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Hawksford

Singapore new business trends

Q4 2017 and 2017 summary

Preface and economic review

Hawksford Singapore has been publishing the Singapore New Business Trends (previously known as the Singapore Business Formation Report), a quarterly report, since 2010.

The source of the statistics is from Singapore Commercial Credit Bureau. The report provides data on new business formation activities in the country. In addition to offering statistical data, the report also analyses the factors affecting business formations in Singapore.

This report is a summary of the business formation activities in Q4 2017 and an overview of the business formation trends in 2017.

Economic review Q4 2017

The year 2017 ended on a positive note and economic recovery firmed up during the year with majority of the countries posting steady growth in GDP though the growth remained moderate in some countries while some oil exporting countries suffered a decline. Notably, some major emerging economies including Argentina, Brazil and Russia emerged out of recession. There was a significant surge in employment growth in the developed economies such as the USA and the Eurozone. However, wage growth remained muted in most countries despite the falling unemployment rate.

The year also departed from the ultra-loose monetary policy whereby the Fed rate was revised up three times in the year while the Bank of England also raised its rate for the first time in a decade. The Japanese and European Central bank continue with their accommodative policy. The year was wrought with natural disasters such as hurricane, floods and typhoon. The republican Donald Trump assuming presidency, stalemate over Brexit negotiation, the snap pole that thwarted Theresa May's position, North Korea's nuclear testing, Madam Halimah Yacob becoming the first woman and the first Malay president of Singapore were the key political events of the year.

The US economy likely expanded by more than 3% in the final quarter of 2017, a remarkable consecutive three quarters of over 3% growth. The growth was largely driven by the surge in retail spending in November. The increased optimism over the upcoming tax-cut bill and the festive spending probably contributed to the strong surge in the economy. The UK economy remained subdued in the final quarter and is estimated to have grown by 0.4%. The weak Pound, since the Brexit, caused the inflation to go up resulting in a sluggish economy. The services sector's slowdown impacted the last quarter growth.

Advance estimates of China's GDP are pointing to a slowdown of 6.7% on a Year-on Year (YoY) basis. It expanded by only 1.7% on a quarterly basis. The efforts to boost domestic consumption were apparently ineffective in boosting the growth of retail sales. The government has been trying to promote sustainable economic growth by curbing speculative lending that had overheated the economy. For the whole year, China is estimated to have grown by 6.8%. In contrast, India's growth forecasts hovers around 6.5% for the year, citing a muted growth in the Q4 2017. The economy is still recovering from the effects of the GST rollout as well as the impacts of demonetization exercise carried out in last quarter of 2016.

Russia's economy, which recovered from the recession in the second quarter, is estimated to have moderated in the last quarter. The economy was dithering between upswing and moderation amidst the low oil prices and western sanctions. The country likely expanded by 1.9% in the last quarter. The oil-output curb negotiated with the OPEC also contributed to the deceleration. Brazil's economy escaped from its protracted recessionary phase this year and sustained three consecutive quarters of growth and in the final quarter it is estimated to have grown by 0.4% bringing the whole year growth to 1.1%. Japan's economy potentially sustained the surge registered in the preceding quarter. Yet, despite the negative interest rate policy of the central bank, the inflation rate in the country continued to remain depressed far below the Bank of Japan's target of 2%.

