

Singapore Economics

Worst Manufacturing Slump Since 2019, GDP Stagnates in 3Q

Manufacturing Slump Deepens on Electronics and Chemicals

Manufacturing slumped by the most since November 2019, as electronics and chemicals reversed back into a slump. Industrial production plunged by -12.1% from a year ago in August (vs. downward revised -1.1% in Jul), its 11th consecutive month in the red.

IP fell -10.5% in seasonally-adjusted month-on-month terms (vs. +3.7% in Jul), ending its two-month growth spurt. IP excluding the volatile biomedical cluster shrank -13.3% from a year ago, reversing its +1.3% expansion in July.

Electronics and Chemicals Reversed July's Expansion

<u>Electronics</u> (-20% vs. +5.1% in Jul) fell back into contraction despite favourable base effects, led by semiconductors (-23.7% vs. +5.8% in Jul), which reversed two months of positive growth. Output declines were also seen in computer peripherals & data storage (-13%) and other electronics modules & components (-5.2%) offsetting a second month of growth in infocomms & consumer electronics (+12.9%).

<u>Chemicals</u> (-5.9% vs. -0.4% in Jul) reversed the previous month's expansion, mainly due to a larger decline in petroleum (-8% vs. -5.4% in Jul) and specialties (-22.3% vs. +22.6% in Jul) which outweighed a smaller fall in petrochemicals (-6.2% vs. -15.1% in Jul). Production was impacted by weak market demand, petrochemical plants maintenance shutdowns and lower mineral oil additives output in the specialties space.

Other Components in Decline, Except Transport Engineering

<u>Precision engineering</u> fell -14.4% (vs. -7.6% in Jul), as output of machinery & systems (-12%) continued to be weighed down by lower production of semiconductor-related equipment. Precision modules & components (-18.2%) was hit by lower output in plastic and metal precision components, optical instruments and dies, moulds, tools, jigs and fixtures.

<u>Biomedical manufacturing</u> (-1.8% vs. -21.1% in Jul) declined at a slower pace, as medical technology (+3.6%) remained supported by export demand for medical devices. Meanwhile, the volatile pharmaceuticals segment contracted -5.6% from a year ago. <u>General manufacturing</u> (-6.1% vs. -7.8% in Jul) saw declines across all three segments, namely food, beverages & tobacco (-3.2%), printing (-12.2%) and miscellaneous industries (-8.4%).

<u>Transport engineering</u> (+16.2% vs. +20.7% in Jul) was supported mainly by marine & offshore engineering (+29.4%) and aerospace (+15.2%), due to higher shipyard activity and the global air traffic recovery.

Inflation Falling, But Price Pressures Ahead

Inflation trended lower for the fourth consecutive month in August. Core inflation eased to +3.4% (vs. +3.8% in Jul), while rising +0.1% month-on-month (vs. +0.2% in Jul).

Easing core inflation was led by services (+3.1% vs. +3.6% in Jul), on the back of softer inflation in holiday expenses, telecommunication services and recreational & cultural services, as well as a larger fall in airfares. Food inflation moderated to +4.8% (vs. +5.3% in Jul), as inflation eased across noncooked food (+4.4% vs. +4.6% in Jul) and prepared meals (+5% vs. +5.6% in Jul). Retail & other goods inflation fell to +2% (vs. +2.6% in Jul), primarily due to clothing & footwear (-0.5%), which saw prices fall for the first time since Mar 2022 on a high base.

Headline inflation cooled to +4% (vs. +4.1% in Jul), but rose +0.9% from the previous month. A pickup in private transport costs (+6.3% vs. +4.8% in Jul) on surging COE premiums was offset by lower core inflation and accommodation inflation (+4.4% vs. +4.6% in Jul).

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Forecast Stagnant 3Q Flash GDP Growth of +0.1%, Small Probability of MAS Easing Policy

We maintain our 2023 GDP growth forecast at +0.8%, which stands at the lower end of MTI's forecast range of +0.5% to +1.5%. Manufacturing in August has performed much more poorly than suggested by leading indicators such as the PMI and EDB's business expectations survey. Manufacturing PMI (49.9) ticked up in Aug, with the production sub-index rebounding into expansionary territory (50.1 vs. 49.9 in Jul) for the first time since Feb 2023. A slightly higher net weighted balance of 6% of manufacturers expect higher quarter-on-quarter output in 3Q 2023 (vs. 1% of manufacturers in 2Q).

It is unclear whether the outsized fall in August semiconductor output was the result of any idiosyncratic or one-off factors. The month-on-month contraction in semiconductor output (-23.7%) was the sharpest since Feb 2020 at the advent of the pandemic, despite robust growth in exports of integrated circuits (+4.8% MoM) and diodes & transistors (+7.3%).

