth normalizing and core inflation risks, we expect MAS to normalize policy and shift to a "slight appreciation bias" at the Apr meeting.

Table 1: Industrial Production Breakdown (% YoY)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	YTD2018	2017
Industrial Production	20.5	14.6	15.3	6.3	(2.4)	16.9	8.9	13.0	10.5
Electronics	39.4	33.1	45.4	28.2	6.5	28.3	17.4	23.0	33.8
Biomedical Manufacturing	30.8	9.7	(21.5)	(21.0)	(34.2)	5.7	8.4	7.0	(8.2)
Chemicals	1.4	9.7	14.4	7.7	14.2	14.0	8.0	11.0	6.2
Precision Engineering	10.5	16.4	22.8	20.6	19.9	23.2	3.4	13.7	18.1
Transport Engineering	7.1	(13.5)	(3.3)	(7.5)	(10.3)	0.8	5.4	3.1	(6.8)
General Mfg. Industries	(0.6)	4.0	16.4	2.5	4.1	11.6	(6.3)	2.8	(1.4)
IP ex. Biomedical	18.2	15.8	25.9	14.5	6.2	19.6	9.1	14.4	15.5

Source: CEIC, EDB, Maybank KE

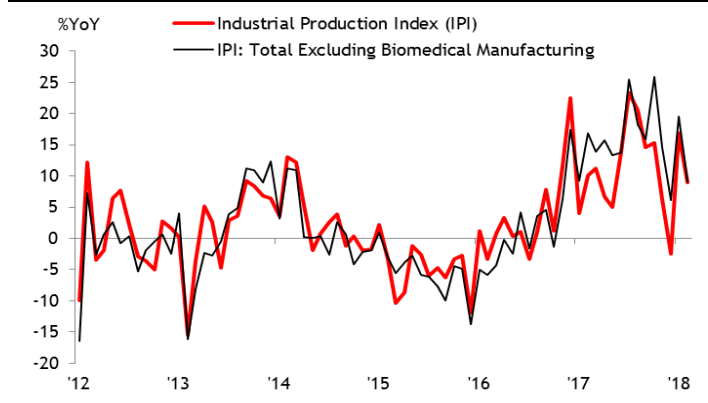
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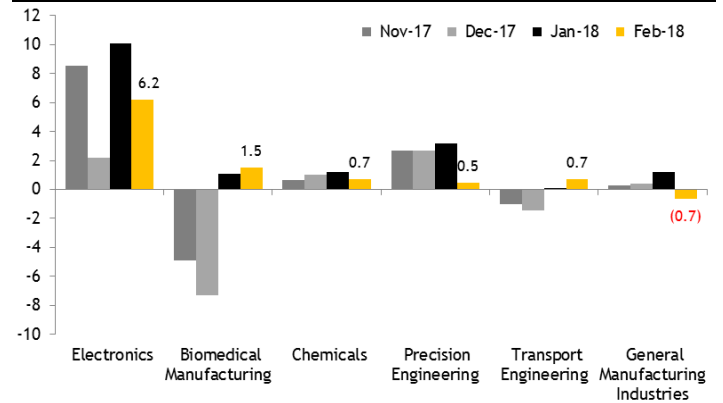
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Fig 1: IP Maintains Strong Momentum in Feb-18 Despite Chinese New Year Effects



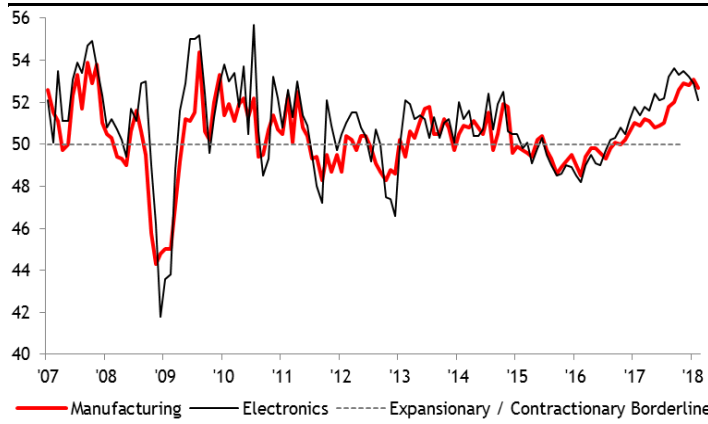
Source: CEIC, Maybank Kim Eng

Fig 2: Contribution to Growth by Clusters (ppts)



