

S'pore's industrial production unexpectedly slumped 7.4% yoy (-16.5% mom sa) in May, reversing direction after two months of double-digit growth as Circuit Breaker and Covid-induced supply and demand shocks caught up

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Highlights

Industrial production unexpectedly slumped 7.4% yoy in May after two months of double-digit growth of 21.8% and 13.6% in March and April respectively and marking the worst contraction since November 2019 (-12.3% yoy). This is the second time manufacturing output contracted this year after February (-1.1% yoy). All the clusters except biomedical saw declines in output amid the tightened measures in the second month of the Circuit Breaker and the global demand shock and supply chain disruptions arising from the Covid-19 pandemic. Excluding biomedical, industrial production also fell 10.4% yoy in May, following a 2.8% decline in April.

Compared to April, industrial output took a big leg down, falling by 16.5% mom in May and marked that third on-month decline in four months. The May data disappointment clearly illustrates two points – first that the Circuit Breaker and the Covid-19 pandemic continued to extract a heavy toll on the manufacturing activity in May even though April was largely initially regarded as the trough, and secondly, the recovery trajectory remains uncertain and cannot fully depend on the volatile biomedical cluster, namely the pharmaceutical segment to support the whole manufacturing sector.

The biomedical cluster was the outperformer again, but the pace also slowed to 5.9% yoy in May, reinforcing the volatile nature of this cluster. This paled compared to the 100.5% yoy surge in April. Pharmaceuticals output expanded 14.7% due to higher output of active pharmaceutical ingredients and biological products, whereas the medical technology segment fell 20.1% due to the tightening of Circuit Breaker measures. As the emerging second waves of Covid-19 pandemic is making its presence felt in China and some US states amongst others, the demand for stepped-up mass testing and the push for vaccine development is likely to grow. As such, the demand for pharmaceutical ingredients is likely to sustain in the near-term, but we do not expect that the biomedical cluster to single-handedly support the manufacturing sector per se.

Electronics output also fell 1.0% yoy, with precision engineering cluster also registering a 5.3% yoy in May. Notably semiconductors output rose 1.6% yoy due to demand from cloud services, data centers, and 5G, whereas other electronics segments fell. For the precision engineering cluster, machinery & systems output grew by 2.8%, supported by the production of semiconductor equipment, whereas the precision & components segment output plummeted 23.0% amid the supply disruptions and dampened demand. Given that there is still significant uncertainty over the strength of the consumer demand recovery even with the lifting of the national lockdowns and the re-opening of economies across the globe, as well as the ongoing US-China trade and tech war, the global electronics industry may remain on a shaky footing in the near-term, especially for consumer electronics.

Other laggards included the chemicals and transport engineering clusters. The output in the chemicals cluster plunged 13.5% yoy in May, weighed down by weakness in the petrochemical (-10.7%) and petroleum (-19.0%) segments due to weak demand and plant maintenance shutdowns, while the specialities and other chemicals segments also declined 12.2% and 21.8% due to softer demand. Meanwhile, the output in the transport engineering cluster also tumbled 40.7% yoy in May, dragged down by aerospace segment (-30.1% yoy) with lower volume of repair and maintenance work as the aviation industry ground to a halt amid the covid-19 crisis, as well as the marine & offshore engineering segment (-55.1% yoy) as shipyard activities also slowed amid the Circuit Breaker period. Given the earlier-than-expected transition to Phase 2 on 19 June, the restarting of economic activities on a broader scale is likely to bode well for the Singapore economy including the manufacturing sector. That said, the June industrial output is likely to still shrink modestly by 3.6% yoy to bring 2Q manufacturing growth to 1.1% yoy. For the full year of 2020, the manufacturing sector may still chalk up a modest low single-digit yoy growth, so our forecast for -5% to -6% yoy full-year GDP growth remains intact.

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