

Singapore Economics

Manufacturing Slumps; Expect Slower 3Q GDP at +2.6%

IP Slows as Tech Cycle Fades & Trade War in Full Swing

Industrial production slumped in August as electronics decelerated to the softest pace seen in two and a half years. The fading electronics cycle and supply chain disruptions from the US-China trade war will likely lower manufacturing growth to low single digits for the rest of the year. Industrial production (IP) growth eased to +3.3% in August from a year ago (vs. upwardly revised +6.7% in Jul), while IP ex-biomed also slowed to +3% (vs. +5.8% in Jul).

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Electronics is Now the Laggard

Electronics production softened to +3.6% in August (vs. +5.1% in Jul), recording the slowest growth among all the clusters excluding general manufacturing. Semiconductors rose by +7.8% (vs. +6.7% in Jul) and is likely to weaken in coming months as global electronics demand tapers off. Other electronic modules & components (+19%) was the best performing segment while infocomms & consumer electronics (-3.3%), computer peripherals (-27%) and data storage (-14%) fell. After being the key manufacturing driver for the past 2 years, electronics is now the growth laggard.

All Clusters Slowing Except Precision Engineering

The remaining clusters posted lower growth in Aug except for precision engineering (+5.6%), which was boosted by the precision modules & components segment (+16%). Biomedical (+4.2% vs. +10.4% in Jul) softened to a 5-month low with a steeper decline in medical technology (-8.2%) and easing growth in pharmaceuticals (+8.7%). Chemicals (+5.7% vs. +7.6% in Jul) was weighed down by the decline in petrochemicals (-2.4%) and petroleum (-4.7%) segments due to plant maintenance shutdown. Transport engineering (+4.7% vs. +16% in Jul) continued to be supported by marine & offshore (+15%) and aerospace (+1.3%). General manufacturing (-6%) fell for the first time in 5 months with all segments recording declines.

Expect 3Q Advance GDP at +2.6%, MAS to Hold in Oct

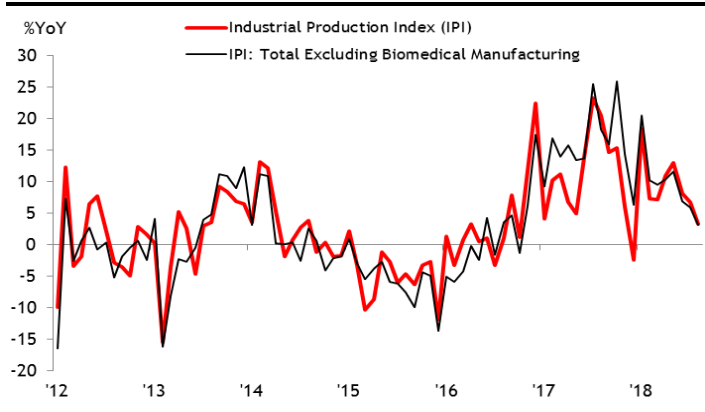
Manufacturing will likely slow further in 4Q and downside risks are increasing as US-China trade tensions worsen. We expect 3Q advance GDP growth (out on second week of Oct) to slow to +2.6% (vs. +3.9% in 2Q) on the back of weaker manufacturing and services. Property measures will likely dampen business services growth in 3Q. Our full year GDP forecast stands at +3.5% in 2018 and +2.7% in 2019. Given slowing growth and increasing downside risks from the trade war, we expect the MAS to maintain the current slight appreciation bias at the Oct meeting.

