

Nikkei Singapore PMI™

Private sector growth gains momentum in January

Key points:

- Faster rises in both output and new orders boost the headline PMI
- Jobs growth hits record high
- Wage inflation picks up sharply

Data collected January 12–25

Growth in Singapore’s private sector economy gained momentum at the start of 2018, driven by faster expansions in both output and new business. Export growth also picked up pace. The upturn boosted employment and inventories as firms moved to expand capacity to meet higher demand.

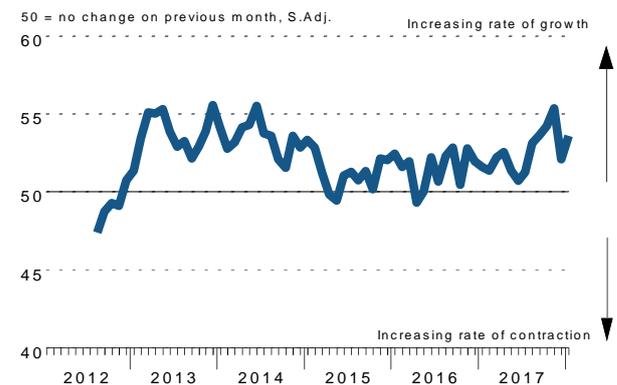
However, backlogs of work continued to rise, as did price pressures. Overall input cost inflation intensified, prompting firms to raise selling prices at a faster pace from December. Meanwhile, business confidence about the year ahead remained upbeat.

The headline **Nikkei Singapore Purchasing Managers’ Index™ (PMI™)** rose to 53.6 in January from 52.1 in December, signalling a solid improvement in the health of the sector. The latest reading was above the 2017 average. The headline index is a composite indicator 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.

There were further signs of strengthening client demand at the start of the year. Inflows of new business picked up in January, supported by an accelerated growth in export sales. Anecdotal evidence suggested greater demand from overseas markets such as China, South Korea, Malaysia, Indonesia and UAE. Higher sales encouraged firms to scale up output, with the rate of expansion strengthening in January.

The sustained upturn in demand spurred firms to step up hiring. Employment rose at the fastest rate in the survey history during January. While a number of firms mentioned increased part-time employment, there were reports of greater demand for personnel in business development and freelance work.

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Sources: Nikkei, IHS Markit

However, higher workforce numbers failed to alleviate capacity pressure. On the contrary, the level of incomplete business increased again and at a steep rate, posting the largest monthly increase since December 2016.

In response to higher client demand, firms scaled up purchasing activity and built-up inventories. Expanded appetite for inputs further strained supply chains. Vendor performance deteriorated for a sixth month running, though the rate of deterioration was marginal. Survey evidence suggested that personnel shortages affected suppliers’ punctuality.

On the price front, survey data showed inflationary pressures intensifying in January. Input cost inflation accelerated to the greatest in nearly four-and-a-half years, driven up by higher paid prices for inputs and a sharp rise in staff costs. Notably, wage inflation was the fastest since September 2016 following a mild increase at the end of 2017. To protect their margins, companies raised selling prices further and at a faster rate compared to December.

Finally, business expectations about the outlook in the year ahead remained solid, with the Future Output Index above the historical average. Optimism was linked to improved business conditions, higher sales forecasts, planned promotions, outlet expansions, new marketing strategies and a wider product variety.

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 was off to a good start in 2018, regaining growth momentum in January after seeing a slowdown at the end of last year, according to the Nikkei Singapore PMI. The outlook for the year ahead remains positive, boding well for employment prospects.”

“Driving the upturn were faster expansions in both output and new business. Notably, with exports being a major growth driver for Singapore’s economy, the pick-up in overseas sales in January is particularly encouraging.”

“Official labour market reports had shown higher employment during the fourth quarter of 2017, backing up the findings of the Nikkei Singapore PMI survey. January data indicated the fastest rate of employment growth in the survey history, suggesting that the labour market is on a solid footing at the start of 2018. There were also reports of increased hiring of freelancers and higher demand for business development employees. Furthermore, survey data revealed a sharp rise in wage inflation in January, which could spur greater household spending amid improving economic conditions.”

-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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