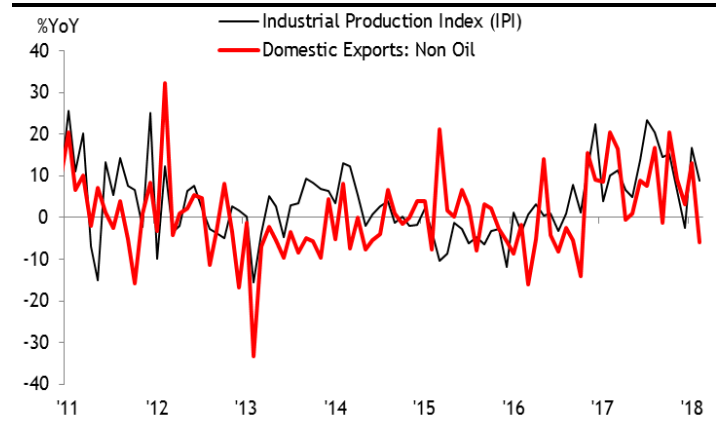
Source: CEIC, Maybank Kim Eng

Fig 3: Manufacturing Purchasing Manager Index (PMI) Moderated in Feb-18



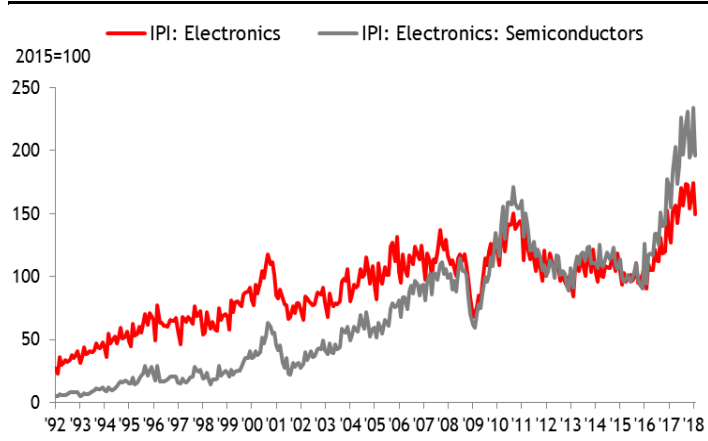
Source: CEIC, Maybank Kim Eng

Fig 4: IP Sustained Growth but NODX Declined in Feb-18



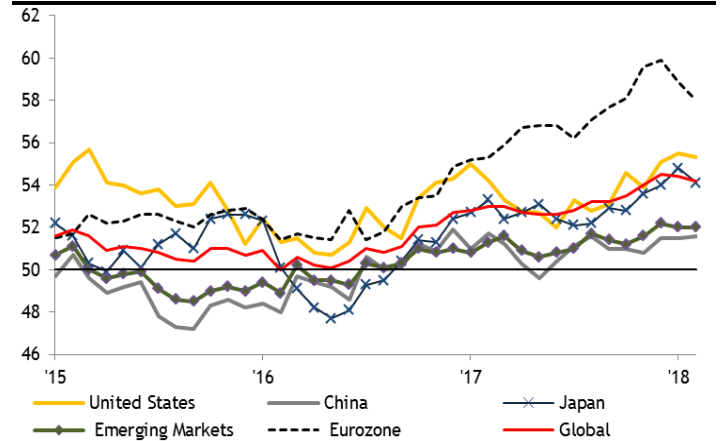
Source: CEIC, Maybank Kim Eng

Fig 5: Semiconductors and Electronics Output Stay Strong in Feb



Source: CEIC, Maybank Kim Eng

Fig 6: Markit Manufacturing PMI Still in Expansion Phase for Most Countries/Regions



Source: CEIC, Markit, Maybank Kim Eng

Table 2: Manufacturing PMI

	<u>Jun-17</u>	<u>Jul-17</u>	<u>Aug-17</u>	<u>Sep-17</u>	<u>Oct-17</u>	<u>Nov-17</u>	<u>Dec-17</u>	<u>Jan-18</u>	<u>Feb-18</u>
Manufacturing	50.9	51.0	51.8	52.0	52.6	52.9	52.8	53.1	52.7
New Orders	51.6	51.9	52.7	53.1	53.7	54.1	54.3	54.7	54.5
New Export Orders	51.1	51.4	52.4	52.7	52.9	53.3	53.4	53.7	53.6
Production	51.8	52.0	53.1	53.3	53.8	54.4	54.1	54.9	54.0
Inventory	51.5	51.1	51.9	52.2	52.6	52.7	52.1	52.4	52.8
Stocks of Finished Goods	50.7	51.0	51.4	51.1	50.9	51.3	51.0	51.2	51.5
Imports	51.2	51.3	51.6	51.9	52.3	52.9	53.0	53.3	52.9
Input Price	50.1	49.8	50.2	50.1	50.8	51.6	51.8	51.1	51.4
Employment	49.5	49.3	49.8	50.3	50.7	50.9	51.0	50.8	50.6
Supplier Deliveries	50.5	50.4	49.6	50.1	49.4	49.3	49.6	49.7	50.2
Order Backlog	50.2	50.7	51.0	51.1	51.3	51.5	50.9	51.0	50.9

Source: CEIC, Maybank Kim Eng

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