Table 1: Industrial Production Breakdown (% YoY)

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	YTD2018	2017
Industrial Production	7.3	7.1	10.9	13.0	8.1	6.7	3.3	9.2	10.4
Electronics	17.9	12.4	11.9	18.8	8.0	5.1	3.6	12.7	33.8
Biomedical Manufacturing	(6.1)	(2.9)	14.0	19.7	13.4	10.4	4.2	7.6	(8.4)
Chemicals	7.9	8.4	12.6	8.6	1.7	7.6	5.7	8.2	6.2
Precision Engineering	5.6	12.0	7.3	2.3	4.8	2.4	5.6	8.0	18.1
Transport Engineering	9.3	7.4	14.2	8.3	14.4	16.2	4.7	10.0	(6.9)
General Mfg. Industries	(6.6)	(0.3)	2.8	5.8	0.0	0.3	(6.0)	0.8	(1.4)
IP ex. Biomedical	10.2	9.6	10.4	11.6	6.9	5.8	3.0	9.5	15.5

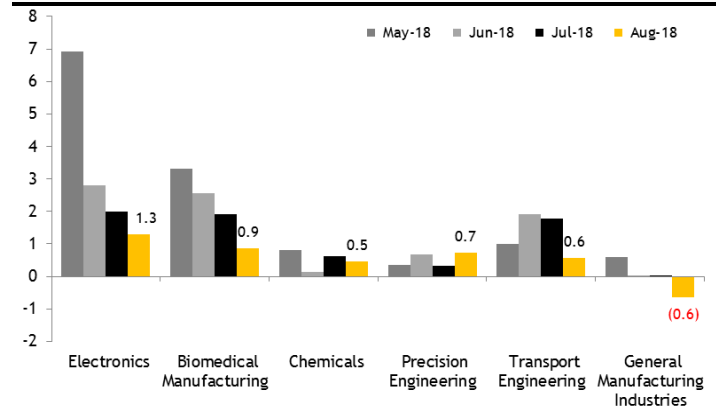
Source: CEIC, EDB, Maybank KE

Fig 1: IP Momentum Slows Further in Aug-18



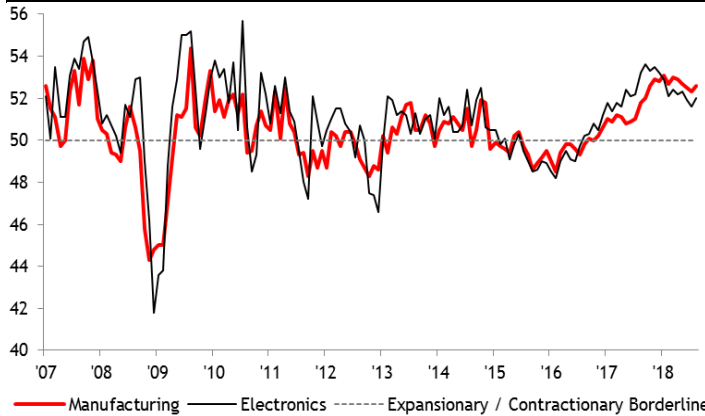
Source: CEIC

Fig 2: Contribution to Growth by Clusters (ppts)



