

Nikkei Singapore PMI™

Private sector growth accelerates further in May

Key points:

- Client demand strengthens, with order book growth at a five-year high
- Cost inflation surges, lifted by strong wage growth
- Optimism improves to nine-month high

Data collected May 11–24

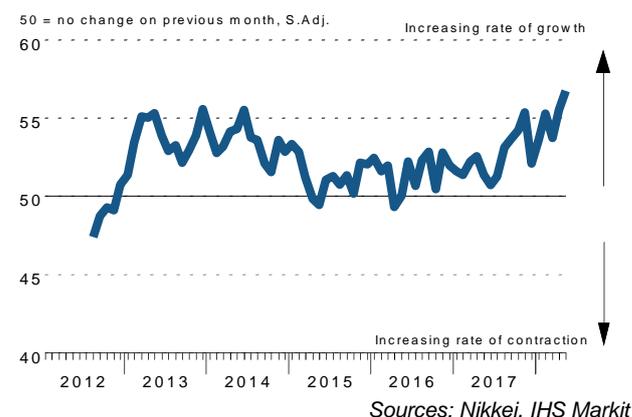
Private sector growth in Singapore gained further pace in the middle of the second quarter, buoyed by sharply faster expansions in both output and new orders. Increased business activity led firms to raise both purchasing levels and hiring. However these efforts failed to keep pace with greater client demand. Firms had to tap on current inventories and fell further behind on backlogs. Delivery times also stretched longer. Meanwhile, overall input costs surged, driven predominantly by higher wages. Business confidence improved further.

The headline **Nikkei Singapore Purchasing Managers' Index™ (PMI™)** rose from 55.6 in April to 56.8 in May, indicating a solid improvement in the health of the sector. The latest reading was the highest in the survey history. The headline index is a composite index based on questions on new orders, output, employment, suppliers' delivery times and inventories, thereby providing an early indication of the health of the private sector economy.

Midway through the second quarter, client demand strengthened further. Survey data indicated the largest monthly rise in new business inflows for five years, supported by both local and foreign markets. While export sales grew at a slower pace than April's survey-record, the rate of growth remained strong. In line with a sharp increase in orders, firms raised output to the greatest extent in nearly four years.

Operating capacity came under further pressure. While firms added more workers to cope with increased demand, it was insufficient to prevent another rise in the level of unfinished business.

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Backlogs of work rose at the fastest rate in the survey history.

Responding to higher output requirements, firms raised purchasing activity further. However, the modest pace of buying saw stocks of purchases fall for the first time in five months as firms depleted existing inventories to fulfil higher operating usage.

Suppliers found difficulties to meet greater appetite for inputs. Longer delivery times were reported for a tenth straight month.

May survey data indicated signs of stronger cost pressure. Overall input price inflation surged in the latest survey period, reaching the highest since the survey started in August 2012. Staffing costs rose markedly, while purchasing costs increased at a modest rate.

Firms seeking to protect profit margins chose to pass on higher costs to their customers. Output charges were up again.

Business confidence improved for a second straight month in May, with the Future Output Index at a nine-month high. Nearly two-thirds of panellists anticipated higher output over the next 12 months, citing new marketing strategies, and promotional activity as reasons.

Comment:

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

“Singapore’s private sector economy gained further strength during May, setting the scene for the best quarterly performance since the Nikkei PMI survey started nearly six years ago.

“Other survey indicators suggest the upturn will build up further as we head into the end of the second quarter. New business growth was the strongest in five years, with both domestic and external markets providing a boost. The PMI’s gauge of business confidence improved to a nine-month high, with two-thirds of survey participants expecting higher output over the next 12 months. As such, the latest PMI data support the Ministry of Trade and Industry’s upgrade of its economic outlook for Singapore.

“Labour market prospects also brightened amid strengthening economic conditions. Capacity pressures intensified, as indicated by a record rise in backlogs of work, suggesting that firms may need to boost hiring in the coming months. However, high wage inflation could limit the extent to which companies add new staff.

“The strength of the upturn is pulling prices in general upwards. Overall input prices rose at a survey-record rate, suggesting that wider inflationary pressures may intensify in coming months.”

-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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