

BT-SUSS Business Climate Survey 2018Q2¹

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 23rd year. This report covers the performance of Singapore firms in 2018Q2 and business prospects for the next six months (July - December 2018). Of the 149 firms which responded to the mail survey (conducted 18th June–17th July 2018), 97 or 65% indicated overseas business. This is higher than in the previous quarter. The survey respondents are from all major economic sectors.

Singapore Business Climate

Business conditions weakened slightly in 2018Q2 following substantial improvements in the previous two quarters. Sales and orders/new business remained in an expansion phase but at lower levels. Profits were unchanged, bordering on expansion. Firms have remained optimistic over business prospects in the second half of the year though expectations have dimmed somewhat. The net balances, together with their changes over a quarter ago in parentheses, are as follows:²

- 6% for sales (-5% points);
- -1% for profits (unchanged);
- 8% for orders/new business (-4% points); and
- 15% for business prospects in the next six months (-6 points).

Firms are asked to indicate the likely change in sales in 2018 from the previous year's sales. Expectations in 2018 have grown much brighter, as indicated by a positive net balance of 6% against negative net balances in the previous six years (*Table 1*). As in the previous year, manufacturing is viewed as the strongest growth sector in 2018. Both transport & communications and financial & business services sectors have turned around to sales expansion. Though still expecting contracting sales, construction and commerce firms have become less pessimistic. In particular, sales of commerce firms are expected to improve significantly almost reaching an expansion phase. The total sales change is estimated at 3.3%. This suggests that Singapore's GDP growth in 2018 could be at least 3.3%.

Table 1: Net Balances in Sales Change, 2011-2018

Percentage of Firms with Expansion

	2018	2017	2016	2015	2014	2013	2012	2011
All Companies	6%	-24%	-51%	-30%	-5%	-18%	-7%	10%
Size of Companies								
Small	-50%	-62%	-65%	-47%	-17%	-14%	-30%	3%
Large	18%	-14%	-47%	-26%	-2%	-19%	-2%	13%
Ownership of Companies								
Local	10%	-29%	-46%	-27%	-5%	-15%	-7%	9%
Foreign	-9%	-3%	-66%	-41%	-6%	-38%	-10%	17%
Sector of Companies								
Manufacturing	22%	12%	-55%	-21%	3%	-17%	-23%	21%
Construction	-21%	-35%	-47%	-15%	-11%	-15%	25%	31%
Commerce	-3%	-49%	-58%	-41%	-18%	-35%	-26%	15%
Transport & Communications	11%	-21%	-38%	-24%	35%	0%	0%	-4%
Financial & Business Services	18%	-32%	-49%	-42%	-26%	-13%	5%	-19%
Estimated Sales Change	3.3%	1.4%	-5.7%	-1.7%	2.7%	-3.8%	-2.8%	3.6%
GDP growth rate	2.5%-3.5%⁺	3.6%	2.4%	2.2%	3.9%	5.1%	4.1%	6.4%

Shaded green cell marks the highest Net Balance.

GDP growth rates as at April 2018.

