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Business confidence turns contractionary in Q1 2017
BOI hits second lowest historical low in 4 years
- Singapore Commercial Credit Bureau

Singapore, 12 December 2016 – Local business confidence has taken a turn for the worse as it falls into the contractionary zone for the first time since Q1 2016. According to Singapore Commercial Credit Bureau (SCCB)'s latest quarterly Business Optimism Index (BOI) study, BOI slipped from +2.87 percentage points in Q4 2016 to -1.22 percentage points in Q1 2017. On a year-on-year (y-o-y) basis, BOI has improved slightly but remained in the contractionary zone from -2.93 percentage points in Q1 2016 to -1.22 percentage points in Q1 2017.

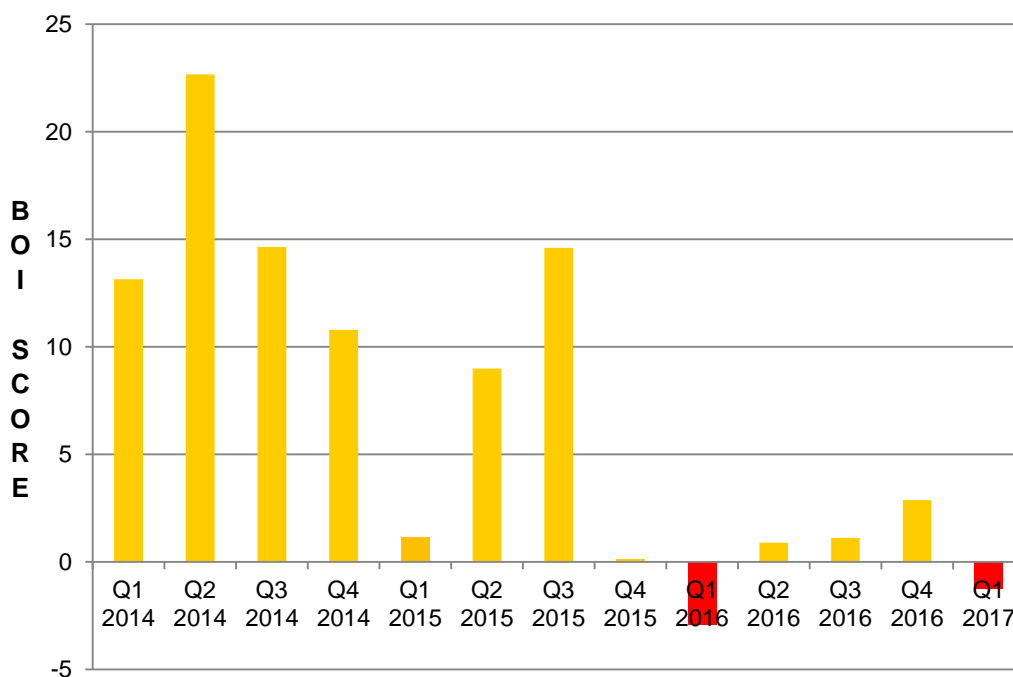


Figure 1. Overall Business Optimism Score, Q1 2014 – Q1 2017

For Q1 2017, the number of positive indicators fell on a quarter-on-quarter (q-o-q) basis. Of the six indicators, 2 indicators were expansionary, 3 indicators were contractionary and 1 indicator has remained unchanged.

Point Commentary

According to SCCB, optimism levels for four business indicators have declined in Q1 2017 on a quarter-on-quarter (q-o-q) basis.

- ❖ Volume of sales slipped further from -2.65 percentage points in Q4 2016 to -4.0 percentage points in Q1 2017.
- ❖ Net profits dropped into the contractionary zone from +2.65 percentage points in Q4 2016 to -6.67 percentage points in Q1 2017.
- ❖ New orders fell from +7.28 percentage points in Q4 2016 to -2.0 percentage points in Q1 2017.
- ❖ Inventory levels moderated downwards strongly from +8.61 percentage points in Q4 2016 to +3.33 percentage points in Q1 2017.
- ❖ Employment levels fell from +3.31 percentage points in Q4 2016 to +2.00 percentage points in Q1 2017.
- ❖ Meanwhile, selling price has remained unchanged at 0 percentage points in Q1 2017.

On a y-o-y basis, 4 of six indicators have improved for Q1 2017.

