S'pore's industrial production dipped unexpectedly in October

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Highlights:

The manufacturing growth momentum has stumbled to a sudden halt in October. The unexpected 0.9% yoy contraction in October IP is the first after two months of strong double-digit growth and clarifies why the full-year 2020 official growth forecast was at the more bearish side of the earlier -7.0% to -5.0% range which implied some downside risk to the 4Q20 GDP growth momentum. I thought my October IP forecast was already quite conservative at 3.2% yoy compared to the Bloomberg consensus forecast of 7.3% yoy. In mom sa terms, the -19.0% contraction also came on the back of four consecutive months of sequential improvement, and is the worst print since February 2020 (-22.0% mom sa). On the whole, this data print confirms my earlier expectation for a 4Q20 growth wobble story after a V-shaped 3Q20 bounce following the 2Q20 trough.

The sharp reversal was attributed to the key electronics sector sinking back into contraction territory (-0.6% yoy) after two months of stellar growth (33.1% in September and 48.0% in August), whereas the biomedical cluster still held up with 10.2% yoy growth, albeit this was also a sharp moderation from the 91.2% yoy expansion seen in September. Pharmaceuticals and medical technology output continued to remain healthy amid the global resurgence of Covid cases. Excluding biomedical, manufacturing growth fell a steeper 2.7% yoy (-2.9% mom sa).

Similar to what was reflected in the earlier October NODX data, weakness in semiconductors (-2% yoy) and infocomms and consumer electronics (-2.5% yoy) were the key drags, even though computer peripherals, data storage, and other electronics modules and components still expanded. Outside of electronics and biomedicals clusters, the precision engineering cluster also grew by 10.6% yoy, aided by demand for industrial process and semiconductor equipment, whereas the laggards included transport engineering (-31.8%, amid the persistent soft patch in aerospace and marine & offshore engineering which are still suffering from closed international borders and weak oil & gas demand) and general manufacturing (-12.8%).

The key question is whether the current soft patch in electronics, particularly semiconductors, will persist in the coming months. At the global level, there does not appear to be any suggestions of widespread semiconductor industry weakness yet. The recent first 20 days of exports in November for South Korea also showed resilient growth of 11.1% yoy, while October export orders for Taiwan also continued to grow by 9.1%. In fact, the global semiconductors and electronics machinery industry is tipped to see 9.7% growth this year, up from -7.7% in 2019, with a pickup into 2021, according to Interact Analysis.

At the corporate level, China's Tsinghua Unigroup had defaulted on a bond which triggered a credit rating downgrade. Nevertheless, this October soft patch certainly poses downside risk to S'pore's 4Q20 manufacturing and GDP growth. That said, the 2021 official GDP growth forecast of 4-6% (same as our house forecast) assumes the overall recovery will sustain into next year.

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