Positive Sentiments prevail in Q4 as local economy gets growth boost outlook

Outlook for Q4 2013 - Key Highlights

- Business Optimism Index registers at +33.98%, an increase by 23.45% q-o-q and 25.49% y-o-y
- All six optimism indices registered increases (q-o-q)
- Volume of sales registered the largest optimism reading at +50.8%
- Firms are least optimistic about selling price with a net reading of +16.7%

The Q4 2013 Business Optimism Index (BOI) shows that the surveyed companies are optimistic about their business situation in the closing quarter of the year. The net BOI stands firmly at +33.98%, which is significantly higher than the +10.53% reported a quarter ago. A net weighted 41.46% of the respondents were optimistic with an improved business environment. This compares favourably with the 7.48% of companies (net weighted) which share their pessimistic outlook in the survey. A year-on-year analysis reveals that BOI has surged sharply by 25.49% from +8.49% reported in the same quarter last year.

In Q2 2013, the Singapore economy enjoyed a buoyant performance when seasonally-adjusted GDP grew by 15.5% quarter-on-quarter. The manufacturing and trade-related services industries recorded healthy gains, indicating that growth is broadening to the external-oriented activities, from the more domestic demand-reliant expansion seen in the previous quarters.

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Singapore’s GDP growth is widely expected to grow at 2.5-3.5% this year. The growth forecast has been upgraded from the 1-3% previously projected. Although risks on the external front remain, the cyclical recovery of the global economy is expected to improve modestly through the rest of this year. As such, with stronger support from external demand and continued resilience in domestic-oriented activities, the Singapore economy is projected to stay on a mid expansion path in H2.

In August, Singapore’s inflation rate went up by 0.1% to 2% when compared with the previous month. Accommodation cost rose 4.2% in August compared with 2.6% in July, when there was a disbursement of Service and Concession Charges rebates for HDB households. Meanwhile, imputed rentals on owner-occupied accommodation contributed 0.7% to overall inflation, down slightly from 0.8% in July, reflecting the effects of tighter mortgage servicing ratio (MSR) and total debt servicing ratio (TDSR) introduced by the government recently. Food prices increased 2.4% in August, up from 2.1% in July, mainly on account of costlier hawker and restaurant meals. The Monetary Authority of Singapore (MAS) expects that Singapore recorded a current account surplus of about S$18 billion in Q2. Singapore’s trade surplus increased to S$4 billion in August, up slightly from S$3.5 billion a year ago. Exports grew over a year earlier to S$43.4 billion, following the 5.1% expansion in July. This was mainly boosted by higher oil sales to Malaysia, Hong Kong and Australia.

According to International Enterprise (IE) Singapore, electronic exports decreased by 9.2% in August year-on-year, owing to lower shipments of ICs (-14.6%), parts of PCs (-23.5%) and disk media products (-16.9%). Fuelled by significant decline in pharmaceuticals (-31.1%), structures of ships and boats (-95.8%) and aromatic chemicals (-54.4%), non-electronic exports also fell by 4.7% in August. On a year-on-year basis, non-oil exports contracted by 6.2% in August.

Singapore held the inaugural Asia-Singapore infrastructure Rountable in early October. With Asia projected to add another 1.4 billion urban inhabitants to reach a total of 3.3 billion by 2050 and the regional infrastructure requirements amounting to US$8 trillion by 2020, Singapore - a leading trade centre by all standards - is well-positioned to be Asia’s infrastructure hub with its strong cluster of companies involving directly or indirectly in infrastructure development.
With the number of optimists (weighted 58.0%) clearly outnumbering the number of pessimists (weighted 8.0%), all sectors are anticipating their volume of sales to be increased in Q4 (net +51%). The miners are most optimistic (net +83.3%), followed by the wholesalers (net +70.0%) and the construction and financial (both net +63.3%) sectors.

Growth in wholesale trade, although uneven, was supported by an increase in electronic re-exports. Following a stellar performance in H1, financial intermediation and sentiment-sensitive clusters within the finance industry are expecting an increase in volume of sales.