- ❖ Volume of sales inched up slightly from -7.04 percentage points in Q1 2016 to -4.0 percentage points in Q1 2017.
- ❖ Net profits have slipped from -5.63 percentage points in Q1 2016 to -6.67 percentage points in Q1 2017.
- ❖ Selling prices have moderated downwards from +4.93 percentage points in Q1 2016 to 0 percentage point in Q1 2017.
- ❖ New orders have inched slightly upwards from -2.11 percentage points in Q1 2016 to -2.0 percentage points in Q1 2017.
- ❖ Inventory levels have rebounded into positive territory from -2.82 percentage points in Q1 2016 to +3.33 percentage points in Q1 2017.
- ❖ Employment levels rose from -4.93 percentage points in Q1 2016 to +2.00 percentage points in Q1 2017.

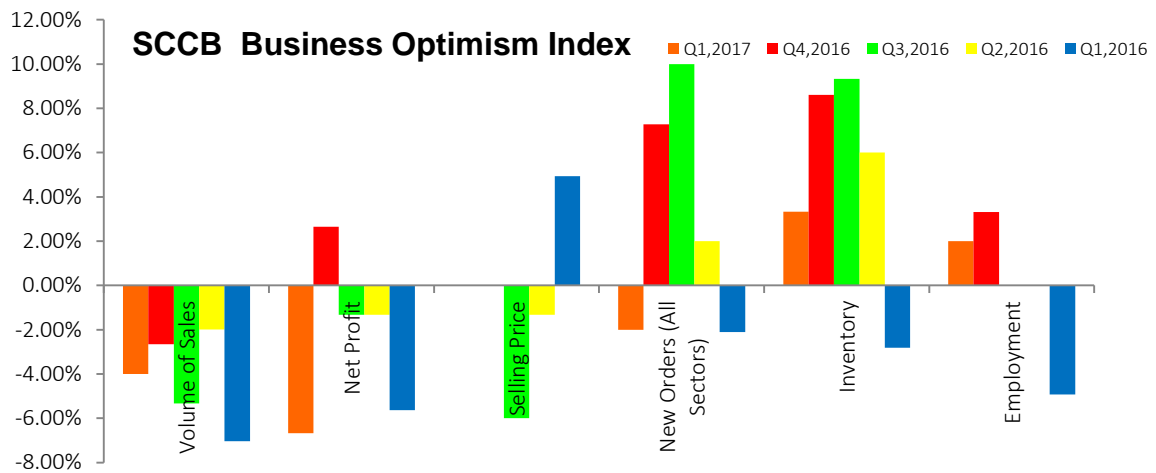


Figure 2. SCCB Optimism Index of Business Indicators, Q1 2016 – Q1 2017

Key Highlights for Q1 2017 Sectoral Outlook

Wholesale Trade

The wholesale trade sector emerged as one of the most pessimistic sectors for Q1 2017 with 5 indicators in the negative territory. The pessimistic outlook is attributed to weakness in the wholesale trade of oil, petroleum and petroleum products.

- ❖ Volume of sales are expected to deteriorate from -3.57 percentage points in Q4 2016 to -7.69 percentage points in Q1 2017.
- ❖ Net profits have fallen from 0 percentage point in Q4 2016 to -3.85 percentage points in Q1 2017.
- ❖ Selling price have remained in the contractionary zone, plunging further from -3.57 percentage points in Q4 2016 to -11.54 percentage points in Q1 2017.
- ❖ Both new orders and employment levels have fallen into negative territory from 0 percentage point in Q4 2016 to -2.0 percentage points in Q1 2017 and from +7.14 percentage points in Q4 2016 to -11.54 percentage points in Q1 2017 respectively.
- ❖ Inventory levels have moderated downwards from +7.14 percentage points in Q4 2016 to 0 percentage point in Q1 2017.

Financial

Following a strong downward moderation in Q4 2016, business sentiments within the financial sector has deteriorated further with 5 indicators falling into the contractionary region for Q1 2017. This was largely attributed to a decline in performance by the offshore financial intermediation, fund management and security dealing sub-segments.

- ❖ Both volume of sales and net profits have plunged from +12.50 percentage points in Q4 2016 to -14.29 percentage points in Q1 2017 and from +37.50 percentage points in Q4 2016 to -14.29 percentage points in Q1 2017 respectively.
- ❖ New orders have deteriorated from +12.50 percentage points in Q4 2016 to -28.57 percentage points in Q1 2017.
- ❖ Both inventory and employment levels have each also plunged from 0 percentage points in Q4 2016 to -28.57 percentage points in Q1 2017.
- ❖ Meanwhile, selling prices have remained unchanged at 0 percentage point in Q1 2017.

Services

The services sector emerged as the most optimistic sector with 6 indicators in the expansionary region. The upbeat sentiments are likely to be attributed to an increase in tourist arrivals, sustained improvements in the food and accommodations as well as the information and communications and social services sub-sectors. However, SCCB notes a slight moderation in 3 of six indicators for Q1 2017.

