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S'pore's industrial production likely to see more weakness ahead despite escaping a YoY contraction in August

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Highlights:

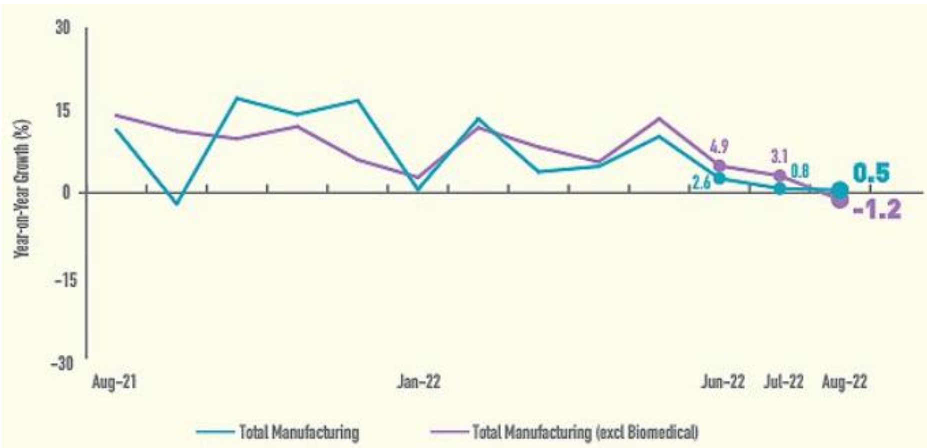
Gravity pulls Singapore's industrial production lower to just 0.5% YoY (2.0% MoM sa) in August, down from the upwardly revised 0.8% YoY (-2.1% MoM sa) print in July. This marked the slowest on-year growth since September 2021, but was an improvement in on-month terms after two straight months of contraction. Excluding biomedicals, manufacturing output also fell 1.2% YoY and also shrank for the third straight month by 2.9% MoM sa. This actually exceed the Bloomberg consensus forecast and my forecast for -0.7% YoY (1.5% MoM sa) and -1.9% YoY (-0.9% MoM sa) respectively.

How the wheels of fortune have turned! Electronics is clearly losing steam – August output slumped for the second consecutive month by 7.8% YoY with broad-based weakness across computer peripherals & data storage (-5.3%), semiconductors (-6.6%), infocomms & consumer electronics (-11.7%) and other electronics modules & components (-19.3%). For the first eight months of this year, the electronics cluster, which accounted for 40% of the manufacturing index, expanded by 4.9% YoY. Anecdotally, more global tech firms are embarking on cost-cutting and/or staff layoffs amid the global economic headwinds including recession fears and challenging market conditions, and chipmakers are bracing for further demand pullbacks. The related precision engineering cluster is also moderating with July output growth of 13.7% YoY easing to just 2.9% in August, as demand for machinery & systems see a similar moderation from 21.9% to 4.7% whilst precision modules & components have contracted for the second straight month by 1.2% in August. Meanwhile, the chemicals cluster also saw output shrink by 11.2% YoY, weighed down by petrochemicals (-16.6%) and speciality chemicals (-14.0%), bringing the January-August output to -3.6% YoY.

The best performer was the transport engineering cluster which expanded 32.8% YoY, aided by the marine & offshore engineering segment (42.8%) due to more work on ship-repair and offshore projects, and was closely followed by the aerospace segment (42.3%) boosted by more maintenance, repair and overhaul jobs due to commercial airlines resuming more flights amid the current "revenge travel" boom. In addition, the general manufacturing cluster also grew by 18.8% YoY amid higher output for food, beverage & tobacco, miscellaneous industries and printing segments, while the biomedical cluster also rebounded by 11.1% YoY following three consecutive months of contraction due to rising demand for medical technology devices (18.9%) from US and China as well as pharmaceuticals

(6.4%). However, it may too early to tell if the pharmaceutical industry rebound is sustainable and the industry output is already down 10.5% YoY for January-August this year.

The risk for the manufacturing performance continues to point south from here as positive momentum in the transport engineering and general manufacturing industries only contribute a combined index weight of 15.1% in contrast to the heavy lifters like electronics, biomedicals and chemicals which carry 40%, 16.9% and 13.3% weights respectively. While industrial production averaged 4.4% YoY (5.9% YoY if biomedical is excluded) for the first eight months of 2022, the growing global recession fears amid aggressive frontloading of monetary policy tightening by major central banks and the ensuing market upheaval are likely to continue to weigh on business and consumer confidence and in turn global demand conditions. It would not surprise if industrial production actually contracts in the remaining months of this year and drags the full-year 2022 growth to below the 3% handle closer to around 2.5% YoY. The impact on full-year GDP growth is likely to be around 0.1% point lower from our 3.5% YoY forecast.



Source: EDB

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