Manufacturing and services' business expectations plummet amid Circuit Breaker period.

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Highlights

The latest business expectations surveys provide a first glimpse into how firms are faring under the Circuit Breaker period. Services sentiments tanked further with a net 58% of firms anticipating less favourable outlook for April-September 2020, compared to just 2% three months ago. This is worse than the GFC when the previous record low was -53% in December 2008. Note that this survey, which was conducted from March to April, would have captured the implementation of the Circuit Breaker and attendant containment measures. **In particular, a net 53% of services firms tip lower operating receipts and a net 24% of firms tip lower employment as well**. Notably, **all the services industries expect business activity to decline for 2Q-3Q**, but the most bearish unsurprisingly are those hospitality-related segments like accommodation (-97%) due to the global travel restrictions, particularly for air transport, as well as food & beverage services (-96%) and retail trade (-84%) due to the implementation of the Circuit Breaker and the expectation that demand may not recover immediately even after the Circuit Breaker period. Note many of the other services industries were also very cautious, financial & insurance (-72% due to the adverse impact arising from the Covid-19 pandemic), real estate (-63%, due to limitations of virtual show flats for instance), recreation, community & personal services (-58% due to social distancing measures), business services (-55%), wholesale trade (-53%), transport & storage (-52% due to low demand for petroleum and products).

The least pessimistic services industry is the information & communications which also expects less favourable business conditions for the next six months (-21%), but is seeing an accelerated shift of business models into online platforms and work-from-home arrangements, with demand supported for software publishing and web portal services. **In terms of hiring intentions, the most pessimistic services firms came from accommodation** (-56%), F&B services (-42%), business services (-38%) and real estate (-30%). **Since the services industries account for two-thirds of the Singapore economy and employ the bulk of workers, this bearishness could manifest in the unemployment and retrenchment data in the coming months** – note the Jobs Support Scheme which offers 75% wage subsidies for April and May for all sectors could have contributed to the gross 70% of services firms that tip an unchanged employment forecast for 2Q20, but the situation could evolve in 3Q20 depending on the subsequent strength of the demand recovery after the Circuit Breaker is lifted on 1 June and the sequencing of the eventual exit of the social distancing measures.

The manufacturers' business expectations were marginally less dire, with a net 56% anticipating a deterioration in the outlook for the next six months, citing the weakened external demand and supply chain disruptions due to lockdowns and border closures in many countries due to the Covid-19 outbreak. This is the lowest reading since GFC at -57% in December 2008. The most bleak were transport engineering (-79% due to the sharp oil price plunge that has hit the marine & offshore engineering projects and the slump in global aviation industry due to travel restrictions), followed by electronics (-75% due to dampened demand and supply chain disruptions), biomedical manufacturing (-67%), general manufacturing (-47% due to curtailment of local construction activities due to the Circuit Breaker period), chemicals (-25% due to pressure on refining and petrochemical margins and disruptions to feedstock supply and product deliveries for specialties and other chemicals), with the least gloomy being precision engineering (-12%). In terms of the 2Q20 output, a net 32% of manufacturers expect lower output, led by transport engineering (-64%), general manufacturing (-51%), even biomedical manufacturing (-44%). Th**e relative underperformance of biomedical manufacturing is an anomaly** as pharmaceuticals and medtech had actually boosted the March industrial output amid increased demand due to the Covid-19 pandemic, but is attributable to supply disruptions for raw materials in the pharmaceutical segment while the medtech segment is anticipating manpower constraints in the next three months.

Interestingly, the hiring intentions for manufacturers at -10% compared to -3% three months ago, do not look as severe as that for the service firms, and in fact electronics industry (+2%) is actually planning to add headcount. The manufacturer's employment reading of -10% is the lowest since 3Q17 (-11%). The top two limiting factors for manufacturers' export orders are expectedly the Covid-19 outbreak and political and economic conditions abroad such as the lingering risk of US-China trade tensions. Nevertheless, a net 66% of manufacturers plan to invest in plant and machinery in the next 12 months from April 2020 to March 2021, with a net 51% expect higher of similar levels of capital expenditure, with the planned investments largely for the replacement of worn-out equipment and installation of new production technology. Therefore, capex is the silver lining in the manufacturing story as widespread telecommuting work arrangements, 5G implementation, and increased popularity of the e-business model continues to drive investments and suggests that the medium term outlook will pick up from the current Covid-19 downturn.

Looking ahead, high-frequency data including rental arrears and payment arrears which are indicative of distressed companies may give a better picture of how the industry is evolving amid the ongoing Circuit Breaker period. While 2Q20 is likely to mark a significant contraction for the Singapore economy, whether it is -10% yoy or -20% yoy, the shape of the recovery trajectory in 2H20 may be more important. Hence, a more dynamic capture of the corporate picture would allow the policy response to be tailored accordingly post-Circuit Breaker.

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