

COMMENTARY

Taking the pulse of the Singapore economy in 1H12

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By all accounts, 2011 was a roller coaster ride for the Singapore economy.

Although economic growth started on a strong note in the first quarter, the momentum rapidly petered out in the second quarter. While the third quarter saw a surprise rebound, growth sank again in the fourth quarter.

Advance estimates released by the Ministry of Trade and Industry showed that gross domestic product (GDP) fell 4.9 per cent in the October-December quarter from the previous three months.

Compared to a year ago, Singapore's economy grew 3.6 per cent in the fourth quarter, down from the 5.9 per cent year-on-year growth in the third quarter. Although the poor showing in the fourth quarter was also a result of the strong base comparison, it is clear that the economic outlook in the city state is unlikely to improve in the next 12 months.

MANUFACTURING ACTIVITY SET TO WEAKEN

Based on survey readings, Singapore's manufacturing sector contracted for a sixth straight month in December last year as the sputtering global economy continued to weaken demand for the country's exports.

The country's PMI, however, edged higher to 49.5 in December last year from 48.7 in November. A PMI reading above 50 indicates an expansion in manufacturing; (and one below 50 indicates a contraction).

Factory output in Singapore had expanded for nine consecutive months before July last year, when the reading slipped to 49.3.

This is important since manufacturing takes up 20 per cent of Singapore's total GDP, and accounts for the bulk of the growth momentum across the quarters.

More worrisome, the PMI for electronics — a major export item for Singapore — slipped back below 50 after two months of expansion. The index was 49.7 in December, compared with 50.9 in November.

The electronics sector is an important one since it accounts for about a quarter of Singapore's manufacturing industry, and coupled with precision engineering, it effectively contributes some 30 per cent of Singapore's growth. Therefore, weakness in this segment bodes ill for the country's industrial activity this year.

BIOMEDICAL PRODUCTION MAY SURPRISE

Fortunately for Singapore, however, there is a gradual shift towards drug production in recent years as the authorities recognise the economic potential of this segment. Since biomedical production kicked off here some five years ago, the segment has been a growth booster in good times, and cushioned the impact of the global slowdown in bad times.

For example, Singapore's GDP expanded at a blistering 16.9 per cent in the first quarter of 2010, largely due to a surge in drug output. Although drug production is inherently volatile, there is a chance that

the segment may help offset the electronics weakness in the months ahead.

THE GAMING MARKET COULD BE A BRIGHT SPOT

Another segment that could rake in the dollars is the gaming market. According to Citigroup, the market in Singapore is expected to draw close to S\$9 billion in revenue this year, as the country cements its position as the second most lucrative market in the world.

Singapore currently has two integrated resorts — Marina Bay Sands and Resorts World Sentosa — and some analysts believe that the combined revenue could exceed that for Las Vegas in the near future.

Additionally, the gaming market generates positive spin-offs for tourism which contributes some 3 per cent of Singapore's GDP growth. Although the gaming market is not a significant contributor to growth now (not at the same level as electronics, at least), strong growth in the segment should at least help to cushion some of the fallout in the major sectors.

SINGAPORE STOCK MARKET RECOVERY MAY BE IN SIGHT

Although GDP growth is weakening, we expect the economy to bottom-out sometime in late first quarter or second quarter of this year. Historically the Singapore stock market has also bottomed-out at the same time as the economy. Hence if this relationship holds true, then we could expect a recovery in the stock market in the coming months

— which implies investors should seriously start considering positioning themselves in the very near future.

Also positive is that while certain industries such as air transport are not likely to post favourable earnings growth, other sectors like offshore and marine should do well going forward, as demand for offshore crude oil exploration continues to be strong.

The Singapore market also offers investors one of the highest dividend yields in Asia and ASEAN, as listed companies here are committed to rewarding shareholders.

Lastly, another factor supportive of a stock market recovery is the fact that Singapore is one of the most attractively valued markets in ASEAN and is trading at close to recession levels. We believe this attractive valuation could also support a re-rating of the market.

In summary, this looks to be a challenging period for the city state, as the key sectors in the country continue to slow. That said, if our expectations that Singapore's economy may bottom-out by the second quarter of this year comes true, Singapore's stock market may see an upward re-rating. In this uncertain environment, we recommend that investors take cover in resilient sectors such as consumer staples, offshore and marine, and property trust vehicles, and ease off on the consumer discretionary and banking sectors. ■

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