

BT-SUSS Business Climate Survey 2020Q2¹

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 25th year. This report covers the performance of Singapore firms in 2020Q2 and business prospects for the next six months (July-December 2020). Of the 160 firms that responded to the mail survey (conducted 25th June –24th July 2020), 99 or 62% indicated overseas business. This is close to that in the previous quarter. The survey respondents are from all major economic sectors.

Singapore Business Climate

Business conditions worsened further in 2020Q2, but at a slower rate than in the previous quarter. The contraction in sales and orders/new business reached record lows, displacing the worst performance in 1998Q2. Profits weakened slightly and became second to the worst performance in 1998Q2, in which GDP fell to -2.4%. Pessimism over business prospects in the next six months has reduced slightly from the record level of a quarter ago. Indications are that 2020Q3 could show improved performance. The net balances, with changes over a quarter ago in parentheses, are as follows:²

- -79% for sales, record low (-13% points);
- -72% for profits, second lowest (-5% points);
- -82% for orders/new business, record low (-15% points); and
- -78% for business prospects in the next six months (+6% points).

Firms are asked to estimate the likely change in company sales in 2020. Drastic declines in sales are indicated as seen in a negative net balance of -86% for all firms, as against -32% in 2019 (*Table 1*). All the net balances are in the negative region, ranging from -71% for manufacturing to -97% for construction. This implies that 2020 would be a year of very weak economic performance.

A quantitative estimate of sales change is derived from the responses weighted by size of firm. An estimated -12.8% sales change in 2020 is obtained. In the past seven years, the sales estimates have been below GDP growth rates. This underestimation tendency is likely to persist in the current year. Thus, the sales estimate is adjusted by an average of past underestimates and the largest underestimate to arrive at a predicted GDP growth in 2020 of -8.9% to -3.9%. This is slightly wider in range to the official forecast of -7.0% to -4.0% as of May 2020.

Table 1: Net Balances in Sales Change, 2013-2020

	2020	2019	2018	2017	2016	2015	2014	2013
All Companies	-86%	-32%	6%	-24%	-51%	-30%	-5%	-18%
Size and Ownership								
Small	-87%	-59%	-50%	-62%	-65%	-47%	-17%	-14%
Large	-86%	-27%	18%	-14%	-47%	-26%	-2%	-19%
Local	-84%	-32%	10%	-29%	-46%	-27%	-5%	-15%
Foreign	-94%	-31%	-9%	-3%	-66%	-41%	-6%	-38%
Sector								
Manufacturing	-71%	-38%	22%	12%	-55%	-21%	3%	-17%
Construction	-97%	-22%	-21%	-35%	-47%	-15%	-11%	-15%
Commerce	-95%	-27%	-3%	-49%	-58%	-41%	-18%	-35%
Transport & Communications	-76%	-29%	11%	-21%	-38%	-24%	35%	0%
Financial & Business Services	-89%	-38%	18%	-32%	-49%	-42%	-26%	-13%
Estimated Sales Change	-12.8%	-0.3%	3.3%	1.4%	-5.7%	-1.7%	2.7%	-3.8%
GDP growth rate	-7.0 to -4.0%*	0.7%	3.4%	4.3%	3.2%	3.0%	3.9%	4.8%
Predicted GDP growth**	-8.9 to -3.9%							

Highest Net Balance shaded green. *Official GDP growth forecast as of May 2020.

