THE BUSINESS TIMES

SUSS
SINGAPORE UNIVERSITY OF SOCIAL SCIENCES

BT-SUSS Business Climate Survey 2023Q1[1]

Summary Report

In January 1996, *The Business Times* of Singapore launched a quarterly survey on business activities to track Singapore business cycles and to ascertain any dichotomy in performance by size and ownership of companies. Currently, the small sample survey is in its 28th year. This report covers the performance of Singapore firms in 2023Q1 and business prospects for the next six months (April-September 2023). Of the 121 firms that responded to the mail survey (conducted 16th March–14th April 2023), 80 or 66% indicated overseas business, higher than in the previous quarter (58%). The survey respondents are from all major economic sectors.

Singapore Business Climate

Business conditions in 2023Q1 deteriorated further from the previous quarter. Sales and profits contracted at faster rates than a quarter ago. Orders/new business weakened at a much slower rate. And the spread of pessimism, over business prospects in the next six months, has slowed somewhat; likely due to the slower rate of contraction in orders/new business. This may signal some improved results in the next quarter. The net balances, with changes over a quarter ago in parentheses, are as follows:[2]

- -25% for sales (-20% points vs -16% points in 2022Q4);
- -37% for profits (-19% points vs -11% points);
- -21% for orders/new business (-5% points vs -15% points); and
- -25% for business prospects in the next six months (-14% points vs -16% points).

Firms are asked to indicate the impact on company operating cost in 2023 from likely price increase in four factors - - top material input, manpower, transport/shipping and rental/property tax. Operating cost rising by over 5% is cited by the largest proportion of firms, ranging from four-tenths (41%) for rental/property tax to six-tenths (65%) for manpower (*Table 1*). On the other hand, no impact on operating cost is indicated by less than one in five firms (1.7%-17.4%) for each of the four factors. Firms that indicated over 5% inflation in each of the four factors would have more than 20% increase in operation cost in 2023. One fifth of firms (19%) belong in this most affected group. Sectors with the largest proportions of firms hit by above 20% increase in operating costs are transport & communications and construction.

Sector-wise, construction firms are most affected by price increase in manpower and top material input, as reported by over seven-tenths of the firms (83% and 74% respectively). Firms in transport & communications are most affected by transport/shipping inflation, followed closely by manpower price increase (78% and 72% respectively). Higher prices in rental/property tax would have the greatest impact on firms in financial & business services (59%), though more firms in the sector would be affected by higher manpower inflation (77%). Among the five sectors, manufacturing firms would be the least affected by manpower rising cost while commerce firms would be least impacted by rising prices in rental/property tax and transport/shipping.

Table 1: Over 5% Increase in Operating Cost by Factor and Sector

Percentage of Firms

Cost Factor	*All Firms (121)*	Manufacturing (38)	Construction (23)	Commerce (25)	Transport & Communications (18)	Financial & Business Services (17)
Top Material Input	***58%***	58%	**74%**	52%	61%	41%
Manpower	***65%***	50%	**83%**	56%	72%	77%
Transport/Shipping	***53%***	50%	52%	40%	**78%**	53%
Rental/Property Tax	***41%***	32%	44%	28%	56%	**59%**

Red figure denotes largest impact sector from factor inflation. *Green cell denotes lowest impact.*

[1] Singapore University of Social Sciences (SUSS) is formerly SIM University (UniSIM).

