

S'pore's industrial production fell for the second month by a milder 0.7% yoy in December 2019, but rose 4.1% mom, led by the biomedical cluster.

Highlights

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Industrial production fell 0.7% yoy but rebounded 4.1% mom sa in December. This is close to our forecast of -0.6% yoy (+4.4% mom sa). Meanwhile, the November data was also revised to a milder contraction of 8.9% yoy (-8.4% mom sa). This meant that manufacturing output had shrunk for 6 out of the past 12 months. Excluding the biomedical cluster, industrial output would also have declined a more severe 3.2% yoy (+1.1% mom sa) in December.

As we expected, biomedical output outpaced that of electronics output. Biomedical output expanded by 10.3% yoy, led by medical technology (+20% due to higher export demand for medical devices) and pharmaceuticals (+6.9% amid higher production of biological products), whereas the electronics cluster eked out marginal growth of only 0.2% yoy. Meanwhile, the precision engineering cluster also saw output grow by 7.0% yoy, attributed to higher output of optical products and metal precision components, as well as semiconductor and process control equipment. The main drags, however, came from the transport engineering (-14.1% due to lower offshore and shipbuilding activities which dragged down the marine & offshore engineering segment by 31.2%), general manufacturing (-10.0%) and chemicals (-5.2% amid maintenance shutdowns in specialty chemicals and petrochemicals) clusters.

2019 marked a very lacklustre year for the manufacturing sector where output decreased by 1.4% yoy, with only the biomedical and general manufacturing clusters registering full-year growth. Notably the key electronics cluster contracted 7.4% yoy, weighed down by computer peripherals (-9.3%) and semiconductors (-8.3%), but has recently started to show some tentative signs of stabilization and turnaround. Given the 4Q19 flash GDP growth of 0.8% yoy (0.1% qoq saar) had assumed manufacturing growth was -2.1% yoy, the milder December contraction in industrial production implies potential upside for the 4Q19 GDP growth estimate and it could be revised up to 1.0% yoy ceteris paribus, and in turn full-year 2019 GDP growth could be revised up to around 0.8% yoy as well.

Our 1-2% GDP growth forecast for the Singapore economy was predicated on the domestic manufacturing sector staging a modest recovery to 1.5% in 2020. That said, the recent coronavirus outbreak originating from China to other countries including Singapore may impart some uncertainty to

near-term business and consumer sentiments which could mean a more muted 1Q20 growth momentum, depending on the duration and severity of this virus.

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