

BT-UniSIM Business Climate Survey 2016Q4

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 has entered its 22nd year. This report covers the performance of Singapore firms in 2016Q4 and business prospects for the next six months (January-June 2017). Of the 188 firms which responded to the mail survey (conducted 9th December 2016 – 13th January 2017), 109 or 58% indicated overseas business. This is slightly higher than in the previous quarter. The survey respondents are from all major economic sectors.

Singapore Business Climate

Generally business conditions have strengthened in 2016Q4. The contractions in sales, profits and orders/new business affected fewer firms. Pessimism over business prospects in the next six months has, however, remained at the same level as a quarter ago. This is due primarily to the uncertainties from Brexit and the unexpected election results in the United States. The net balances, together with their changes over a quarter ago in parentheses, are as follows: ¹

- -35% for sales (+4% points);
- -35% for profits (+5% points);
- -39% for orders/new business (+5% points); and
- -48% for business prospects in the next six months (unchanged).

The special question pertains to where the company will be expanding their activities (production/services) in the next six months. Almost two-thirds of the firms intend to expand abroad. The three most popular destinations remain Malaysia, Indonesia and China (*Table 1*). The notable changes from a year ago are:

- (a) Malaysia has displaced Indonesia as the most favored destination;
- (b) More firms plan to expand to these three countries as indicated by the higher percentages;
- (c) Malaysia has become more attractive for manufacturing and financial & business services firms;
- (d) Indonesia is favored more among transport & communications and financial & business services firms;
- (e) China is more popular among manufacturing and commerce firms but less attractive to firms in transport & communications.

Table 1: Top Three Countries for Company Expansion

	Percentage of Firms with Expansion		
2017	Indonesia	Malaysia	China
All Companies (123)	36.6%	38.2%	31.7%
Manufacturing (39)	28.2%	43.6%	43.6%
Construction (19)	42.1%	36.8%	21.1%
Commerce (27)	33.3%	25.9%	37.0%
Transport & Communications (14)	64.3%	14.3%	21.4%
Financial & Business Services (24)	33.3%	58.3%	20.8%
2016	Indonesia	Malaysia	China
All Companies (112)	32.1%	25.9%	27.7%
Manufacturing (30)	30.0%	30.0%	26.7%
Construction (12)	41.7%	33.3%	25.0%
Commerce (33)	36.4%	21.2%	27.3%
Transport & Communications (18)	38.9%	16.7%	38.9%
Financial & Business Services (19)	15.8%	31.6%	21.1%

Figure in parentheses denotes number of respondents.

Green cell denotes higher value in 2017.

Pink cell denotes lower value in 2017.

