Singapore

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Singapore's Manufacturing and Electronics PMI diverged in September

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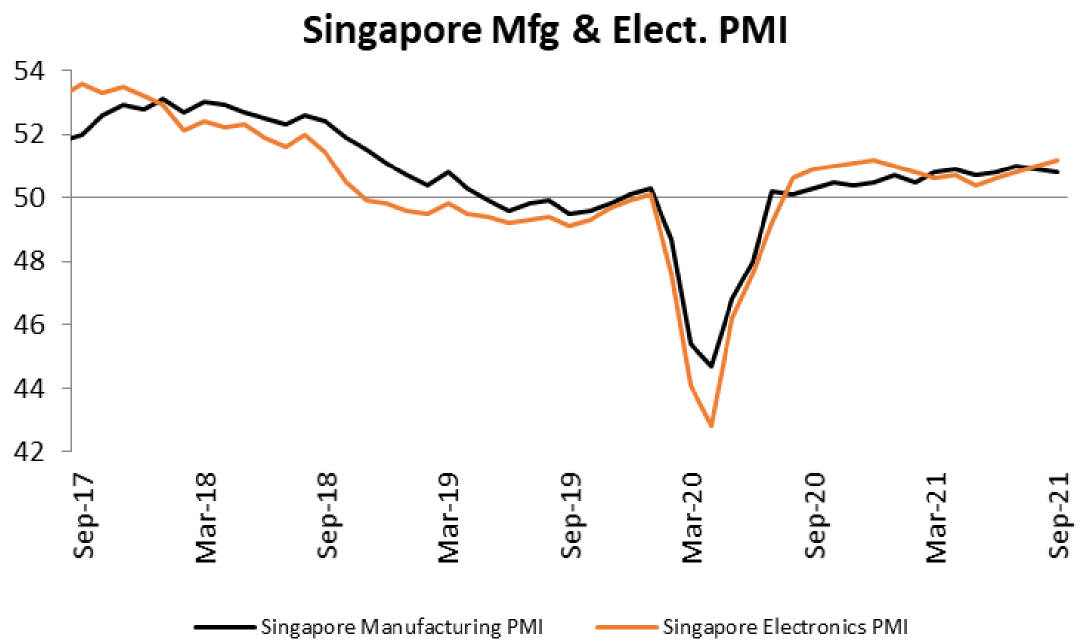
Highlights:

Singapore's manufacturing PMI eased slightly by 0.1 point to 50.8 in September, marking its 15th straight month in expansion territory. The marginal dip was due to a slower expansion in new orders, new exports, factory output, inventory, imports, employment and order backlog indices. This contrasted with the electronics PMI which improved 0.2 points to 51.2 in September, marking its 14th consecutive month of expansion, and suggested that Singapore was still benefiting from the current industry upswing, especially in the semiconductor area. However, margin pressures arising from supply chain disruptions leading to higher costs are manifesting – the manufacturing input price index hit 51.7, the highest since December 2017. Meanwhile the electronics input price index also climbed to 52.5 even as its supplier deliveries index reverted to contraction after 8 straight months of expansion and the finished goods index has pulled back, which could be a harbinger that momentum could have peaked, and an imminent slowdown is on the cards. As inventory levels edge lower for both the domestic manufacturing and electronics sectors, the ability to sustain production in the run-up to the Christmas season may be at stake. Going ahead, the ability to pass on some of the higher costs to end-consumers would also be key.

Fears of supply chain disruptions and component shortages interrupting the manufacturing momentum within Asia appear to pose potential headwinds ahead for regional manufacturing centres including Singapore, particularly given recent news headlines about China's ongoing power shortage and earlier Covid-related restrictions due to the Delta resurgence. Nevertheless, the Asian manufacturing PMIs in September remained fairly supported, with improvements seen in S. Korea (52.4 versus 51.2 previously), Indonesia (52.2 versus 43.7 as the COVID situation has improved and restrictions are being gradually relaxed), Philippines (50.9 versus 46.4). Even Thailand, Malaysia and Myanmar saw some light at the end of the long Covid tunnel although they remained in contraction territory at 48.9, 48.1 and 41.1 respectively in September, up from 48.3, 43.4 and 36.5 in the prior month, which suggested that the worst may be over and manufacturing capacity may potentially be ramped up in line with the relaxation of restriction measures and improved mobility indicators. That said, Vietnam's manufacturing PMI was static at 40.2, while that for Taiwan actually softened from 58.5 to 54.7 in September.

While Singapore's manufacturing momentum may sustain around 7% yoy in 2H21, and our full-year manufacturing growth forecast of 10.6% yoy remains intact, we would expect that momentum will taper off into 1H22. In fact, 2022 manufacturing growth may normalise to around 3-4% yoy. Depending on whether the energy crisis, especially in China's industrial heartlands, contribute to a further slowing in the country's 4Q21 growth momentum and impact other regional manufacturing centres would be key to watch in the coming months – while there is some downside growth risk, note that Chinese policymakers are already acting to address the power shortage and as power usage targets would be reset in the new year, hence these concerns may alleviate after the year-end. An additional silver lining is that regional vaccination rates have picked up pace rapidly, therefore a further relaxation of more Covid-related restrictions should aid both industrial activity, but this would do little to address the supply-side challenges in the near-term, hence adding to inflation concerns that would likely spill over to early 2022.

Since the current situation is more a supply-side rather than a demand-side problem, we expect no change to S$NEER policy parameters for the upcoming MAS monetary policy review, given that the gradual uptick in core inflation is not misaligned to MAS' expectations and does not fully justify a tightening move just yet amid the ongoing Covid-related uncertainties. Our base case is still for a recalibration at the April 2022 MAS policy meeting, with a stronger signal as such for the October meeting. The official 2021 GDP growth forecast is also likely to be maintained at 6-7% yoy, with a possible indication of 2022 growth forecast range at 2-4% yoy, in line with our house forecast of 6.7% yoy and 2-4% for 2021 and 2022 respectively. Our forecast is for core CPI inflation to rise from 0.7% yoy this year to 1.2% next year as the domestic labour market recovers further.


Singapore Mfg & Elect. PMI
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