Manufacturing growth hit by electronics

Feb production below estimates despite 12.1% rise in factory output

By Magdalene Ng

Manufacturing output rebounded in February from the previous month, but the lacklustre electronics sector meant growth was well below market expectations.

Factory output came in at 12.1 per cent, a sharp rally on the revised 9.6 per cent contraction in January but it was a long way off the 16.2 per cent growth tipped by a panel of economists polled by Bloomberg.

That low number in January was largely due to the timing of Chinese New Year, but the culprit for the constrained growth last month was electronics.

The sector declined by 6 per cent compared with February last year and followed a 28.4 per cent plunge in January.

This data is all the more disappointing as it comes on the back of a surprise surge of 10.5 per cent in February's non-oil domestic exports, with a healthy showing in electronics and pharmaceuticals.

Credit Suisse economist Robert Prior-Wandesforde is optimistic on the outlook for electronics, “taking account of the strong increases in the North American semiconductor book-to-bill ratio”, an indicator that chipmakers are gaining confidence to invest in new machinery.

Electronics export figures in January and February were also strong, increasing an average of 6.2 per cent.

Barclays Capital economist Leong Wai Ho also added that the turnaround in the key electronics sector will lead the acceleration in growth momentum in the second quarter.

“Taiwanese chipmakers recently signalled an increase in plant utilisation rates... This pick-up in North Asia will filter down to Singapore, although not immediately,” said Leong.

North Capital economist Leong Wai Ho

The 6 per cent decline in the electronics industry from February last year followed a 28.4 per cent plunge for the sector in January. PHOTO: THE BUSINESS TIMES

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Bank of America economist Chua Hak Bin added: “Overall signs suggest that the pace of growth remains tepid.”

Transport engineering production was up 32.4 per cent, while precision engineering grew 19 per cent.

If the traditionally strong biomed sector is excluded, February’s industrial output would have grown by just 7.1 per cent.

Some experts are not buying the story that growth will pick up later in the year. They point to the fact that output contracted a seasonally adjusted 1.1 per cent from January to February, leaving the economy vulnerable.

Dr Tan Khay Boon, senior lecturer at UniSIM’s School of Business, said: “The 1.1 per cent contraction continues to indicate that there are still uncertainties in the demand for manufacturing output.”

“Overall, the increasing positive outlook in the US economy and the stability in the European market needs to be weighed against the slower growth in the China economy in the demand for manufacturing output”, he said.

“The pick-up in electronic output will have a positive impact but overall growth will remain subdued.”

His colleague, economist Choo Hoi Yen, said: “Overall, the picture is mixed.”

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