Singapore

4 June 2024

S'pore's May manufacturing and electronics PMIs remain upbeat, but some caution is warranted ahead due to external headwinds.

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Highlights:

- **S'pore's May manufacturing and electronics PMIs both improved in May to 50.6 and 51.1 respectively,** up from April's 50.5 and 50.9. This marked the 9th and 7th consecutive months of expansion for the manufacturing and electronics sectors and herald a still positive outlook ahead which should bode well going into the second half of the year. S'pore's PMIs are also aligned with the region whose manufacturing PMIs also remained healthy for China's Caixin (51.7 versus 51.4 previously, although the official manufacturing PMI weakened from 50.4 to 49.5), Taiwan (50.9 versus 50.2), South Korea (sharp rebound to 51.6 from 49.4), and also resilient for Vietnam (51.7 versus 51.4), Indonesia (52.1 versus 52.9) and the Philippines (51.9 versus 52.2).

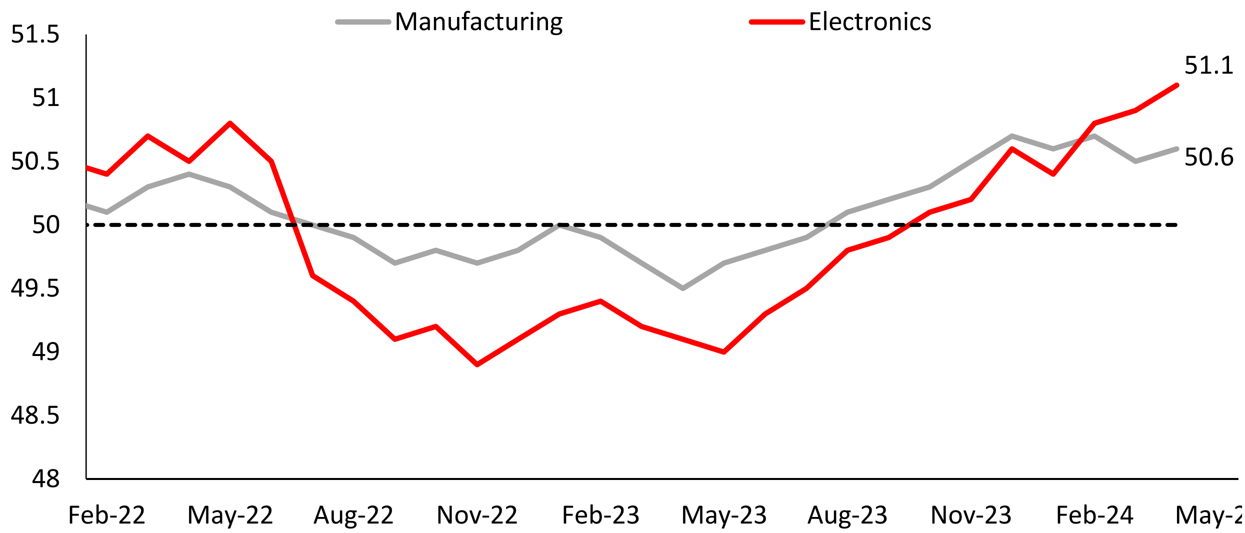
- **The domestic manufacturing sector sentiments were supported by faster expansion in the new orders, new exports, factory output and input purchases**, while imports and future business also improved in May to mark the 7th and 11th straight months of expansions. However, the order backlog, finished goods and supplier delivery gauges did soften slightly compared to April, and the input prices gauge actually saw its first contraction, which could suggest further resolution of any existing supply chain challenges. Near-term, the biomedical cluster is clearly going through a choppy patch due to weakness in the pharmaceuticals industry.

- **Meanwhile, the electronics PMI also saw an improvement in the new orders, new export, factory output, input purchases and future business gauges in May**, but the others – namely order backlog, employment, finished goods, input prices, imports and supplier deliveries – softened versus April. In particular, the supplier delivery gauge reverted to a contraction after two months of expansion and could be potentially attributable to heightened geopolitical tensions. The US reportedly reining in AI chips to the Middle East by selected US chip-making companies on concerns about the technology getting diverted to China, as well as recent military exercises around the Taiwan Straits for instance. This could potentially suggest that the green shoots seen for the electronics industry remains bumpy in the near-term.

- **Looking ahead, the 2H24 outlook for the manufacturing and electronics sectors should remain supportive, albeit there are brewing headwinds to watch out for.** First, geopolitical tensions remain a wildcard, especially with the ongoing conflicts between Russia-Ukraine and Israel-Hamas, Houthi attacks in the Red Sea (leading to cargo diversions around the Cape of Good Hope), and in the run-up to the key US presidential elections. To recap, the

Biden administration had slapped tariffs ranging from 25% to 100% on items like steel, aluminum and lithium batteries, semiconductors, solar cells, and electric vehicles. While the new tariffs will have a limited impact on Chinese goods imports (estimated at around 4.2% of total US imports from China), the persistent bilateral de-risking measures could have more widespread implications for intermediary manufacturing and exporting economies in Asia including ASEAN who play an integral role in the regional supply chains. In addition, Trump had threatened 60% tariffs for China and 10% on the rest of the world if he wins in the November US presidential elections. Second, soaring shipping costs and potential trade route diversions may again impact global supply chains, with some businesses already trying to frontload their Christmas orders. Port congestion in Asia have driven up May spot prices for ocean shipments heading from Asia to North America to approach the US$5,000 handle per 40-foot equivalent unit, up from an average of about US$2,713 per FEU in January, according to Freightos. Some shippers are also said to be shifting some cargo to the West Coast due to labour negotiations at East and Gulf Coast ports. While the scale of these disruptions are not yet as severe as during the Covid pandemic, nevertheless it still creates uncertainties ahead. Container prices have jumped in recent weeks, which if sustained, could feed into prices for end-consumers and hamper the disinflation trajectory and in turn, the widely anticipated global monetary policy easing cycle for major central banks like the US Federal Reserve.

Singapore PMIs



Source: SIPMM, OCBC.

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