- ❖ Volume of sales are expected to rebound into positive territory from -11.11 percentage points in Q4 2016 to +3.77 percentage points in Q1 2017.
- ❖ Both net profits and selling prices rose marginally from 0 percentage point in Q4 2016 to +1.89 percentage points in Q1 2017 and from +2.22 percentage points in Q4 2016 to +5.66 percentage points in Q1 2017 respectively.
- ❖ New orders have moderated downwards visibly from +20.0 percentage points in Q4 2016 to +9.43 percentage points in Q1 2017.
- ❖ Both inventory and employment levels have each moderated from +8.89 percentage points and +4.44 percentage points in Q4 2016 to +3.77 percentage points in Q1 2017 respectively.

Transportation

The transportation sector has also emerged as one of the most optimistic sectors with 4 indicators in the expansionary region. This is attributed to growth within the water transport and storage services sub-segments.

- ❖ Volume of sales, net profits and employment levels have each jumped markedly from +6.25 percentage points in Q4 2016 to +15.39 percentage points in Q1 2017.
- ❖ New orders have increased from 0 percentage points in Q4 2016 to +15.39 percentage points in Q1 2017.
- ❖ Meanwhile, inventory levels have deteriorated from 0 percentage point in Q4 2016 to -7.69 percentage points in Q1 2017.
- ❖ Selling prices have remained unchanged at 0 percentage point for Q1 2017.

Construction

Owing to an expansion in public sector projects, the construction sector has anticipated the outlook for Q1 2017 to be upbeat with 4 of six indicators in the expansionary region.

- Selling price rebounded into the expansionary region from -20.0 percentage points in Q4 2016 to +21.43 percentage points in Q1 2017.
- Employment levels have increased from 0 percentage point in Q4 2016 to +28.57 percentage points in Q1 2017.
- New orders jumped from 0 percentage point in Q4 2016 to +21.43 percentage points in Q1 2017.
- Inventory levels rose from +20.0 percentage points in Q4 2016 to +35.71 percentage points in Q1 2017.
- Meanwhile, net profits remained in the contractionary zone, moving upwards from -20.0 percentage points in Q4 2016 to -14.29 percentage points in Q1 2017.
- Volume of sales plunged into the negative territory from 0 percentage point in Q4 2016 to -14.29 percentage points in Q1 2017.

“We are expecting business confidence to remain muted moving into 2017. As downside risks have prevailed in light of the recent spate of global events, the overall sentiments among the local business community are likely to remain in the doldrums in the coming months. The downward trend is most evident in externally-oriented sectors such as wholesale and financial services. For 2017, firms are projected to cut back on investments for business expansion. Lack of financing, higher business costs and reduced sales are some of the key challenges which have also been highlighted by local firms.” commented Ms. Audrey Chia, SCCB’s Chief Executive Officer.

The Ministry of Trade and Industry (MTI) has projected its GDP growth forecast for 2017 to be between 1.0 and 3.0 per cent.

Compared to 2016, there is a slight increase in proportion of firms which have anticipated a reduction in investments for business expansion in 2017. According to SCCB, the proportion of firms which have expected a decrease in investments for business expansion has risen from 4 per cent in 2016 to 9 percent in 2017. Meanwhile, the proportion of firms expecting investments to increase remained unchanged at 6 per cent for 2017. Majority of the local firms surveyed had anticipated investments to remain unchanged at 85 per cent.

Investment for Business Expansion in 2017

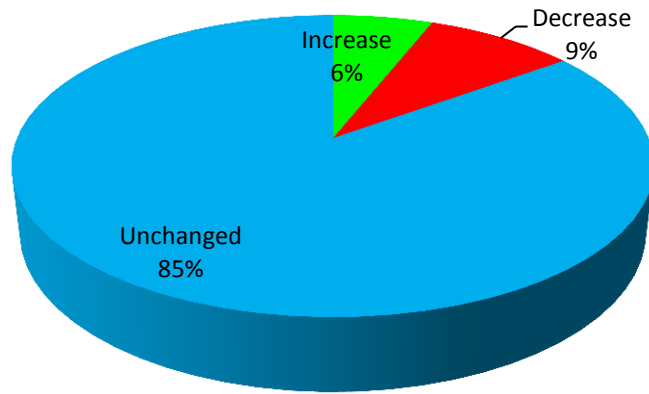


Figure 3. Investment for Business Expansion in 2017

- ❖ As with 2016, SCCB notes that the most important area of investment for 2017 is skills upgrading of employees at 39 per cent.
- ❖ Machinery and capital equipment accounts for the second most important area of investment for 2017 at 32 per cent.
- ❖ Investments in IT infrastructure are the third most important area of investment for 2017 at 14 per cent.
- ❖ Both marketing and brand development and new product development are new important areas of investment which have been highlighted by local firms which are surveyed accounting for 3 per cent and 5 percent respectively.

