

Nikkei Singapore PMI™

Private sector conditions improve further in July

Key points:

- Stronger rises in both output and total new orders
- Export sales increase at record high
- Lower employment persists

Data collected July 12-25

Growth in Singapore’s private sector picked up at the start of the third quarter, reflecting expansions in both output and new business. Notably, the gain in export sales was much higher. A renewed build in inventories also contributed to stronger overall growth.

However, lower employment persisted despite increased backlogs. Business optimism was dialled back while inflationary pressures remained subdued.

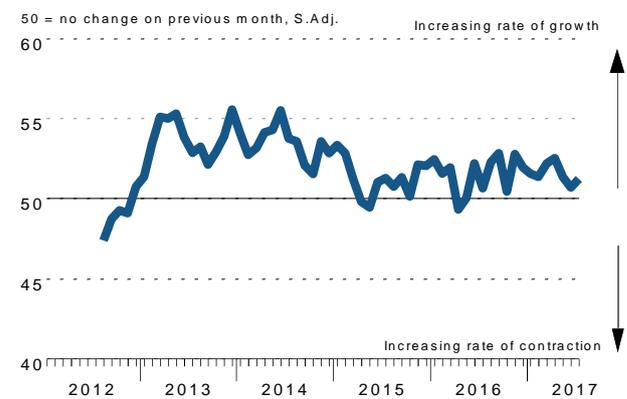
The headline **Nikkei Singapore Purchasing Managers’ Index™ (PMI™)** rose to 51.3 in July from 50.7 in June. While still modest, the latest reading signalled an improvement in private sector operating conditions, adding to the trend of expansions that has been running for over a year.

July data suggested that rising foreign demand supported the sector, while the domestic market was relatively less active. Although growth in total new business picked up from June, the rate of expansion was below the average seen so far this year. This was despite demand from abroad strengthening notably in July, as shown by new export sales increasing at the strongest pace since the survey started nearly five years ago. There was evidence of greater demand from China and Japan.

Higher sales led to output growth remaining at a steady pace. Sustained business activity continued to strain operating capacity, with higher backlogs reported for over one-and-a-half years.

However, firms did not boost staff numbers to ease increased workloads. On the contrary, lower employment was observed for a second straight month, albeit only marginally. Anecdotal evidence suggested reduced part-time hiring.

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Sources: Nikkei, IHS Markit.

Stronger client demand saw companies stepping up purchasing of inputs in July after reducing buying levels in the previous month. That boosted pre-production inventories, where a renewed rise in stocks of purchases was reported. A greater appetite for inputs did not place pressure on supply chains – instead, shorter delivery times were noted for a second consecutive month, although the rate of improvement was marginal.

Survey data indicated that inflationary pressures remained subdued in July. While higher than the prior month, cost inflation in July was the second weakest seen so far this year. Unchanged levels of input prices and slower wage growth were responsible for the mild increase in total costs. Notably, this was the first time in 11 months that no inflation was recorded for purchase prices. Meanwhile, wage inflation was driven by salary adjustments and payouts for commissions and bonuses.

Marginal cost pressures led firms to raise selling prices slightly, as has been the case for the previous two months. There were comments of passing on higher costs to consumers due to a lack of discounts from suppliers.

Despite the current upturn, Singapore's private sector expressed less confidence in July. A large majority of survey respondents expected no change to output levels in the year ahead. While higher sales forecasts and promotional activity were cited by firms expecting output growth, others highlighted slowing industries (such as real estate).

Comment:

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

"Singapore's private sector growth gained momentum at the start of the third quarter, but forward-looking indicators suggest that a further upturn is far from being guaranteed."

"July's survey revealed that rising foreign demand supported the private sector economy while the domestic market wasn't as active. Growth in new export sales increased sharply since June to the greatest extent in the survey's near five-year history. Firms mentioned that faster export order growth was driven by greater demand from Japan and China. The concern now is that if trade falters in the coming months, domestic demand may be insufficient to fill the gap."

"Private sector businesses were generally less confident about the 12-month outlook compared to June, expressing concerns for the slowing in some industries such as real estate. Supporting this increasing air of caution is official data: growth has not been broad-based, relying on the upturn of a few cyclical sectors such as electronics to drive the recent strong expansions."

"Furthermore, lacklustre employment growth could continue to weigh on consumer spending, suggesting that a further pick-up in economic growth would be challenging."

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)

Bernard Aw, Principal Economist
Telephone +65-6922-4226
Email bernard.aw@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922-4239
E-mail jerrine.chia@ihsmarkit.com

Nikkei inc.

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone +81-3-6256-7115
Email koho@nex.nikkei.co.jp

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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