Firms are less optimistic about business prospects over next 6 months

By TEH SHI NING
[SINGAPORE] Singapore’s GDP growth could slow to 6.7 per cent this quarter, according to leading indicators of the latest BT-UniSIM Business Climate Survey.

Given April’s contraction in manufacturing and exports, survey director Chow Kit Boey thinks that Q2 GDP growth could come in at the lower end of the predicted range of 6.7 to 7.4 per cent, in line with other signs that Singapore’s economy is entering a soft patch.

The quarterly survey, now in its 17th year, tracks firms’ sales, orders and profit performance as well as business prospects, indicators which have been proven to closely correlate with GDP growth in the following quarter.

According to regression analyses of survey data, Q2 will see an even lower rate of growth, marking a second quarter of slowdown, Ms Chow said. Singapore’s economy grew 8.3 per cent year-on-year in the first quarter, slowing from 12 per cent growth in Q4 last year, the Ministry of Trade and Industry (MTI) said two weeks back.

The 143 companies surveyed at the start of April collectively pointed to a significant weakening of business activity in the first three months of this year, with profits hardest hit among the three activity indicators tracked.

Small firms, in particular, put up a poorer showing last quarter, proving again that they are “the least resilient in a turbulent adverse environment”, said Ms Chow.

A majority of firms reported lower profits in Q1 than they had raked in a year ago, pushing the profit net balance (difference between the proportion of firms seeing increases and those seeing drops) 10 points lower to minus 8 per cent. For the first time in four quarters, firms with lower profits outnumbered those which saw profit grow.

As with profits, sales performance too was weaker “irrespective of size and ownership of firms” in Q1, Ms Chow noted. The overall net balance for sales dipped four points to 13 per cent. Small firms were hit hardest, with a majority reporting a contraction in sales.

Orders or new business expansion slowed down year on year too, with the net balance falling nine points from Q4 to 13 per cent. Again, the majority of small firms reported not just a slowdown in growth but a contraction in sales, leading to a net balance of minus 9 per cent.

Business activity levels in Q1 provide a gauge of the state in which firms entered Q2, but their take on business prospects for the next six months are telling of broader sentiment too.

Optimism waned across the board in the responses of firms queried on business prospects over the next six months, with foreign-owned firms and small firms the most pessimistic. This decline in optimism shaved 12 points off the business prospects net balance, though at 18 per cent, it remained the highest of the survey’s four key indicators.

Drilling down to the sector-level results of Q1’s survey, financial and business services once again emerged the “star performer”, an honour it has clinched for seven straight quarters now.

Of the spectrum of economic sectors covered by the survey, financial and business services had the largest slice of firms posting growth in sales, profits and positive business prospects. It shared the top spot for growth in orders or new business with the commerce sector.

At its recent quarterly economic briefing, MTI said that the lending and insurance activities would continue to be supported by economic recovery, while sentiment-sensitive segments of the financial services sector would also benefit from fund managers rebalancing their portfolios towards Asia.

Elsewhere in the economy, manufacturing growth is also expected to be boosted by new plant operations in the chemicals cluster. These industry-specific factors contributed to MTI’s recent decision to raise its 2011 growth forecast range to 5-7 per cent, a reminder that the predicted slowdown takes place in the broader context of sustained growth.