Most important area of investment in 2017

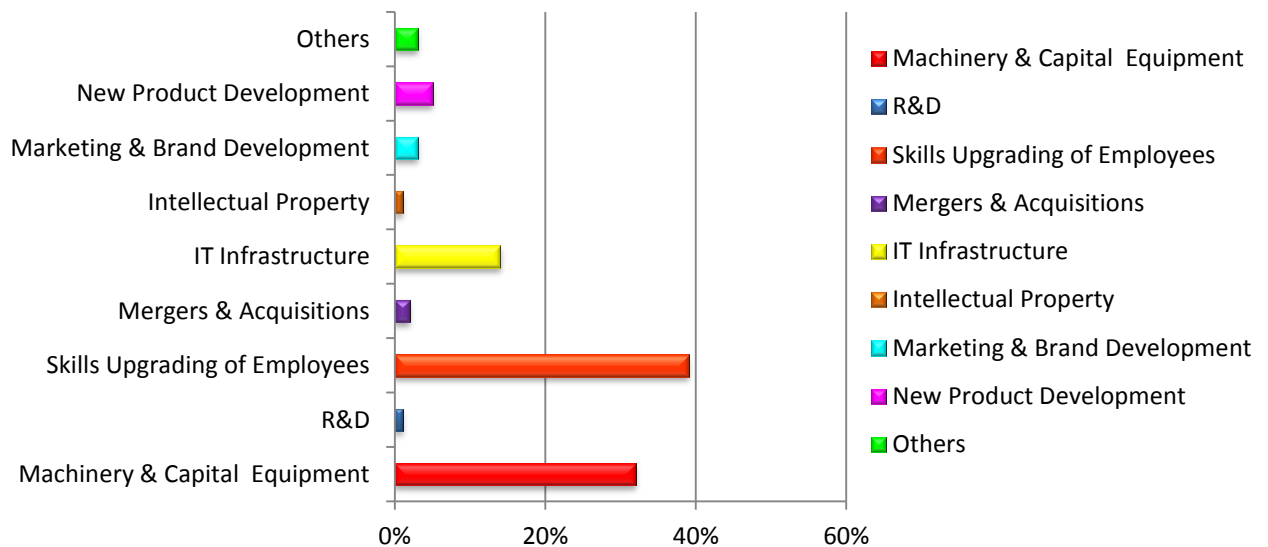


Figure 4. Most Important Area of Investment for 2017

- ❖ As with 2016, global economic uncertainties have been highlighted as the main challenge in 2017 facing local firms, accounting for 60 per cent of the firms being surveyed.
- ❖ Lack of financing, reduced sales and higher business costs account for the other main challenges at 12 per cent, 11 per cent and 10 percent respectively.
- ❖ The proportion of firms expecting increased competition in 2017 accounts for 4 per cent.
- ❖ Meanwhile, only 2 per cent of firms being surveyed identified foreign labour issues as the main challenge in 2017.