**Sales change adjusted by average of underestimates of GDP in 2013-2019 and highest underestimate in 2016.

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

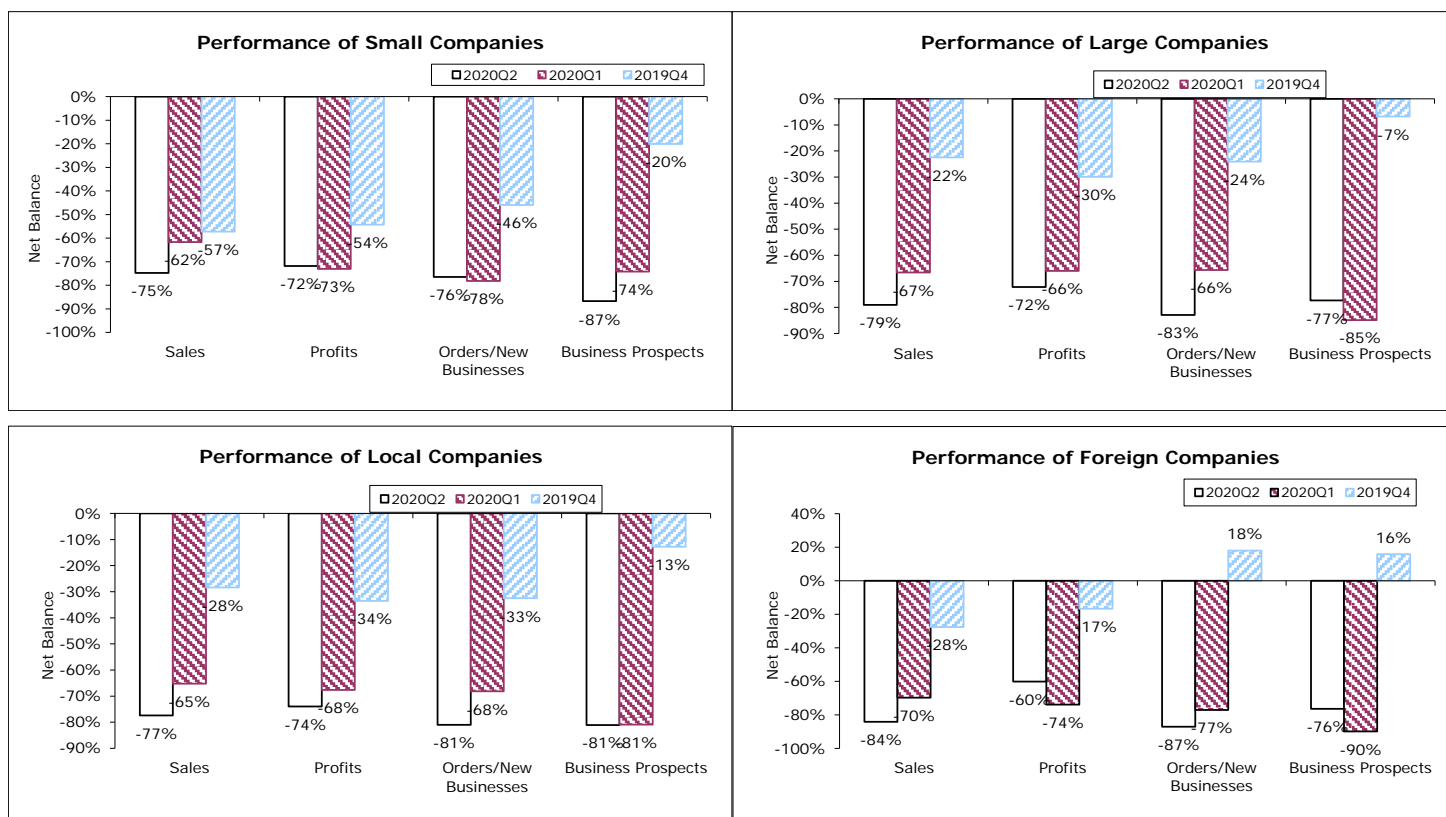
² A net balance measures the difference between the percentage of firms with higher values and that with lower values compared to the same quarter a year ago. A positive net balance denotes expansion while a negative balance reflects contraction.

Performance Differential

Small firms managed to restrain further spread of lower profits and orders/new business in 2020Q2 (Chart 1). Sales contraction, however, worsened and pessimism has increased over business prospects for the second half of the year. Large firms encountered more contraction in the three performance indicators but are less pessimistic. The performance gap between small and large firms narrowed for profits and orders/new business.

Foreign firms managed to reduce profit contraction in 2020Q2 and are less pessimistic. Local firms fared poorer in the three performance indicators and remained as gloomy over business prospects as a quarter ago. The performance gap between local and foreign firms widened in profits and little changed in the other three 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.

In 2020Q2, the transport & communications sector registered, for the second consecutive quarter, the least contraction in sales and posted the least pessimism over business prospects in the next six months. The least contraction in profits was captured by finance & business services, displacing construction in the previous quarter. The manufacturing sector registered the least contraction in orders/new business, same as a quarter ago. In contrast, the construction and commerce sectors encountered the worst results regardless of size and ownership of firms.

Outlook

From an analysis of the regression predictions on quarterly GDP growth rates by lagged net balances and a business cycle leading index, the Singapore economy could be hit by a contraction between **-5.8% and -7.0% in 2020Q3** on a year-on-year basis.

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

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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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