



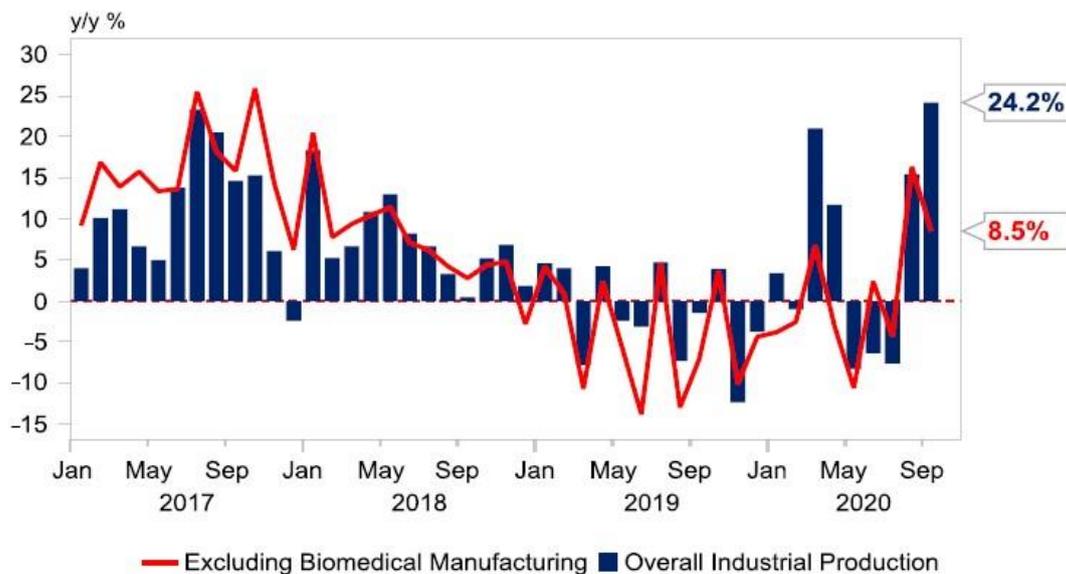
Singapore: Lift for 3Q20 outlook from strong manufacturing

Singapore's industrial production surprised market expectations with a 24.2% year-on-year (+10.1% month-on-month, seasonally adjusted) surge in September 2020 compared to Bloomberg expectations of 2.5% y/y (-7.8% m/m). Excluding biomedical manufacturing, industrial output grew 8.5% y/y while the August figure has been revised higher to +15.4% y/y (+15.5% m/m) from the previous print of +13.7% y/y (+13.9% m/m). With the latest data, Singapore's manufacturing output rose 5.7% in the first three quarters of 2020, up from -0.6% for the corresponding period a year ago.

The strong industrial production performance in both August (+15.4% y/y) and September (+24.2% y/y) puts overall manufacturing cluster growth at 10.0% for the third quarter of 2020 compared to the advance estimates for 3Q20 GDP by the Ministry of Trade and Industry (MTI) at +2.0% y/y. Assuming that contractions for the construction and services sector at 28.7% y/y and 4.1% y/y respectively, this will translate to 3Q20 GDP weighing in at -5.6% y/y, which is an improvement over advance estimates at -7.0%.

Industrial Production Surged 24.2% y/y in September 2020, The Fastest Pace Since December 2011

Source: Macrobond, UOB Global Economics & Markets Research

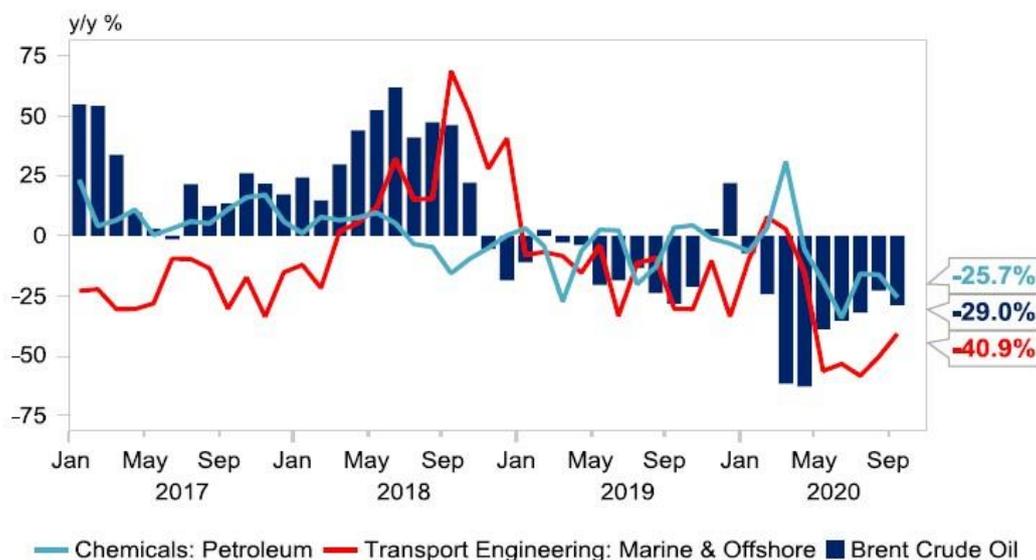


The surge in manufacturing output was underpinned by the biomedical and electronic manufacturing clusters. The strong performance in the biomedical manufacturing cluster (+89.8% y/y, fastest pace in 5 months) suggests the continued demand for pharmaceutical-related products especially during the ongoing COVID-19 pandemic. Delving into the sub-components, the surge in the biomedical manufacturing cluster had come on the back of strong pharmaceutical production (+113.6% y/y), while export demand for medical instruments led overall medical technology production (+15.0% y/y).

Similar to August, the demand from cloud services, data centres and the 5G market had likely supported Singapore's electronic cluster (+30.1% y/y). Growth in semiconductor (+37.4% y/y) and other electronic modules & components (+8.4% y/y) also lifted overall electronic production (+30.1% y/y).

Soft Oil Prices Could Depress The Chemicals And Transport Engineering Clusters

Source: Macrobond, UOB Global Economics & Markets Research



Meanwhile, low oil prices expected for the rest of 2020 will likely continue to depress the chemicals and transport engineering sectors while COVID-19 related factors may also continue to weigh on the general manufacturing cluster. According to the Economic Development Board (EDB), the pace of contraction in August output (-16.7% y/y) was "negatively affected by the slow resumption of domestic construction activities, while the fall in production seen in the miscellaneous industries (-8.0% y/y) was led by "lower demand for print jobs amid COVID-19".

Outlook

Given the upside surprise in September's manufacturing pace, year-to-date manufacturing growth is now on a stronger footing at +5.7% y/y, up from -0.6% y/y for the same period last year. We have raised our full-year industrial production outlook to +5.5% from +2.5% previously. Should our expectations materialise, Singapore's GDP outlook may register a smaller contraction of 5.5% for 2020, up from our previous outlook of -6.5%.

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