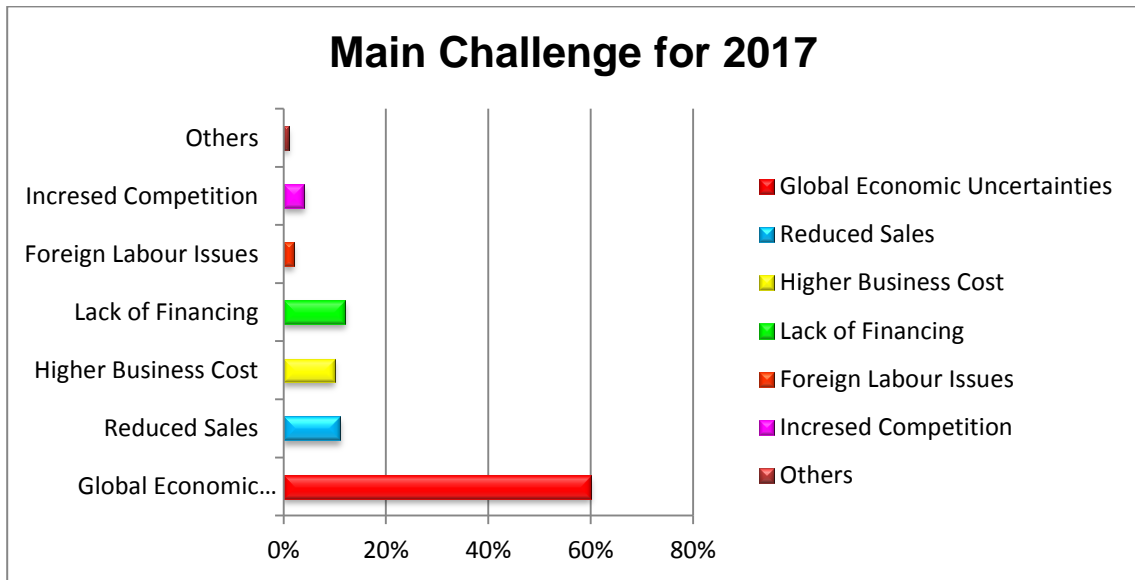


Figure 5. Main Challenge in 2017

Overview of Business Indicators

Volume of Sales

Volume of sales dipped further into the contractionary zone at -4.00 percentage points (compared to net -2.65 percentage points in Q4 2016). The manufacturing sector is least optimistic (net -22.73 percentage points), followed by the construction (net -14.29 percentage points), finance (-14.29 percentage points) and wholesale (-7.69 percentage points) sectors. Both agricultural and mining sectors (0 percentage point) have anticipated an unchanged volume of sales. The services (net +3.77 percentage points) and transportation (net +15.39 percentage points) sectors are the only sectors which are optimistic for Q1 2017.

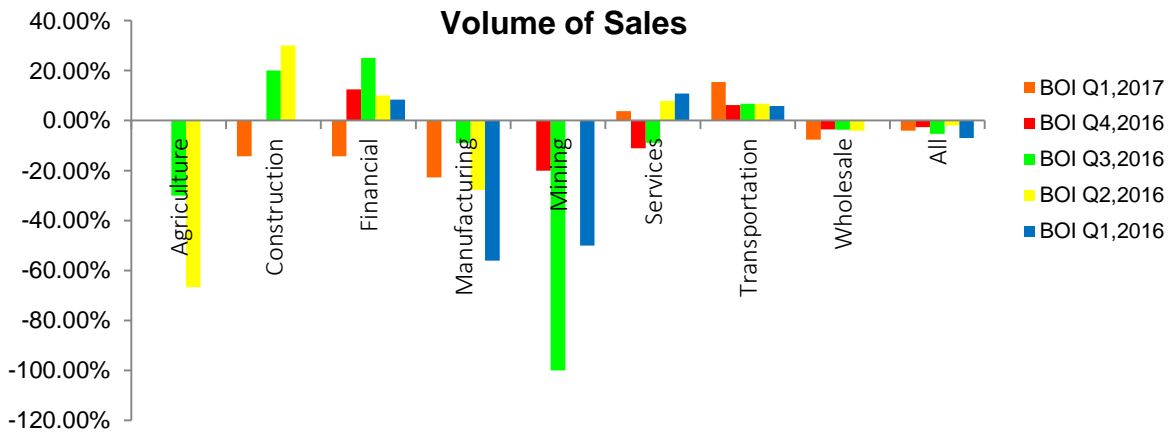


Figure 4. Volume of Sales Optimism Index, Q1 2016 – Q1 2017

Net Profit

Net profit fell back into the contractionary zone at -6.67 percentage points (compared to net +2.65 percentage points in Q4 2016). As with volume of sales, the manufacturing sector (net -31.82 percentage points) is least optimistic, followed by mining (net -16.67 percentage points), construction (net -14.29 percentage points), finance (net -14.29 percentage points), agricultural (net -11.11 percentage points) and wholesale (net -3.85 percentage points) sectors. Both transportation (net +15.39 percentage points) and services (net +1.89 percentage points) sectors are the only sectors which are upbeat for Q1 2017.

