Singapore Outlook

S'pore's industrial production rose a better-than-expected 1.2% mom (-6.9% yoy) in June, but resident and citizen unemployment rates continued to soften slightly

Friday, July 26, 2019

Treasury Research

Tel: 6530-8384

Highlights:

- **S'pore's industrial production rose 1.2% mom sa (-6.9% yoy) in June**, beating market consensus expectations of -0.8% mom sa (-8.5% yoy) and our forecast of -1.2% mom (-8.9% yoy). Moreover, the May industrial output growth was also revised higher to -0.1% mom sa (-2.0% yoy) from -0.7% mom sa (-2.4% yoy) estimated earlier. That said, the 6.9% yoy decline in manufacturing output is still the worst yoy performance since December 2015. Excluding biomedical manufacturing, output fell 2.9% mom sa (-9.9% yoy), which suggested that the improvement in the biomedical cluster was a contributing reason.

- **Biomedical output grew 5.0% yoy in June**, but the expansion pace has been slowing from the double-digit growth pace seen in 1Q19. This is also reflected in pharmaceuticals which saw output increase by 5.3% yoy in June, supported by biological products, albeit this is still down from 17.8% in May.

- **Electronics output plunged 18.8% yoy in June**, marking the fourth straight month of contraction and also a deterioration from May's 10.8% yoy decline. Weakness was seen across all electronics segments, including computer peripherals (-23.9% yoy) and semiconductors (-21.8% yoy), with the key exception of data storage which rebounded 30.0% yoy (May: -10.4% yoy).

Selena Ling Siew Sing

Tel: 6530-4887

LingSSSelena@ocbc.com

- **Surprisingly, precision electronics eked out a small positive growth of 0.3% yoy** in June, breaking multiple months of contraction and seemingly in defiance of the electronics weakness amid higher output in semiconductor foundry equipment and refrigeration systems. The general manufacturing cluster also saw 10.8% yoy growth in output, led by growth in the beverage products. The transport engineering cluster also shrank 14.2% yoy in June, dragged down by the marine and offshore engineering industry (-33.3% yoy) amid lower offshore and shipbuilding & repairing activities.

- **At this juncture, we would hesitate to call a bottom to the manufacturing slump**, pending the outcome not just for the US-China trade war and Huawei issues, but also the uncertainty whether Japan will remove South Korea from its white list of trusted export destinations.

- **For the labour market, the unemployment rate was steady at 2.2% in 2Q19 and retrenchments fell to 2,300 (-24% yoy)**. However, there are some tentative signs of softening in hiring intentions – while firms have turned cautious in fresh hiring, nevertheless they are not stepping up retrenchments. Total employment (excluding FDW) moderated to 4,000 in 2Q19, which is 38% lower than the same period a year ago and also the lowest print since 1Q18. **Moreover, the resident and citizen unemployment rates also continued to edge higher by 0.1% points to 3.1% and 3.2% respectively (the highest since 3Q17 and 2Q17),** albeit this could be partly due to more entrants into the workforce ahead of the economic uncertainties**.**

- **While services remained the key driver of employment creation** (+3,400 excluding FDW), driven by Information & Communications, Professional Services, SCPS and Financial Services, this was offset by the drag in Retail Trade. Manufacturing employment also contracted for the third straight quarter, suggesting that the addition of 3,500 jobs in 3Q18 was a temporary blip and that the ongoing US-China trade and tech war may continue to weigh on the near-term hiring outlook for this cluster. This reinforces our view that any deterioration in the domestic labour market is likely to be relatively restrained as services firms will have to weigh the current growth soft patch against the DRC tightening measures that will kick in from January 2020.