Singapore

26 February 2024

Slower-than-expected manufacturing start to 2024

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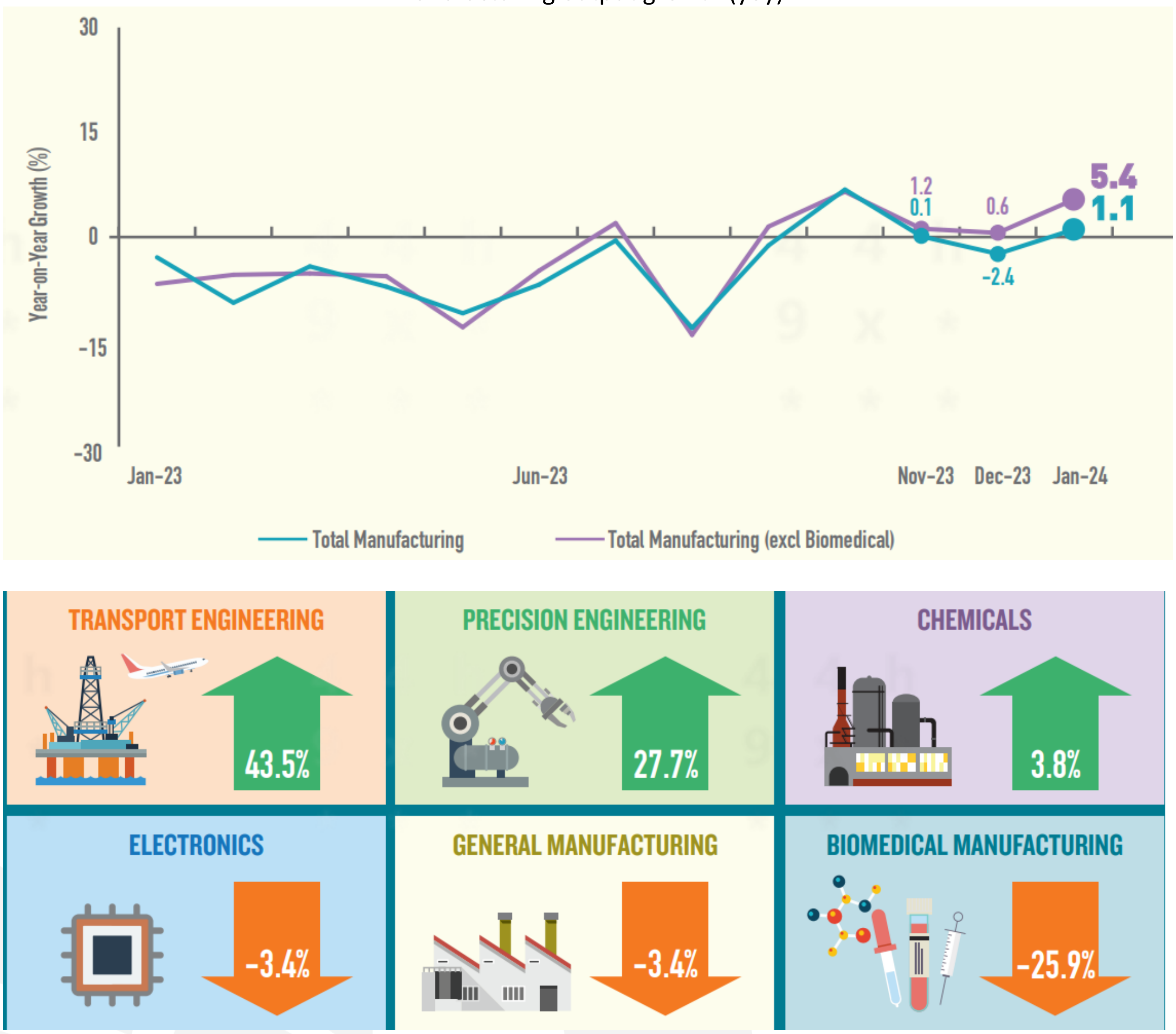
Highlights:

- **Singapore's industrial production (IP) grew a weaker-than-expected 1.1% yoy (-5.7% mom sa).** While this is an improvement over the revised December 2023 print of -2.4% yoy (-1.3% mom sa), nevertheless this was below the Bloomberg consensus forecast of 3.7% yoy and our forecast of 4.3% yoy (7.4% mom sa), especially since the January 2023 base was low due to the timing of the Chinese New Year (CNY) holidays. Excluding biomedicals, the manufacturing sector would have expanded 5.4% yoy (-6.6% mom sa). However, one should not read too much into one month's poor performance – if the IP can sustain anywhere close to the January 2024 levels, then February should rebound. Given the seasonal effects from the CNY timings, it may be better to look at average growth for the two-months of January-February instead.

- **The main drag was biomedicals cluster which declined 25.9% yoy,** as pharmaceuticals segment slumped 43.7% yoy amid a different ingredient production mix which more than offset the 8.5% yoy growth in the medical technology segment on the back of higher export demand for medical devices. The electronics cluster also saw output shrink by 3.4% yoy, as weakness in the semiconductors (-3.4%), other electronic modules and computer peripherals (-9.5%) & data storage (-20.1%) overshadowed the infocomms & consumer electronics (23.8%). In contrast, the best performing was the transport engineering industry (+43.5% yoy), aided by the aerospace segment (69.1%, attributable to the low base a year ago amid component shortages) and the marine & offshore engineering segment (27.6% supported by improved shipyard activity and production of oil and gas equipment). What was interesting was that the precision engineering industry also continued to expand by 27.7% yoy due to higher production for machine & systems (33.3% amid demand for front-end semiconductor equipment and process control equipment) and precision modules & components (3.3% amid increased production of plastic precision components, optical instruments, dies, moulds etc).

- **Near-term monthly volatility to be expected for the manufacturing sector.** Industrial production is likely to rebound to 6.0% yoy in February 2024, potentially bringing the two-month average for January-February 2024 to 3.6% yoy. However, March may contract again so 1Q24 growth may remain subpar at around 1% yoy before picking up some speed for the rest of the year to average around 2% yoy for the full-year 2024. Since the precision engineering industry supports the electronics industry, this coupled with the recent market interest in AI-related chips as the next engine of growth globally, suggests that there is no need to be too bearish on the semiconductor outlook. Moreover, the transport engineering cluster is also chugging along nicely, aided by benefiting from the still resilient global/regional air-travel demand trends and robust orders from oil and gas and renewable energy industries, as well as sustained demand for aircraft maintenance, repair and overhaul (MRO) activities. The record attendance of nearly 60,000 for the four trade days of the recent Singapore Airshow suggests that exhibitors and delegates generally remain optimistic about the aviation industry for instance. Recall that the latest quarterly business expectations survey for manufacturers saw a net 10% of firms anticipating an improved 1H24 outlook, up from 7% a quarter ago, which was led by the electronics (+16%) and precision engineering (+8%) industries.

Manufacturing output growth (yoy)



Source: EDB

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