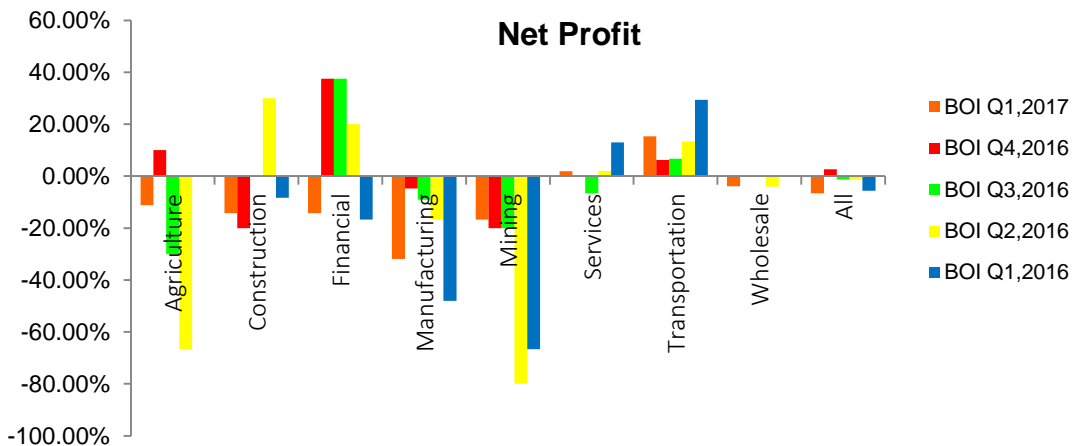


Figure 5. Net Profit Optimism Index, Q1 2016 – Q1 2017

Inventory Levels

Inventory levels have remained in the expansionary zone for the fourth consecutive quarter despite the slight moderation at +3.33 percentage points (compared to net +8.61 percentage points in Q4 2016). The construction sector (net +35.71 percentage points) is most optimistic, followed by manufacturing (net +4.55 percentage points) and services (net +3.77 percentage points) sectors. Meanwhile, the agricultural, mining and wholesale sectors (net 0 percentage points) have anticipated inventory levels to remain unchanged. Both transportation (net -7.69 percentage points) and finance (net -28.57 percentage points) sectors are least optimistic for Q1 2017.

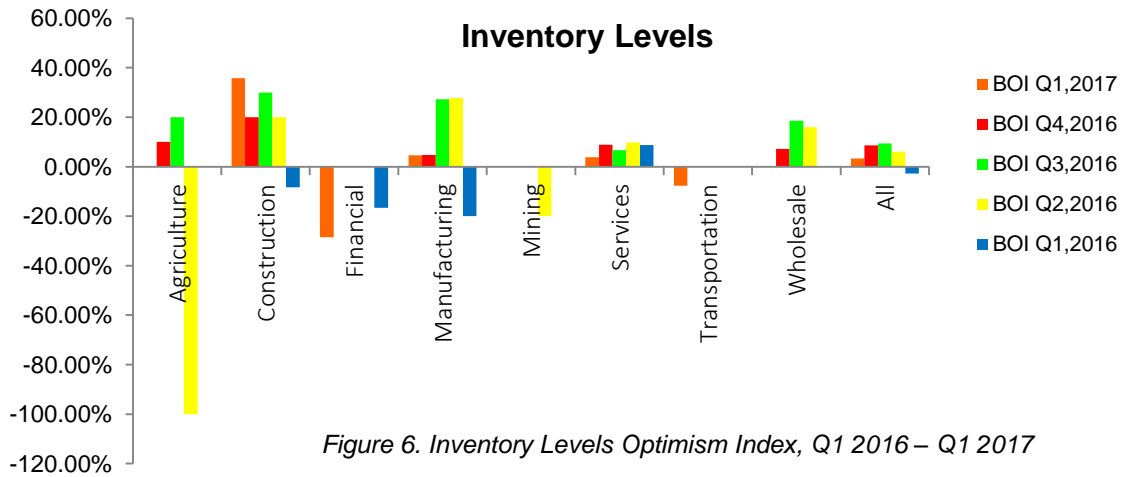


Figure 6. Inventory Levels Optimism Index, Q1 2016 – Q1 2017

Selling Price

Selling price has remained unchanged at net 0 percentage point (compared to net 0 percentage points in Q4 2016). Both the construction (net +21.43 percentage points) and services (net +5.66 percentage points) are the only two sectors which are optimistic. The finance, mining and transportation sectors (0 percentage points) have anticipated selling price to remain unchanged. Meanwhile, the wholesale (net -11.54 percentage points), agricultural (-11.11 percentage points) and manufacturing (net -9.09 percentage points) sectors are least optimistic.

