

Nikkei Singapore PMI™

Private sector conditions improve further in June

Key points:

- Output growth at survey-record
- Strong expansion in new orders pushes backlogs higher
- Firms hold prices steady despite strong cost pressures

Data collected June 12–25

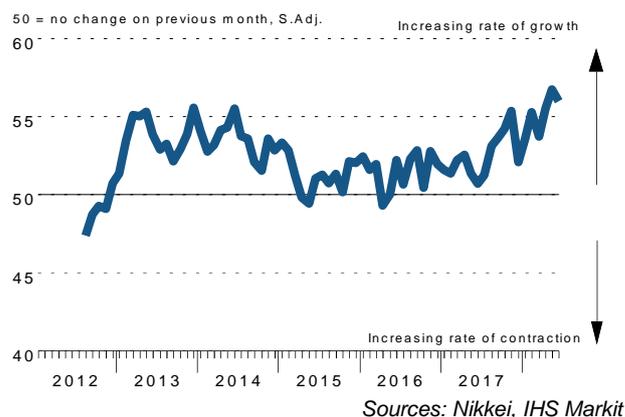
Singapore's private sector economy ended the second quarter on a high note, buoyed by sharp increases in both output and new orders. Employment was raised further, but increased staff numbers failed to prevent another rise in backlogs. Despite increased orders, firms cut back on purchasing activity which, in turn, led to another reduction of input inventories. The inflation picture was mixed, with cost pressures remaining sharp, but selling prices broadly steady.

The headline **Nikkei Singapore Purchasing Managers' Index™ (PMI™)** dipped from 56.8 in May (a survey-record) to 56.0 in June, but still indicative of another sharp improvement in the health of the sector. The latest reading took the average for the second quarter to 56.1, representing the best quarterly performance in the survey history. The headline reading is a composite index derived from questions on new orders, output, employment, suppliers' delivery times and inventories, thereby providing an early indication of the health of the private sector.

Supporting the headline PMI were sustained expansions in both output and new orders. Latest survey data indicated that output was raised to the greatest degree since the survey started nearly six years ago, while new business growth remained among the highest in the survey history and was marked overall.

Employment increased further amid improved demand conditions, although the rate of job creation was mild, especially compared to the start of 2018. Despite increased staff numbers, firms' capacity remained under pressure, as reflected by a further rise in the level of unfinished work. The rate of backlog accumulation in June was unchanged on May's survey record.

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Despite higher demand, firms reduced their purchasing activity in June for the first time this year. Lower buying levels, in turn, led to a second consecutive monthly fall in stocks of purchases. Anecdotal evidence suggested that current inventory was sufficient to meet demand.

The lower appetite for purchases helped to ease delivery delays. The pace of lengthening in average lead times was marginal and the slowest seen since the current sequence began last August.

Companies also recorded another strong increase in input costs over the month. While decelerating, overall input price inflation remained sharp and well above the historical average. Strong wage growth was the main driver of inflation as overall purchase costs fell for the first time in nearly two years. Increased costs failed to prompt firms to raise charges. On the contrary, selling prices were broadly steady in June amid reports of promotional offers and bulk discounts.

Finally, business confidence remained in positive territory during June, with optimism linked to planned business expansions, new marketing strategies, promotional activity and increased government projects.

Comment:

Commenting on the Singapore PMI survey data, **Bernard Aw**, Principal Economist at IHS Markit, which compiles the survey, said:

“The picture of Singapore’s private sector economy remained one of strong growth as the first half of the year concluded, according to the Nikkei surveys. Furthermore, latest PMI data set the scene for its strongest quarterly performance in the survey history.”

“Both output and new orders continued to expand at a strong rate. However, the fact that export sales have now grown slower than total orders for two successive months suggests that domestic demand is the key driver of economic activity.”

“The most compelling sign of output growth gaining momentum at the start of the third quarter came from the survey’s data on backlogs, which continued to rise at a survey-record rate.”

“However, firms could struggle to raise its manpower amid a tightening labour market. The unemployment rate fell to 2% in the first quarter, the lowest in two years. Furthermore, rising labour costs may constrain hiring budgets.”

-Ends-

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Notes to Editors:

The Nikkei Singapore *PMI*[™] is based on data compiled from monthly replies to questionnaires sent to executives in over 400 private sector companies, selected to accurately represent the true structure of the Singapore economy, including manufacturing, services, construction and retail. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index[™] (PMI[™]) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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