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Upside surprise in August industrial production exceeded our forecast

Highlights:

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- Upside surprise for the August industrial production exceeded our forecast of 8.2% YoY and Bloomberg consensus forecast of 8.6% YoY. This marked the strongest performance since June 2021 (28.4% YoY) but was partly attributable to a low index base (nsa) this time last year at 107.7 versus 130.4 in August 2024. The sharp improvement from July's upwardly revised 2.0% YoY reading is mainly due to electronics output which surged 49.1% YoY (highest since July 2017), partly due to a low base last year as well as improved demand conditions. This was led by semiconductors, infocomm and consumer electronics, other electronics modules & components and computer peripherals & data storage segments. Notably, this is the first month where all the electronics segments registered positive YoY growth.
- Other manufacturing clusters also generally performed well in August, namely chemicals (11.1% YoY, amid improved demand for specialties), precision engineering (7.9%, especially machines & systems), transport engineering (3.9%, aided mainly by aerospace), and general manufacturing (2.5%, due to printing, as well as food, beverage & tobacco). The sole exception was the biomedical manufacturing cluster which disappointed by contracting 16.1% YoY, dragged down by pharmaceutical (-15.7%) and medical technology segment (-18.7%).
- The manufacturing output has only chalked up a modest 1.7% YoY growth (4.8% excluding biomedical) for the cumulative first eight months of 2024. Assuming that the August 2024 data is a bit of an anomaly due to the low base last year and the September - December 2023 base is not as low as August 2023, it is unlikely industrial production growth will sustain at such strong double-digit growth levels. A more likely scenario is that manufacturing growth normalises to single-digit YoY growth for the remaining months of 2024 even with a global soft-landing narrative, global monetary policy easing, and improving global electronics demand. Nevertheless, this August print implies some upside risk to our existing 2024 industrial production forecast of 1.8%. Therefore, we upgrade our 3Q24 manufacturing and GDP growth forecasts to 8.8% and 3.3% respectively, as well as our full-year 2024 manufacturing and GDP growth forecasts to 3.3% and 2.9% (which is near the upper end of the official 2-3% growth forecast).

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