A net balance of +44.17% of the companies surveyed is anticipating a rise in net profit in Q4 (10.33% pessimists vs. 55.0% optimists). This is mainly contributed by the financial sector (+81.82%) and the agriculture sector (+80.0%). By comparison, the miners are least bullish, but a net weighted of +16.67% of the surveyed mining firms are optimistic about their net profits in the next quarter. As in the case of sales volume, all sectors are bullish about their net profits in Q4. Local agricultural firms are also expected to benefit from higher net profits with the increase in global demand and per capita consumption of agricultural products.

The selling price is expected to rise, as reflected in the Q4 Index at +16.67%. The rise is also expected to be felt in all sectors, notably the agriculture sector (net +40.0%) and the mining sector (net +33.3%). In fact, none of the surveyed companies within the agriculture sector are projecting a reverse trend in selling price.

Selling prices for commodities, crop and livestock products are likely to increase in view of growing resource constraints and increasing environmental pressures which are anticipated to inhibit supply response globally. The increase in selling price within the sector is also largely driven by higher demands of agricultural products in developing countries, albeit at a slower pace.
Given the better-than-expected outlook ahead, the local manufacturers are anticipating an expansion in new orders (net +26.67%). About 33% of the surveyed companies anticipate an unchanged situation in Q4, with the remaining split in their assessments (46.67% optimistic vs. 20.0% pessimistic). Although most local analysts believe that strong manufacturing output may already have faded and weak growth in China will contribute to a likely contraction in Singapore’s exports this year, the export-oriented manufacturers are assured of a reasonably good year in 2013 in view of the gradual pick-up in the global economy. There should be no contraction in new orders in the remaining quarter of 2013.

Note: Only manufacturing companies are surveyed for new orders.

The overall expectations for inventory has improved substantially. On a quarter-on-quarter basis, inventory levels have registered the highest increases from +2.5% in the previous quarter to +29.17% in Q4. Strongly encouraged by the construction (net +54.55%), wholesale (net +50.0%) and the financial (net +45.45%) sectors, the overall index is reported to be about +29.0%. All other sectors are bullish with their assessment for Q4. The expected rise in inventory levels within the construction sector is underpinned by robust activities in the private sector. While the introduction of the Total Debt Servicing Ratio (TDSR) dampened housing demand, provisional data from the Housing Development Board (HDB) reveals that sales of private homes made a comeback in August with an 8.9% rise.

Despite the tight labour market, more job openings are expected in Q4, as a net 30% of the surveyed companies are ready to hire more workers (33.0% optimists vs. 3.0% pessimists). The agriculture sector (net +60.0%) and the manufacturers (net +46.67%) are likely to lead in job creation. However, as in all previous quarters, the majority of the companies (net 63.0%) are satisfied with their current size of workforce and will remain status quo in Q4. Local agricultural firms are expected to increase their hiring to meet rising global demand for agricultural products. In view of the gradual upturn in the global economy, more jobs within the export-oriented manufacturing sector are also expected to increase in the final quarter of the year.
Business Optimism Index (BOI) Report

D&B Optimism Index report is recognized as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Optimism Index is arrived at on the basis of a quarterly survey of business expectations. Over time, this quarterly survey has emerged as a leading indicator of turning points in economic activity in countries which it is published.

Methodology

For the purpose of conducting the survey, a sample is randomly selected from D&B database, consisting of companies belonging to the following sectors including Agriculture, Construction, Electric, Finance, Manufacturing, Mining, Services, Transportation, and Wholesalers.

All the respondents in the survey are asked six standard questions regarding their expectations as to whether the following critical parameters pertaining to their respective companies will register an increase, decline or show no change in the ensuing quarter as compared to the same quarter in the prior year: Volume of Sales, Net Profits, Selling Prices, New Orders, Inventory Levels, and Employees. The individual indices are then calculated by subtracting the percentage of respondents expecting decreases from those expecting increases. Unless otherwise stated, increases and decreases in indices represent changes from the previous quarter.

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