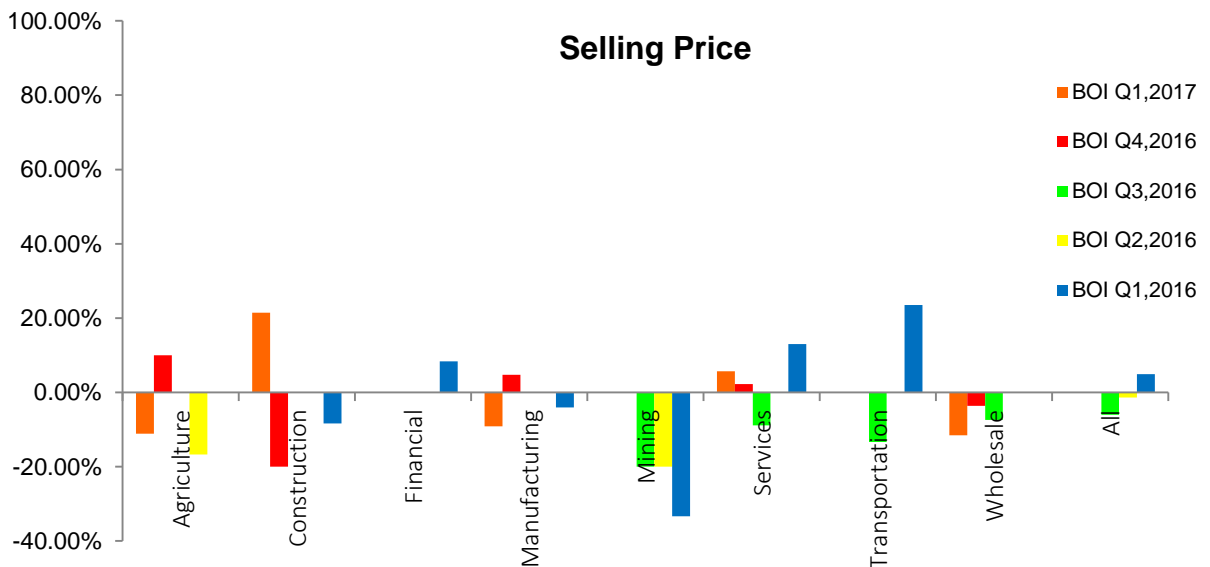


Figure 7. Selling Price Optimism Index, Q1 2016 – Q1 2017

New Orders

New orders have dived into the contractionary zone to net -2.00 percentage points (compared to net +7.28 percentage points in Q4 2016). The mining (net -50.0 percentage points), finance (net -28.57 percentage points), manufacturing (net -18.18 percentage points), wholesale (net -11.54 percentage points) and agricultural (net -11.11 percentage points) sectors are pessimistic about new orders. The construction (net +21.43 percentage points), transportation (net +15.39 percentage points) and services (net +9.43 percentage points) sectors are the only sectors which are upbeat about new orders.

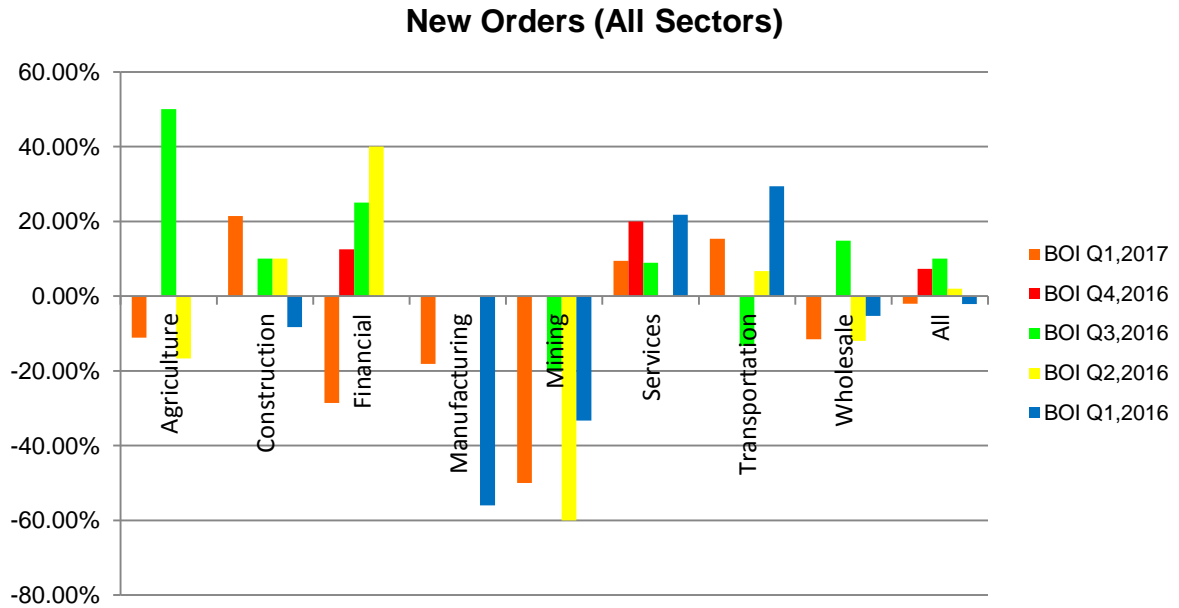


Figure 8. New Orders Optimism Index (All Sectors), Q1 2016 – Q1 2017

Employment

Employment levels are expected to moderate to net +2.00 percentage points (compared to net +3.31 percentage points in Q4 2016). The construction (net +28.57 percentage points) is most upbeat, followed by transportation (net +15.39 percentage points) and services (net +3.77 percentage points) sectors. The agricultural sector (net 0 percentage points) has anticipated employment to remain unchanged. The remaining sectors are pessimistic about employment – finance (net -28.57 percentage points), mining (net -16.17 percentage points), manufacturing (net - 4.55 percentage points) and wholesale (net -3.85 percentage points) sectors.

