Singapore's manufacturing output grew 6.6 per cent in May 2012 on a year-on-year basis, reversing the contractionary trend seen over the past two months prior to May, according to data released by the Economic Development Board (EDB) yesterday.

Analysts welcomed the result and noted that it was higher than market expectations of 6.1 per cent. They observed that it was driven largely by a 39.1 per cent growth in pharmaceuticals output, which also contributed to a 32.8 per cent growth in the biomedical manufacturing cluster.

EDB said that the growth in pharmaceuticals was due to higher production of active pharmaceutical ingredients. However, analysts were wary of an overly optimistic interpretation of the result. They noted that the growth was due in part to the low base from May last year, which was a result of the economic slowdown following Japan's earthquake.

Furthermore, SIM lecturer Tan Khay Boon cautioned that given the volatility of the pharmaceutical sector, it is not clear whether the strong growth in this sector can be continued.

Nonetheless, analysts from DMG expected pharmaceuticals to continue to “do the heavy lifting this year”.

The transport engineering and general manufacturing clusters also grew on a year-on-year basis, at 35.4 and 3.7 per cent respectively. EDB said that growth in the transport engineering sector was driven by a 44 per cent expansion in the marine & offshore engineering segment from rig building and ship building activity, as well as a 23.2 per cent growth in the aerospace segment from strong demand for engine repair jobs from commercial airlines.

While Dr Tan believed that demand for marine and offshore engineering output is likely to remain strong due to high oil prices, DBS economist Irvin Seah noted that the transport engineering sector is not a significant driver of Singapore’s manufacturing sector.

The electronics sector provided the biggest drag on manufacturing output growth, along with declines in the precision engineering and chemicals clusters.

Output of electronics, the largest manufacturing cluster, was 9.7 per cent lower in May 2012 compared to a year ago. This was a slight improvement from growth rates of -12.3 and -16.3 per cent in March and April respectively.

Nevertheless, analysts noted that electronics is the driving force of Singapore’s manufacturing sector. HSBC economist Su Sian Lim noted that the US semiconductor equipment book-to-bill ratio, a good leading indicator of global electronics demand, seems to be weakening. UOB analysts also said that growth in the sector will be hampered by the eurozone crisis and the continued slow recovery in the US.

Looking ahead, analysts believed there were downside risks for the manufacturing sector, given the weak global outlook due to the eurozone crisis and anaemic growth in the US. However, some analysts, such as Dr Tan and Ms Lim, noted that further fiscal and monetary stimulus in China could provide some relief by generating greater demand for manufacturing output in Singapore. In the analysis, analysts projected Singapore’s GDP growth rate at 2.5 to 3.7 per cent in 2Q12, and 2.5 to 4 per cent growth for the full year.