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

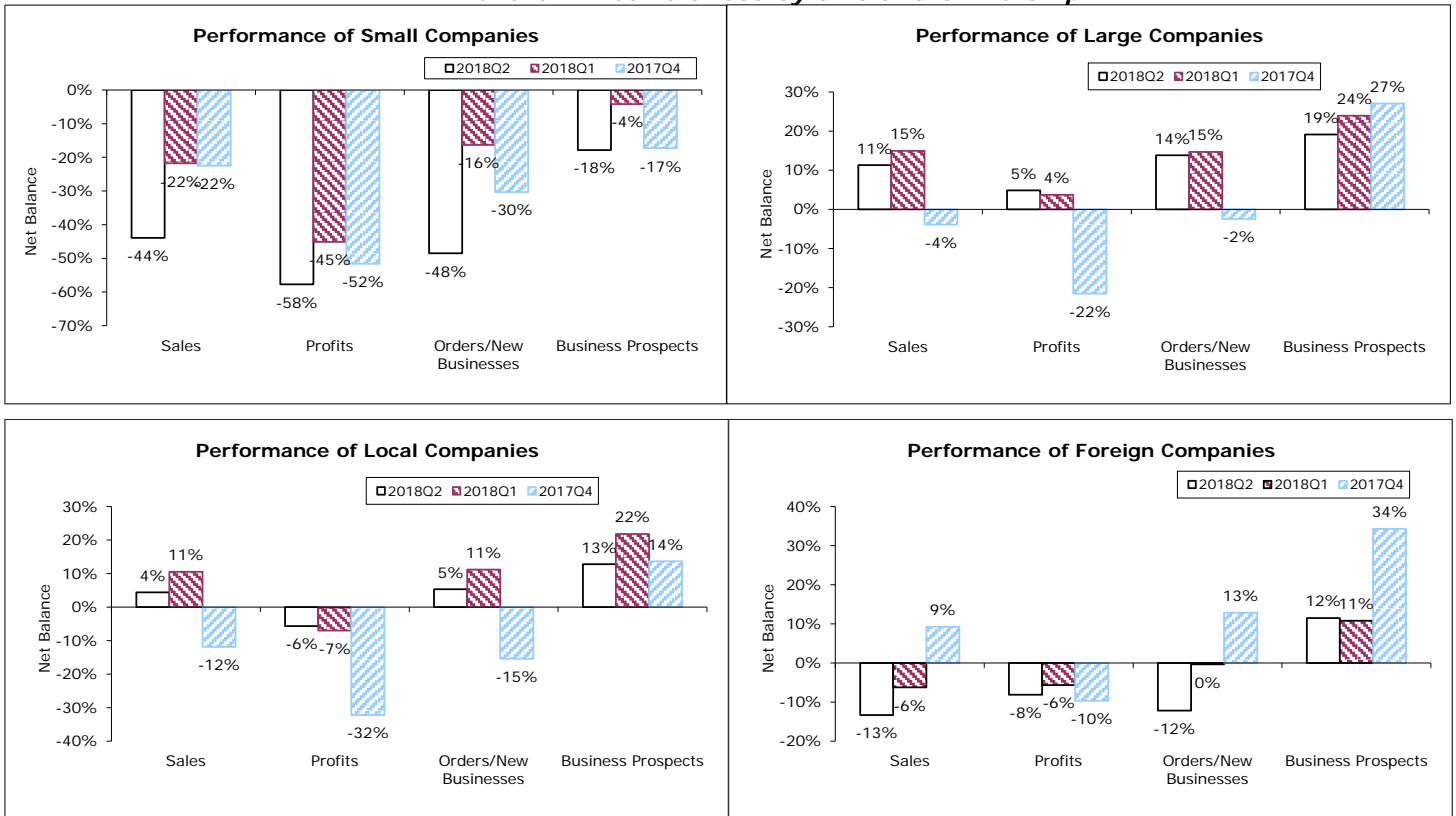
² A net balance measures the difference between the percentage of firms with higher values and that with lower values compared to the same quarter a year ago. Positive net balances suggest an expansion phase of the business cycle while negative balances reflect a contraction phase.

Performance Differential

Large firms have continued to outperform small firms in all indicators in 2018Q2 (Chart 1). Sales, profits and orders/new business of large firms remained in expansion mode while optimism over business prospects in the next six months dimmed slightly. Small firms were more badly hit by contraction in the three performance indicators and are more pessimistic than a quarter ago. Consequently, the gap between the two groups widened across the four indicators.

Local firms outperformed foreign firms in sales and orders/new business for the second straight quarter. Both groups of firms are similarly optimistic over business prospects. As local firms comprise proportionately more small firms than foreign firms, the lower net balance in business prospects of local firms in 2018Q2 is due mainly to increased pessimism among small 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.

The financial & business services sector retained its star status in 2018Q2. It remained the star performer for all firms in sales and profits. The star performer in orders/new business was again taken by manufacturing firms. Transport & communications firms have become more optimistic over business prospects in the next six months, displacing financial & business services in the star position a quarter ago. At the group level, foreign construction firms managed to achieve more orders/new business. This could signal the start of a recovery in construction; its negative GDP growth rate has been diminishing since 2017Q3.

Outlook

An analysis of the regression results of lagged net balances and quarterly GDP growth rates point to a likely GDP growth of **3.2%-3.8% in 2018Q3**. The BCLI (Business Cycle Leading Index) implies a GDP growth rate of 3.3%-4.4% in the next quarter. Considering the high growth rate of 5.5% in 2017Q3, the Singapore economy is likely to expand at a lower rate in 2018Q3 than the previous quarter.

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