3Q flash GDP growth could come in at a weak +0.1% from a year ago (vs. +0.5% in 2Q), as a slightly narrower manufacturing contraction is outweighed by easing services growth, on the back of fading reopening tailwinds. The +0.1% growth estimate would imply positive but weak quarter-on-quarter seasonally adjusted GDP growth (vs. +0.1% in 2Q). But there is a risk of outright growth contraction in 3Q given forecast errors.

We maintain our headline inflation forecast at +4.8% in 2023, and core inflation forecast at +4.2%. We are projecting core inflation easing at a more gradual pace to about +3% by year-end.

Inflation may not ease as quickly for the rest of the year, as energy and food prices have rebounded. Wage cost pressures may also resurface with an improving labor market, higher S-pass qualifying salaries and broadening of the progressive wage model. The impending GST and carbon tax hike on 1 Jan next year may also trigger another jump in consumer prices. We project 2024 headline inflation at +2.9% and core inflation at +2.8%.

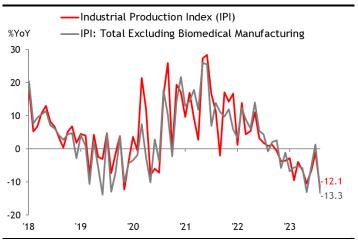
Out base case is for the MAS to maintain the current appreciation stance at the October meeting to contain core inflation pressures. Nonetheless, we would now ascribe a 20% probability of MAS easing policy via a "slight" reduction of the S\$NEER slope, given the stagnating economy and falling core inflation.

Table 1: Industrial Production Breakdown (% YoY)

	<u>Weight</u>	2022	<u>1Q23</u>	<u>2Q23</u>	<u>8M23</u>	<u>Apr-23</u>	<u>May-23</u>	<u>Jun-23</u>	<u>Jul-23</u>	<u>Aug-23</u>
Industrial Production	100%	2.7	-5.3	-7.7	-6.6	-6.4	-10.5	-6.4	-1.1	-12.1
Electronics	45.3%	2.6	-7.5	-12.0	-9.3	-8.8	-23.6	-2.7	5.1	-20.0
Biomedical Manufacturing	12.3%	-4.2	-2.3	-6.1	-5.9	-10.1	7.2	-14.4	-21.1	-1.8
Chemicals	16.9%	-5.6	-13.1	-8.1	-8.9	-6.1	-9.2	-9.1	-0.4	-5.9
Precision Engineering	13.1%	6.3	-5.5	-8.5	-8.0	-3.8	-10.2	-11.5	-7.6	-14.4
Transport Engineering	5.8%	18.9	18.1	19.0	18.5	15.1	31.0	12.6	20.7	16.2
General Manufacturing	6.6%	10.5	-6.6	-5.3	-6.2	-10.5	1.1	-6.4	-7.8	-6.1
IP ex. Biomedical	87.7%	4.1	-5.9	-7.9	-6.7	-5.7	-13.0	-5.0	1.3	-13.3

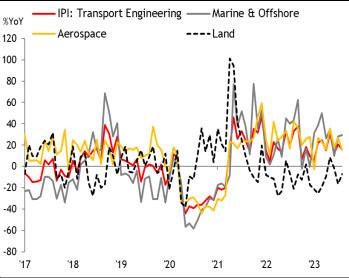
Source: CEIC, EDB

Fig 1: Industrial Production (-12.1%) Fell Sharply in Aug to the Lowest Level since Feb 2023



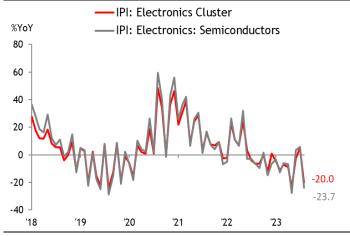
Source: CEIC

Fig 3: Transport Engineering (+16.2%) Growth Robust on the Strong Increase in Marine & Offshore (+29.4%)



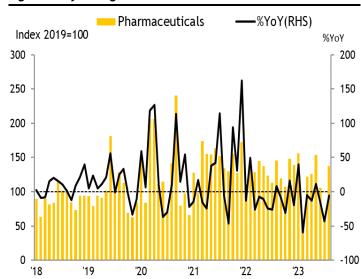
Source: CEIC

Fig 2: Electronics Production Flipped Back to Red with Double-Digit Drop in Aug, Semiconductors Slumped -23.7%



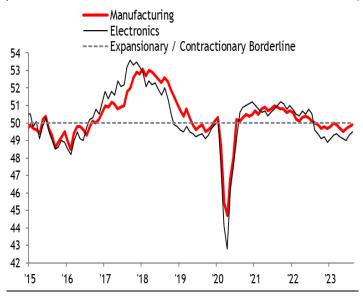
Source: CEIC

Fig 4: Volatile Pharmaceuticals Contraction (-5.6%) Slowed Significantly in Aug



Source: CEIC

Fig 5: Singapore - Manufacturing PMI (49.9) and Electronics PMI (49.5) Both Improved in Aug