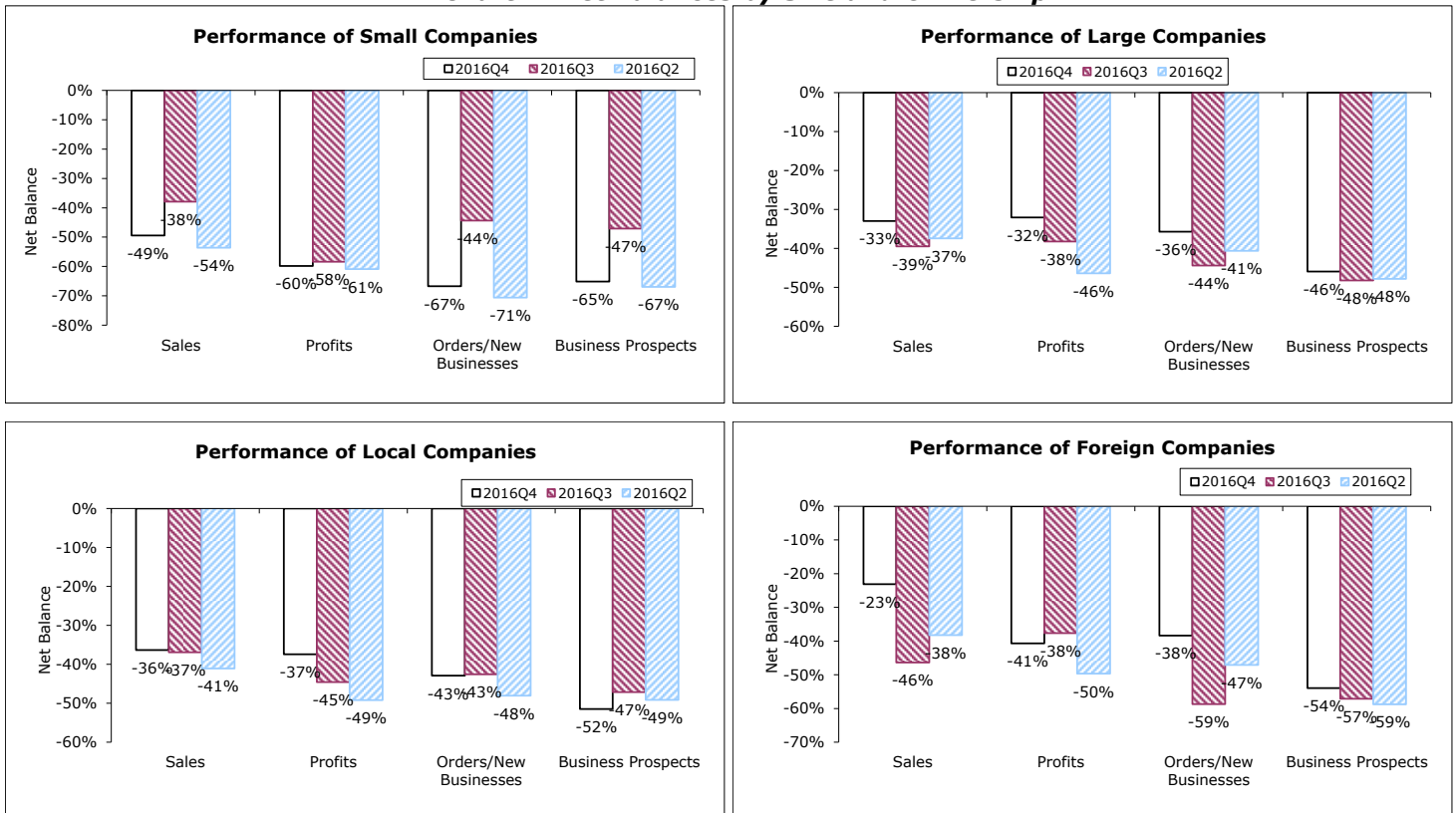
¹ A net balance measures the difference between the percentage of firms with higher values and that with lower values compared to the same quarter a year ago. A positive net balance reflects more firms with higher sales/profits/orders/business prospects than those with lower sales/profits/orders/business prospects compared to a year ago. Positive net balances suggest an expansion phase of the business cycle while negative balances reflect a contraction phase.

Performance Differential

Of the four groups of firms, large firms in 2016Q4 posted the least contraction in profits and orders/new business and are less pessimistic than in the previous quarter (*Chart 1*). In contrast, small firms were the worst hit in sales, profits and orders/new business, and are the most pessimistic over business prospects in the next six months. Thus performance gap between the two groups has widened in all four indicators.

Foreign firms made much improvement in sales and orders/new business and are not more pessimistic than a quarter ago. Local firms obtained the best improvement in profits while sales and orders/new business were unchanged from the previous quarter. Owing to small firms in the group, local firms have become more pessimistic. The performance gap in sales between the two groups has widened.

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.

For the third consecutive quarter, the manufacturing sector achieved the best results in 2016Q4. For all firms, the manufacturing sector captured the star position in sales, profits (shared with financial & business services) and orders/new business. The best business prospects in the next six months are viewed to be in the manufacturing sector.

Outlook

Sales have contracted for the 22nd consecutive quarter as at 2016Q4. The current contraction phase is the longest (since the first survey of 1995Q4), and corresponds to the longest period of low quarterly GDP growth rates (below 5.0% since 2011Q4, except in 2013Q3-Q4). This anemic growth period is due to structural changes locally and a more turbulent and interconnected global economy.

From regression analysis of lagged net balances and quarterly GDP growth rates, the Singapore economy is likely to expand at 1.8%-2.2% in 2017Q1. BCLI (Business Cycle Leading Index) also points to higher growth and a predicted rate of 1.9%. Indications are that the Singapore economy will likely grow at a slightly higher rate in 2017Q1 than the advance estimate of 1.8% for 2016Q4.

 We thank the company respondents for their support to the survey.
 The consultants for the project are Ms Chow Kit Boey (retired associate professor, NUS Business School, National University of Singapore) and Mr Chan Cheong Chiam (managing director, Web ilite Technology).
 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 UniSIM.
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