

S'pore's PMI continues to remain in growth territory

Selena Ling

Head of Research and Strategy

+65 6530 4887

LingSSSelena@ocbc.com

Highlights:

S'pore's manufacturing and electronics PMIs continued to eke out gains in July, rising 0.2 points each to 51.0 (highest since December 2018) and 50.8 respectively. This marked the 13th and 12th consecutive month of expansion, suggesting some longevity to the momentum despite initial concerns that the return to Phase 2 (Heightened Alert) conditions and renewed lockdowns and tighter restrictions in other regional economies due to the Delta variant spread could potentially impact the manufacturing and electronics supply chains.

There were broad-based gains across new orders, new export orders, output, inventory and employment, with the exceptions in supplier deliveries and order backlogs. Input prices also continued to edge higher in July, which may be a cause of concern given news of the ongoing global chip shortage and rising commodity prices, especially if manufacturers are unable to pass on the higher costs to end-consumers.

As we articulated on Friday, the pullback in domestic manufacturing sentiments for 2H21 is not a total surprise, with the business expectations survey revealing a net 20% of manufacturers anticipating a favourable business environment for July-December 2021, down 38% three months ago. Notably, the electronics segment is still the most optimistic (+40%), while the chemicals cluster is net bearish (-24%) on the 6-month outlook. The output forecast for 3Q also turned less upbeat (+9% versus +28% a quarter ago), again attributable to the chemicals as well as the general manufacturing clusters. There is some light at the end of the tunnel for the aerospace and land transport engineering industries given the anticipated repair work for aircraft engines and auto parts production. Interestingly, the employment forecast came off by a smaller magnitude from +9% in 2Q21 to +8% in 3Q21, as electronics and biomedical clusters are still looking to hire. The top two limiting factors remain the Covid pandemic and price competition from overseas competitors.

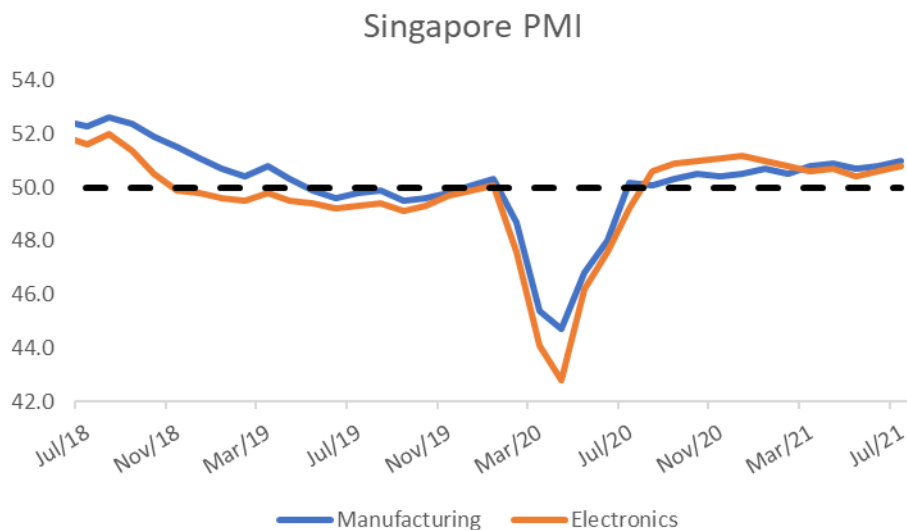
Looking ahead, there are some market concerns that China's manufacturing PMI may have peaked and could see a further pullback from July levels given the rising spread of Delta variants in the country. In fact, China just reported that its official manufacturing PMI softened from 50.9 in June to 50.4 in July, as both demand and supply moderated further, with the new export orders falling to 47.7 (contraction territory). For now, the rest of Asian manufacturing PMIs mostly fared a little better with the exception of South Korea (53.9 from 53.0 previously) and Japan (53.0 versus 52.2). The regional leader continued to be Taiwan (57.6 versus 59.7) whilst even laggards like Vietnam (45.1 versus 44.1) and Malaysia (40.1 versus 39.9) saw some stabilization. However, Indonesia's PMI fell from 53.5 to

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40.1 amid the Delta variant surge and extended lockdown, and it was a similar story of further weakness in the Philippines (50.4 versus 50.8), Thailand (48.7 versus 49.5) and Myanmar (33.5 versus 41.5). This suggests that the Delta variant spread continues to exert an uneven toll across the Asian economies, depending on their vaccination progress and respective stages of economic re-opening.

At this juncture, Singapore’s manufacturing and electronics sectors remain fairly resilient and should continue to provide a key pillar of support for near-term growth. While the domestic manufacturing sector is likely to see a moderation to single-digit growth rates in 2H21 as the low base effects subside, full-year 2021 manufacturing growth is still likely to exceed 10% yoy, and this in turn should support 2021 GDP growth minimally at the 6% yoy handle.



Source: Bloomberg, OCBC

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Tommy Xie Dongming***Head of Greater China Research*XieD@ocbc.com**Wellian Wiranto***Malaysia & Indonesia*WellianWiranto@ocbc.com**Howie Lee***Thailand & Commodities*HowieLee@ocbc.com**Carie Li***Hong Kong & Macau*carierli@ocbcwh.com**Herbert Wong***Hong Kong & Macau*herberhtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung*Rates Strategist*FrancesCheung@ocbc.com**Terence Wu***FX Strategist*TerenceWu@ocbc.com

Credit Research

Andrew Wong*Credit Research Analyst*WongVKAM@ocbc.com**Ezien Hoo***Credit Research Analyst*EzienHoo@ocbc.com**Wong Hong Wei***Credit Research Analyst*WongHongWei@ocbc.com

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