

BT-UniSIM Business Climate Survey 2016Q2

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 21st year. This report covers the performance of Singapore firms in 2016Q2 and business prospects for the next six months (July-December 2016). Of the 170 firms which responded to the mail survey (conducted 21st June – 15th July 2016), 109 or 64% indicated overseas business. The survey respondents are from all major economic sectors.

Singapore Business Climate

Business conditions improved in both domestic and overseas markets in 2016Q2. Contracting sales, profits, and orders/new business affected fewer firms, almost regardless of size and ownership. Pessimism over business prospects in the second half of the year has diminished further. The net balances, together with their changes over a quarter ago in parentheses, are as follows: ¹

- -39% for sales (+12% points);
- -48% for profits (+3% points);
- -44% for orders/new business (+6% points); and
- -50% for business prospects in the next six months (+5% points).

Firms are asked to indicate the likely sales change in 2016. Firms with sales decline outnumber those with sales growth by 51% of the total number of firms (*Table 1*). Regardless of firm size, ownership and sector of activity, all net balances reflect sales contraction. An estimate of total sales change of -5.7% is derived from the weighting of responses by size of firms. In the past six years, such estimates are below the GDP growth rate, with 2014 estimate being the most accurate. Taking this into account and the larger difference between GDP and business prospects net balance in recent past quarters, a forecast for GDP growth in 2016 is made. A GDP growth rate of 2.2% is derived for the Singapore economy in 2016.

Table 1: Net Balances in Sales Change

	<i>Percentage of Respondents</i>						
	2016	2015	2014	2013	2012	2011	2010
All Companies	-51%	-30%	-5%	-18%	-7%	10%	30%
Size of Companies							
Small	-65%	-47%	-17%	-14%	-30%	3%	21%
Large	-47%	-26%	-2%	-19%	-2%	13%	33%
Ownership of Companies							
Local	-46%	-27%	-5%	-15%	-7%	9%	28%
Foreign	-66%	-41%	-6%	-38%	-10%	17%	41%
Sector of Companies							
Manufacturing	-55%	-21%	3%	-17%	-23%	21%	52%
Construction	-47%	-15%	-11%	-15%	25%	31%	33%
Commerce	-58%	-41%	-18%	-35%	-26%	15%	37%
Transport & Communications	-38%	-24%	35%	0%	0%	-4%	0%
Financial & Business Services	-49%	-42%	-26%	-13%	5%	-19%	17%
Estimated Sales Change	-5.7%	-1.7%	2.7%	-3.8%	-2.8%	3.6%	12.4%
<i>Underestimation of GDP growth</i>	7.9%	3.7%	0.2%	7.9%	6.2%	2.6%	2.8%
GDP growth rate	2.2%⁺	2.0%	2.9%	4.4%	3.4%	6.2%	15.2%

⁺ Predicted GDP growth from estimated sales change adjusted by 2013 underestimate owing to past pattern, and from analysis of relationship between GDP and business prospects net balance in past three quarters. Shaded green cell marks the highest value.