Source: SIPMM, CEIC

Table 2: Consumer Price Index (CPI, 2019=100)

%YoY	2022	<u>1Q23</u>	2Q23	<u>8M23</u>	<u>Apr-23</u>	<u>May-23</u>	Jun-23	<u>Jul-23</u>	<u>Aug-23</u>
CPI - All Items	6.1	6.1	5.1	5.2	5.7	5.1	4.5	4.1	4.0
Food	5.3	8.0	6.6	6.7	7.1	6.8	5.9	5.3	4.8
Clothing and Footwear	2.8	6.8	4.5	4.2	5.6	4.1	4.0	0.6	-0.5
Housing & Utilities	5.2	5.3	4.4	4.6	4.5	4.4	4.3	3.9	3.8
Household Durables & Services	2.0	2.6	1.9	2.2	1.9	1.6	2.1	2.3	1.5
Health Care	2.2	4.0	4.6	4.3	4.2	4.6	5.0	4.0	4.3
Transport	16.4	9.2	6.4	6.8	8.6	6.0	4.6	3.7	4.8
Communication	-1.2	2.1	2.7	2.5	2.7	3.0	2.5	3.3	2.2
Recreation & Culture	4.3	6.8	6.5	6.4	7.6	6.4	5.7	6.5	5.1
Education	2.1	3.0	2.7	2.8	3.0	2.6	2.6	2.6	2.6
Miscellaneous Goods & Services	0.5	2.6	3.3	3.2	3.1	3.6	3.2	4.0	4.2
Core Inflation	4.1	5.4	4.6	4.6	5.0	4.7	4.2	3.8	3.4

Source: CEIC

Fig 6: Headline CPI (+4.0%) Eased to 20-Month Low in Aug, Core CPI (+3.4%) Slowed to The Lowest since May 2022

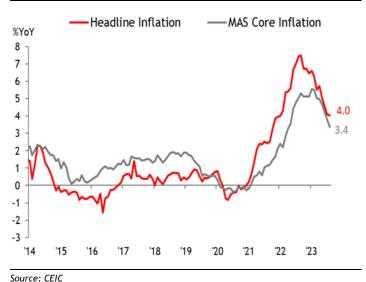


Fig 7: Food Inflation (+4.8%) Moderated to Below 5% for First Time since Last May on Broad Easing Across Main Clusters

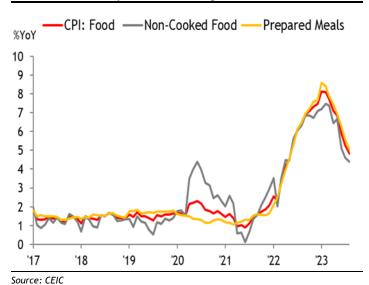


Fig 8: UN FAO Food Price Index (-11.8%) Contracted for 10th Consecutive Month in Aug

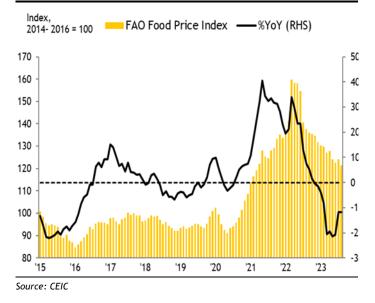
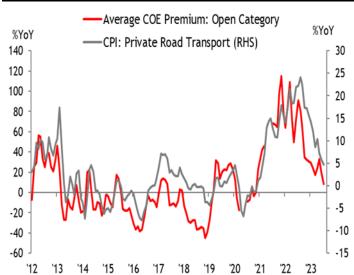


Fig 9: Private Transport Inflation Rose to 3 Month High at 6.3% in Aug on Jump in COE Premium

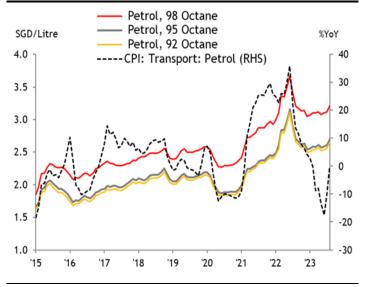


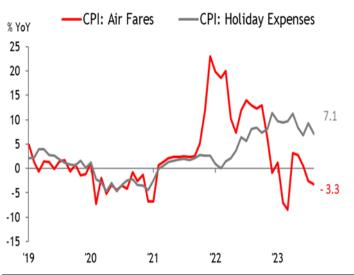
Note: COE auctions were suspended from Apr to Jun 2020.

Source: CEIC

Fig 10: Petrol Deflation (0%) Narrowed Markedly in Aug Due to Fig 11: Holiday Expenses (+7.1%) Moderated While Air Fares **Climbing Petrol Prices**

(-3.3%) Declined Further in Aug





Source: CEIC Source: CEIC



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