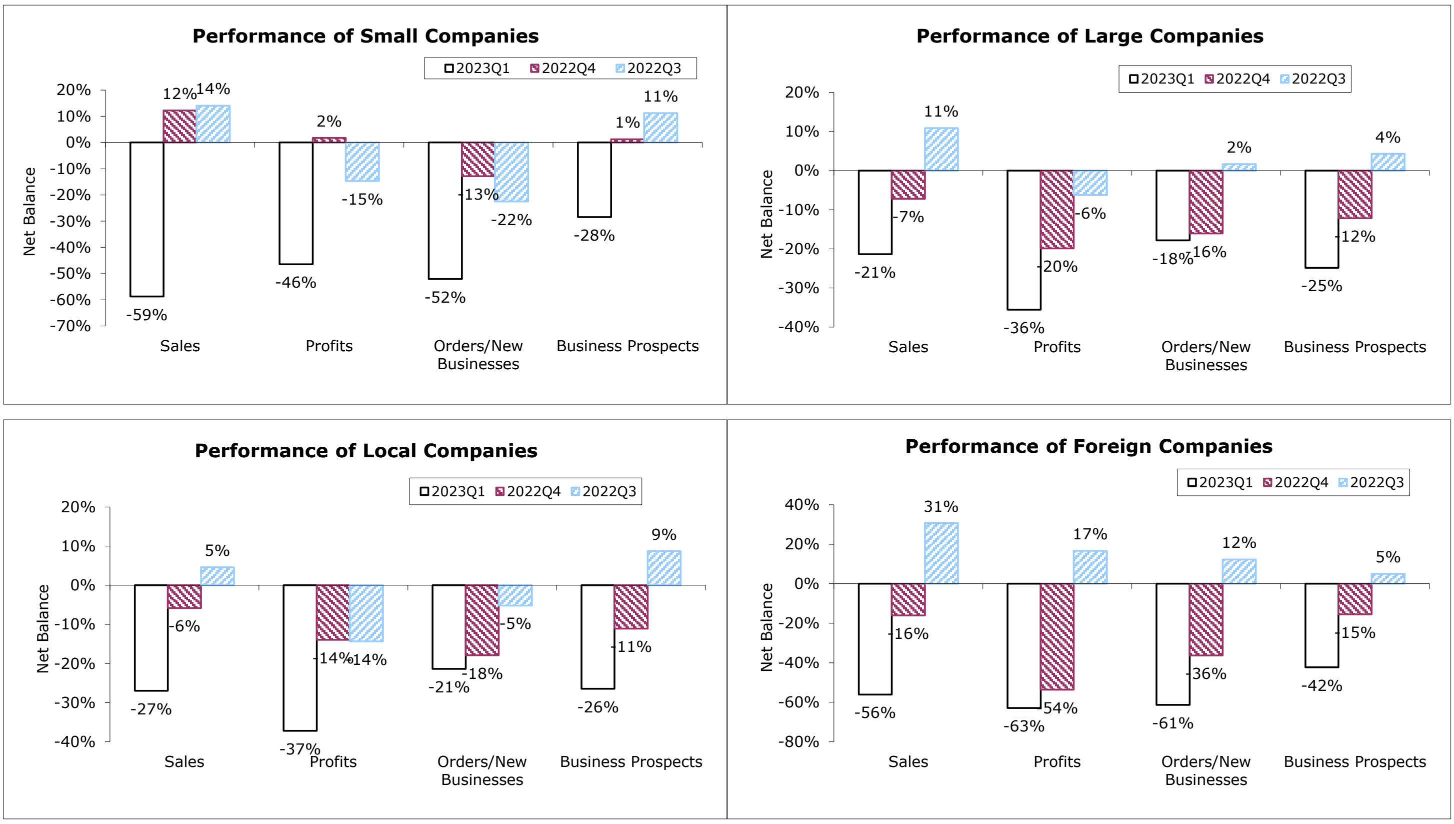
[2] A net balance measures the difference between the percentage of firms with higher values and that with lower values compared to the same quarter a year ago. A positive net balance denotes expansion; a negative balance reflects contraction.

Performance Differential

In 2023Q1, small firms were hit badly by contraction in the three performance indicators and have turned almost as pessimistic as large firms over business prospects in the next six months *(Chart 1)*. Large firms encountered more contraction in sales and profits, with little change in orders/new business contraction. Unlike a quarter ago, large firms were outperformed by small firms in all aspects. Compared to the previous quarter, the performance gap between small and large firms has widened in sales and orders/new business, but narrowed in profits and business prospects.

The performance of both local and foreign firms remained in negative territory. Local firms' sales and profits contracted further, with little change in orders/new business. Foreign firms registered further contraction in sales and orders/new business, with negligible change in profits. Both groups of firms are more pessimistic over business prospects. The gap between foreign and local firms has narrowed in profits but widened for other indicators. Local firms outperformed foreign firms in all indicators.

Chart 1: Net Balances by Size and Ownership



A small firm is one with sales of less than S$10 million in a manufacturing industry or less than S$5 million in a non-manufacturing industry. Changes in the net balances of small and foreign firms involving less than 2 firms are negligible given their sample size.

In 2023Q1, the transport & communications sector maintained its star performer status. It captured 80% of the 20 top positions, while construction took the remaining four spots. Among all firms, transport & communications posted the highest sales, profits, orders/new business and optimism on business prospects in the next six months. There was greater dominance of the star performer than a quarter ago when all the five sectors were represented in the top positions. An expansion index is compiled from positive net balances by sector, across groups of firms and indicators. The index implies that 2023Q1 is at 27% of full expansion. The index has been decreasing since 54.5% in 2022Q2. The declining expansion index corresponds to decreasing GDP growth rates in the period 2022Q2-2023Q1.

Outlook

From an analysis of the regression predictions on quarterly GDP growth rates by lagged net balances and a business cycle leading index, Singapore could grow at **1.4% - 2.6% in 2023Q2** in view of full opening of the China economy and an early recovery in the electronics industry.

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The opinions, figures and estimates expressed in the report are the responsibility of the consultants, and do not constitute an endorsement by The Business Times nor SUSS.
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