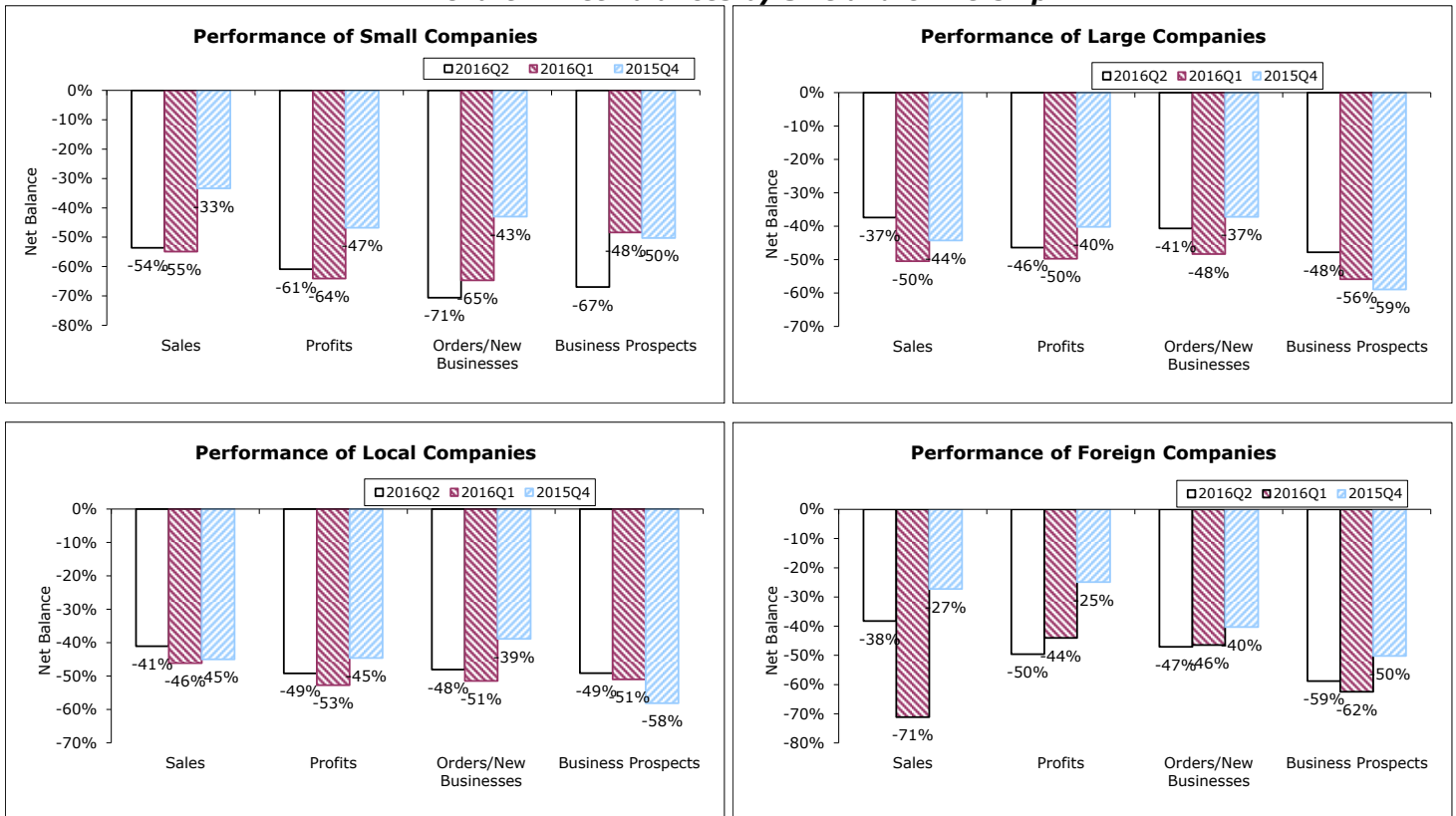
¹ A net balance measures the difference between the percentage of firms with higher values and that with lower values compared to the same quarter a year ago. A positive net balance reflects more firms with higher sales/profits/orders/business prospects than those with lower sales/profits/orders/business 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 registered the least contraction in the three performance indicators, and are the least pessimistic in 2016Q2 (*Chart 1*). By contrast, small firms were the hardest hit and are the most pessimistic. The performance gaps between small and large firms widened for all indicators. And large firms outperformed small firms across all indicators for the first time since 2015Q3.

Local firms posted moderate improvements in all indicators, whereas foreign firms encountered weaker profits. Foreign firms, however, obtained a double-digit increase in sales net balance; thus outperforming local firms in sales. The performance gaps between local and foreign firms narrowed for all indicators. Local firms are again less pessimistic over business prospects than foreign firms.

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.

Two sectors with the least contraction in 2016Q2 were manufacturing and financial & business services. For all firms, the financial & business services sector registered the smallest contraction in sales. But for profits and orders/new business, the manufacturing sector took the top spots. Manufacturing firms are also the least pessimistic over business prospects in the next six months. This is in line with a positive growth in the manufacturing sector in 2016Q2 (albeit low at 0.8% on a year-on-year basis) as reported in MTI advance estimates.

Outlook

Sales have contracted for the 20th consecutive quarter as at 2016Q2. 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 interdependent global economy.

BCLI has been increasing since 2016Q1, implying higher GDP growth for the first three quarters of 2016. Indications from BCLI and the net balance regression analysis point to a GDP growth of 2.4%-2.6% for 2016Q3.

 We thank the company respondents for their support to the survey.
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