News Release

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SINGAPORE CORPORATES SEE A DROP IN SHORT-TERM BUSINESS OUTLOOK BUT TRADE EXPECTED TO BOUNCE BACK IN THE MEDIUM TERM

Sluggish regional trade has weighed heavily on Singapore's economic growth this year, particularly in the manufacturing and export dependent service sectors. While near term prospects remain weak, a broadening recovery in advanced economies should spur faster global trade next year and benefit the country, according to HSBC's latest Trade Forecast.

The HSBC Trade Confidence Index covers a total of 23 markets and is the largest trade confidence survey globally. The current survey comprises six-month views of 6,300 exporters, importers and traders from small and mid-market enterprises including Singapore.

Singapore corporates' six-month business outlook falling

Concerns over global economic growth clearly weighed on the sentiment of Singapore firms. The Trade Confidence Score for Singapore fell sharply to just 109 points in H2 2015, compared to 135 points in H1. The average Trade Confidence Score for Asia was 118.

Less than half of respondents in Singapore now expect trade volumes to increase over the next six months, versus 80% six months ago. Moreover, more than a fifth of respondents now expect trade volumes to decline.

Joseph Arena, Head of Trade and Receivables Finance, HSBC Singapore, said: "Sluggish regional trade from a slowing of China, lower commodity demand and prices, reduced consumer activity and currency volatility has weighed on Singapore's economic growth this year."

Europe, US and China are trade corridors of note

Sluggish regional trade flows are having a notable impact on Singaporean firms' view on which regions offer the best opportunity for growth over the next six months. Although Asia, and China in particular, was still viewed as the most promising region for trade, the number of Singapore firms which were optimistic there fell from 87% to 61%. In particular, the number of firms looking to Indonesia as a source of opportunity fell dramatically from 20% to only 3%.

Singapore firms' perception of opportunities for business growth in North America were up slightly while firms were notably more upbeat about Europe with 12% of firms citing the region as a promising opportunity for business growth, up from only 3% six months earlier.

Singapore to benefit from recovery in the medium term

Despite the short-term cyclical challenges, Singapore is expected to benefit from the revival in global trade activity, and in particular the role it plays in connecting Asia to the rest of the world.

HSBC expects that growth in global merchandise trade volumes will recover to around 3% in 2016, and pick up further to 5% a year by 2018-20.

Firmer growth in the US and Europe as well as increased China domestic policy stimulus should support an improvement in global demand.

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Meanwhile, with oil prices expected to recover over the next few years, mineral fuels are also set to grow strongly, increasing by 8% between 2016 and 2020, and accounting for 40% of total merchandise export growth.

Mr Arena said: "While short-term conditions are challenging, the outlook for the next few years is more positive. The economies of Asia are expected to continue to be the main drivers of global trade and Singapore is well placed to capture the growth as a regional financial and trading centre and the gateway to ASEAN."

Singapore's industrial machinery sector to grow

Industrial machinery is expected to remain as Singapore's top export for the foreseeable future, contributing around 30% of the projected growth in total merchandise exports in the long term. As one of the world's top oil trading and refining hubs, petroleum products will also continue to be an important driver of export growth for Singapore.

However, the government's ongoing commitment to incentivise firms to investment in labour saving technology and a 40% projected increase in infrastructure spending over the next five years will increase Singapore's demand for industrial machinery and transport equipment.

Indeed, by contributing more than 25% per year to total export growth between now and 2030, industrial machinery will not only be the fastest source of import growth but also be Singapore's top merchandise import, replacing petroleum products by 2030.

ICT manufacturing to see strong growth in medium term before tapering

Higher value added information and communications technology (ICT) exports are expected to underpin a recovery in Singapore's ICT exports with growth forecast to increase by an average 8% per annum between 2016 and 2020.

Policy moves towards trade liberalisation – including the World Trade Organisation (WTO) and Trans-Pacific Partnership (TPP) - will hold the potential to unlocking an upside surprise to the performance of global trade.

However, growth in ICT exports is forecast to contribute only 3% to the growth in total exports in the decade to 2030. Consequently, ICT exports are set to slip from being the third largest export sector in 2014 to the fifth.

Petroleum to remain strong trade sector

After contributing around 40% to total export growth in 2015-20, petroleum is set to ease to around 22% between 2021-30 as Singapore is expected to face increasing competition from Malaysia as a source of refined petroleum products.

Singapore's position as key exporter of refined oil products means that the sector composition of imports closely mirrors that of exports. Consequently, petroleum products are expected to remain a major driver of import growth in the coming years.

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For a copy of the HSBC Trade Forecast report and for further information, log onto http://www.globalconnections.hsbc.com/.

For a copy of the Trade Winds report: http://www.hsbc.com/news-and-insight/2015/trade-winds.

HSBC's Trade Forecast encompasses trade data for 25 countries and territories key to world trade.

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Notes to Editors:

About the HSBC Trade Forecast - Modelled by Oxford Economics
Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade for total exports/imports of goods, based on HSBC's own analysis and forecasts of the world economy to generate a full bilateral set of trade flows for total imports and exports of goods, and balances between 180 pairs of countries.

Oxford Economics employs a global modelling framework that ensures full consistency between all economies, in part driven by trade linkages. The forecasts take into account factors such as the rate of demand growth in the destination market and the exporter's competitiveness. Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2014-16, 2017-20 and 2021-30. Sectors are classified according to the UN's Standard International Trade Classifications (SITC) and grouped into 30 sector headings. More information about the sector modeling can be found on http://www.globalconnections.hsbc.com/

HSBC Trade Confidence Survey
The Trade Confidence Survey (TCS) is a quantitative indicator of the short-term outlook for global trade. The survey is the largest of its kind, and conducted on behalf of HSBC by TNS. Over 6,300 businesses globally -- from small and mid-market to large corporations -- are interviewed about their expectations towards global trade and business growth over the next six months. In 2H15, the survey data collection method changed to online in 11 markets: Australia, Brazil, China, France, Germany, Hong Kong, Mexico, Poland, Singapore, UK, and USA. The past data has been calibrated to account for this change and to preserve the trends.

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The HSBC Group
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