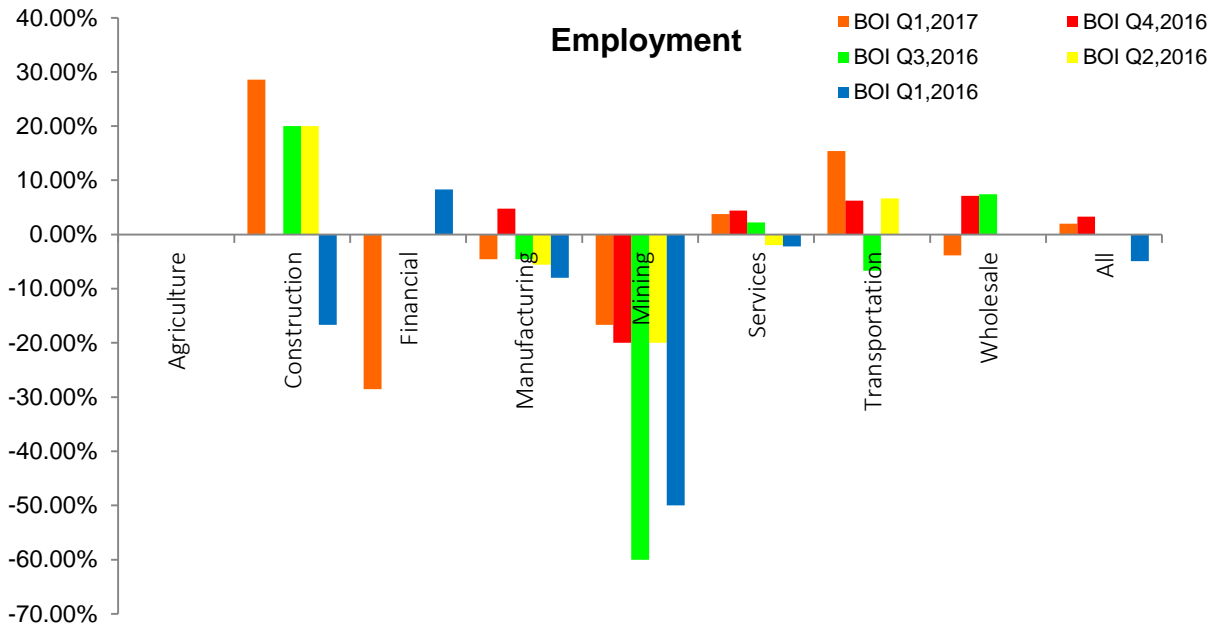


Figure 9. Employment Optimism Index, Q1 2016 – Q1 2017

Commentary

The SCCB Business Optimism Index (BOI) is a measure of business confidence in the economy. Released quarterly, it is based on a business sentiment survey that is designed to capture business expectations and is one of the most effective ways to track how the business community perceives the business environment, and where they think it is moving. This is commonly used, worldwide, to assist in analyzing major trends and issues concerning the business community through tracking business parameters including net profits, selling prices, new orders, inventory levels, and employee count.

About the Survey

Singapore Commercial Credit Bureau conducts latest Business Expectations Surveys every quarter. Each quarter, 200 business owners and senior executives representing major industry sectors across Singapore are asked if they expect increases, decreases or no changes in their upcoming quarterly Sales, Profits, Employment, New Orders, Inventories and Selling Prices.

Note: The index figures used in the survey represent the net percentage of survey respondents expecting higher sales, profits, etc., compared with the same quarter of the previous year. The indices are calculated by subtracting the percentage of respondents expecting decreases from the percentage expecting increases.

About Singapore Commercial Credit Bureau

Established in 2005, Singapore Commercial Credit Bureau (SCCB) operates a database of local enterprises and their credit history to provide clients with the insight needed to build trust and improve the quality of business relationships with their customers, suppliers and business partners. SCCB operates under D&B Singapore. For more information, please visit, www.sccb.sg

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