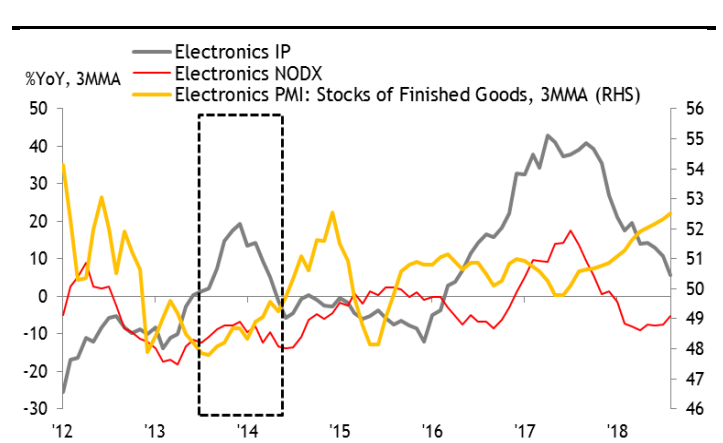
Source: CEIC

Fig 3: Manufacturing Purchasing Manager Index (PMI) Picked Up in Aug-18



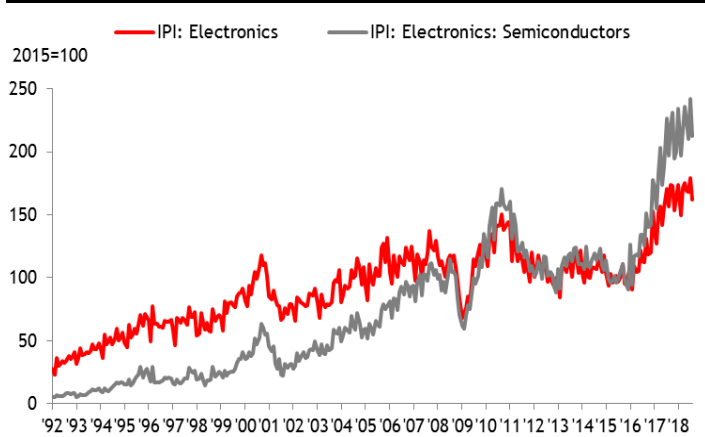
Source: CEIC

Fig 4: Electronics Stocks of Finished Goods Still Rising



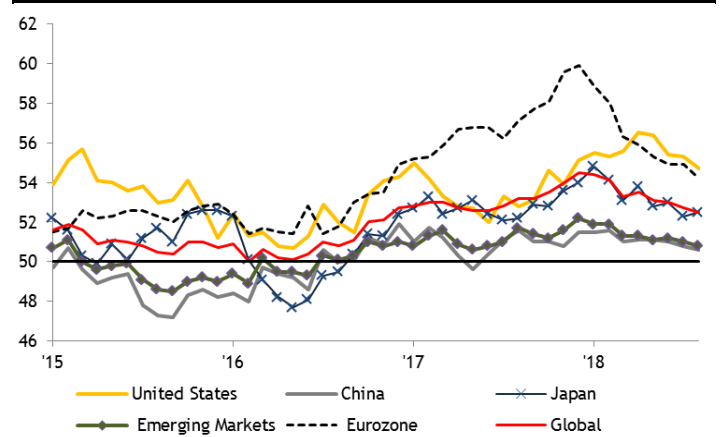
Source: CEIC

Fig 5: Production of Semiconductors and Electronics Has Probably Peaked



Source: CEIC

Fig 6: Market Manufacturing PMI Still in Expansion Phase for Most Countries/Regions, But Have Rolled Over from Peaks



Source: CEIC, Markit

Table 2: Manufacturing PMI

	<u>Dec-17</u>	<u>Jan-18</u>	<u>Feb-18</u>	<u>Mar-18</u>	<u>Apr-18</u>	<u>May-18</u>	<u>Jun-18</u>	<u>Jul-18</u>	<u>Aug-18</u>
Manufacturing	52.8	53.1	52.7	53.0	52.9	52.7	52.5	52.3	52.6
New Orders	54.3	54.7	54.5	54.9	54.6	54.5	54.3	53.9	54.4
New Export Orders	53.4	53.7	53.6	53.9	53.5	53.3	53.0	52.6	53.2
Production	54.1	54.9	54.0	54.8	54.7	54.3	53.8	53.5	53.7
Inventory	52.1	52.4	52.8	52.9	53.0	52.8	52.7	52.3	52.0
Stocks of Finished Goods	51.0	51.2	51.5	51.7	52.0	52.3	52.9	53.1	53.0
Imports	53.0	53.3	52.9	53.2	53.4	53.0	52.8	52.2	52.3
Input Price	51.8	51.1	51.4	50.9	51.2	51.5	51.6	51.3	51.4
Employment	51.0	50.8	50.6	50.4	50.6	50.5	50.6	50.7	51.0
Supplier Deliveries	49.6	49.7	50.2	50.6	50.8	50.4	50.9	50.6	50.5
Order Backlog	50.9	51.0	50.9	51.1	50.7	50.3	49.9	49.7	50.2

Source: CEIC

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