

Nikkei Singapore PMI™

Private sector shows strong start to the fourth quarter

Key points:

- Faster rises in output, new orders and employment boost the PMI
- Export growth at record high
- Inflationary pressures intensify

Data collected October 11–25

Singapore's private sector economy recorded a strong start to the final quarter of 2017 as demand strengthened further. Faster growth in both output and new orders, particularly export sales, buoyed the sector in October, encouraging firms to raise hiring amid ongoing capacity constraints.

Greater demand also led to higher purchasing activity which, in turn, weighed on supply chains but contributed to a further rise in inventories. Inflationary pressures intensified while business optimism improved from the previous month.

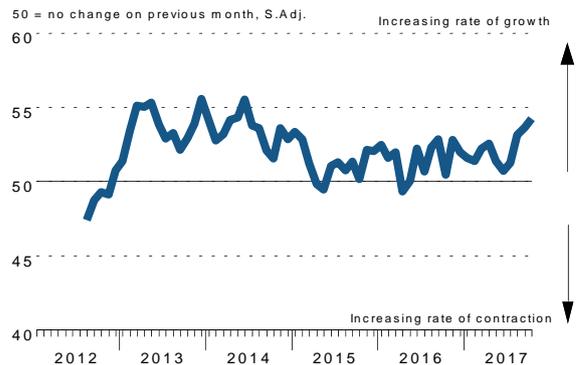
The headline **Nikkei Singapore Purchasing Managers' Index™ (PMI™)** rose from 53.7 in September to 54.2 in October, signalling another solid improvement in the health of the sector. The latest reading was the best for almost three-and-a-half years (since June 2014).

Improving demand was a key driver behind increased business activity. Volumes of new business inflows rose at the fastest pace in nearly four years, underpinned by a marked increase in export sales, which reflected better trade conditions. Anecdotal evidence suggested higher demand from China and South East Asia. There were also reports of increased demand for industrial metals, electronic components, transport services, IT solutions, and retail sales.

Increased sales volumes pushed firms to raise business activity. October data indicated higher output again, marking five years of expansion. Furthermore, the rate of growth was sharp, matching that seen in total new orders.

Facing further constraints on operating capacity, companies took on more workers for a second straight month, with the rate of increase in staff numbers the fastest since April.

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Sources: Nikkei, IHS Markit

However, a larger pool of manpower was insufficient to work through all of the additional workloads. Backlogs of work were up again during October, stretching the current sequence to nearly two years.

Consistent with high demand, firms increased buying levels for a fourth consecutive month which, in turn, added further pressure on supply chains. As a result, firms suffered incidences of delivery bottlenecks for a third month running, although the rate at which lead times lengthened was only marginal. Meanwhile, greater purchasing activity helped firms to build-up inventories. Higher stocks of purchases were reported, in line with the trend since July.

Rising client demand came with mounting inflationary pressures. Overall input costs increased in October, led by a sharp rise in wages, as well as higher paid prices for purchases. The rate of input cost inflation was solid, and met with a similar pace of increase in output prices as companies sought to protect their profit margins by passing on higher costs to customers.

Finally, improved conditions in the private sector bolstered confidence. Business optimism rose from September. While below the historical average, the Future Output Index was much higher than seen early this year.

Comment:

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

“The Singapore private sector economy showed a strong start to the closing quarter of 2017, building on a solid growth momentum from the third quarter. This reflected a further improvement in the overall business climate.

“The upturn was led by increased new business inflows, in particular from overseas markets. New export orders saw the largest monthly rise since the PMI survey started more than five years ago, with evidence of higher demand from China and South East Asia.

“The labour market also improved, as firms raised staff numbers to cope with increasing demand. Ongoing strains on operating capacity boded well for employment prospects. Furthermore, wage increases continued to outpace inflation, which should support future household consumption.

“Overall, the latest PMI data indicated an annual rate of GDP at over 4% at the start of the fourth quarter, suggesting a risk of overshooting the government’s forecast of 2–3% economic growth this year.”

-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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