Private sector output returns to growth in July, but demand still weak

Key findings

Headline PMI rises to five-month high

Export orders increase for first time in a year

Job shedding persists and cost inflation accelerates

Latest PMI™ data showed Singapore's private sector conditions deteriorated at a weaker pace in July as the economy moved towards stabilisation. New orders declined at a noticeably slower pace, supported by renewed growth in export sales. Moreover, output expanded for the first time since January, albeit marginally.

However, the adverse impact of the coronavirus disease 2019 (COVID-19) and its associated measures continued to weigh heavily on Singapore's private sector. Employment fell sharply again, while firms continued to reduce purchasing activity and inventories substantially amid a sharp rise in cost inflation. Business expectations about the year-ahead outlook worsened sharply in July.

The IHS Markit Singapore Purchasing Managers’ Index™ (PMI) edged higher from 43.2 in June to 45.6 in July, its highest since February. Although the latest figure remained below 50 and indicated a further marked deterioration in the health of the private sector, it represents a much improved picture on the situation in April and May.

Business activity rose for the first time since January, with growth largely driven by construction and wholesale & retail activities as businesses returned to work. Survey data showed output of both the manufacturing and service sectors declined further, albeit at slower rates.

Demand conditions continued to soften at the start of the third quarter. Total new orders contracted for a sixth straight month, though the rate of decline was the weakest since January. However, there were encouraging signs of an improvement in the overseas market. Export orders rose in July, albeit marginally, and for the first time in a year, with respondents highlighting greater demand from American clients. Survey data indicated a slight rise in capacity pressures, as shown by a rise in backlogs.

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

"Latest PMI data indicated that the economic downturn across Singapore’s private sector continued to ease in July. However, other survey indicators cast doubts on the sustainability of the recovery in the coming months.

"While business activity rose for the first time in six months, the expansion was largely driven by a rebound in construction and wholesale & retail activities as businesses return to work rather than any real increase in demand. Manufacturing and services sectors both reported a decline in activity. Demand conditions meanwhile weakened further despite a renewed (but marginal) growth in export sales.

"July saw job numbers, purchasing activity and inventories falling at faster rates, underscoring how firms remained cost-conscious amid greater uncertainty over the outlook for demand."

Data were collected 13-27 July 2020.

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of work. However, anecdotal evidence suggested that additional workloads were linked to social distancing measures.

Business confidence deteriorated sharply, with a much greater proportion of firms anticipating a decline in activity levels in the year ahead. A number of firms mentioned business closures and expectations of a prolonged impact of the pandemic on the economy.

Amid greater economic uncertainty and efforts to limit costs, firms continued to reduce staffing numbers. Employment dropped for an eleventh straight month, falling at one of the fastest rates in the survey history, surpassed only by the unprecedented declines in March, April and May. Firms also cut back on input purchases and inventories severely.

Pressure on supply chains persisted in July, with companies highlighting material shortages, a lack of manpower, and closures of overseas suppliers as reasons for delivery delays.

Finally, inflation intensified at the start of the third quarter. Overall input prices rose sharply, with the rate of increase the strongest for just over two years. A steep rise in prices paid for inputs was the key driver of cost inflation as wage costs fell further. Weak demand restricted the ability of firms to pass on higher costs to customers. On the contrary, output charges were reduced further in July.

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Survey methodology

The IHS Markit Singapore PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey includes manufacturing, construction, wholesale, retail and services.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of ‘higher’ responses and half the percentage of ‘unchanged’ responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers’ Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

July 2020 data were collected 13-27 July 2020.
Survey data were first collected August 2012.

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Purchasing Managers’ Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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