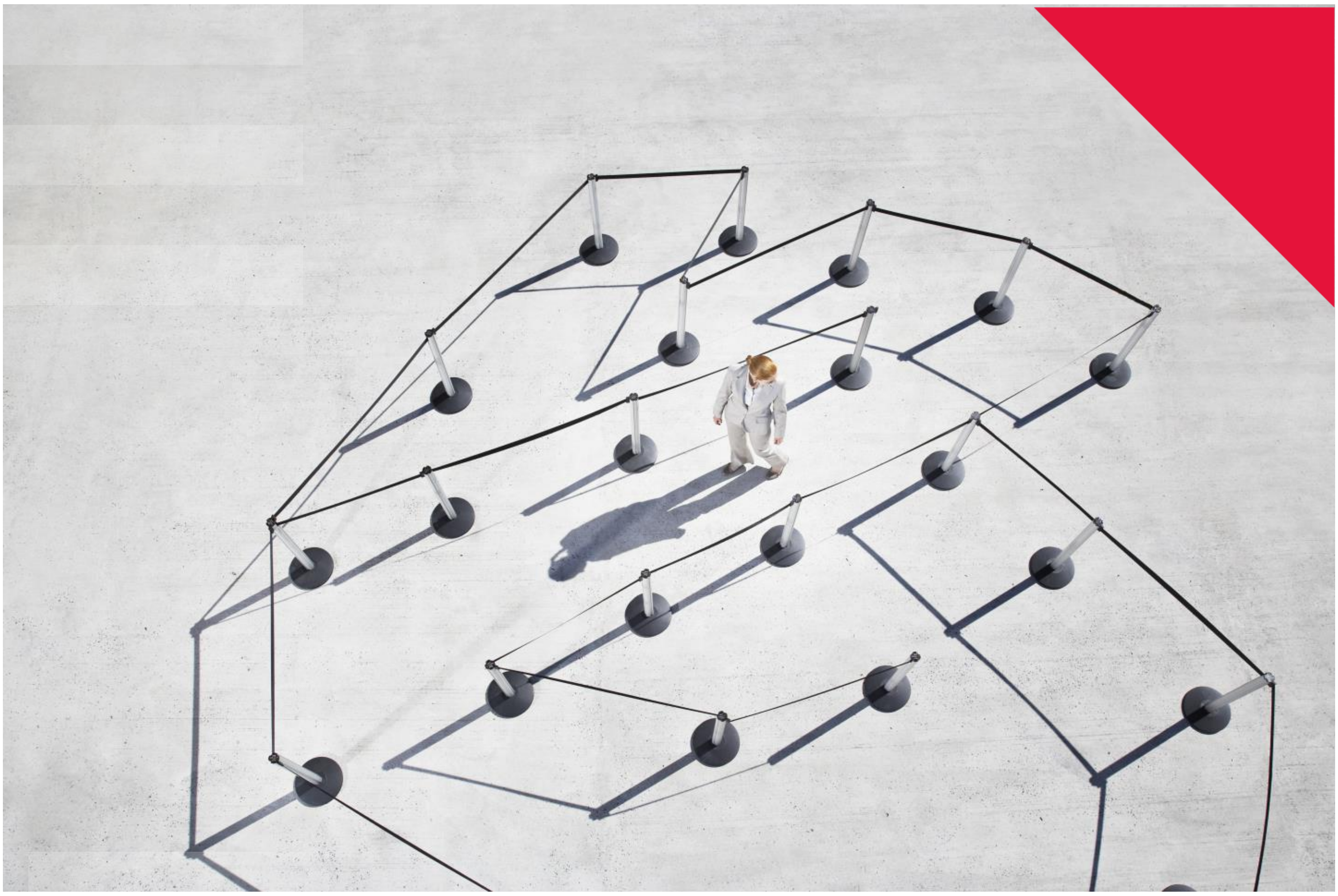
Malaysia, South East Asia's third largest economy, will be going to polls in 2018. The last quarter of 2017 was in favour of the full-year growth estimates of between 5.2% and 5.7%. The economic growth was driven by higher oil prices backed by the global recovery. Inflation remained on the higher side of an estimated 3-4%. Ringgit is expected to gain strength and the sustained growth may prompt the Malaysian central bank to increase the policy rate.

Indonesia's economy reached US$1 trillion mark in 2017. The growth in commodity prices aided the country to sustain its expansion at an estimated rate of slightly over 5% with subdued inflation and employment growth. In contrast with the rising Fed rates the central bank maintained an aggressively accommodative policy and this along with the landmark infrastructure programme aided the economy. The Philippines economy is estimated to have expanded by more than 6.5% in Q4, potentially driving the economy to achieve its full-year target of 6.5% to 7%. Increase in foreign investment, infrastructure spending and positive export performance contributed to the expansion. Thailand is also headed for an election in 2018 after being under military rule since 2014. The Thai economy received the spill over effect of the global recovery and expanded by an estimated 4.0% in 2017. In particular, the fourth quarter is estimated to have been better than the previous quarter with the year-long mourning of the king's death coming to an end and the shopping tax break provided on year-end spending. Vietnam's economy continued to show resilience during 2017 and was helped by improving global economic conditions. Though the first half of the year was disappointing for Vietnam, the economy gathered pace in the final quarter from the growing manufacturing, exports and domestic consumption.

According to advance estimates, Singapore expanded at a slower pace of 2.8% on a Quarter-on-Quarter (QoQ) basis in Q4 compared to the remarkable 9.4% growth in the preceding quarter. On a Year-on-Year (YoY) basis the last quarter growth amounted to 3.1%, higher than the forecast. The full year growth is estimated to be 3.5%, again beating forecasts. Manufacturing sector was the key driver of the growth despite its QoQ contraction from a phenomenal expansion in the preceding quarter. The services sector also did well in the quarter while the construction sector slowed further following a slump in the private sector construction activities.

The global economy is anticipated to grow at the pace of around 3% in 2018, as the recovery in investment, manufacturing, and trade continues. The Asian economies that are primarily commodity exporters will benefit from the firming commodity prices. Growth in developed economies would hover around a moderate pace of 2% as the accommodative monetary policies are withdrawn and investments get restrained. The upcoming elections in key Asian economies such as Malaysia and Thailand will not cause any significant deceleration. Though the structural slowdown in China will impede the pace of regional economies, the sustained recovery and growth in the advanced economies would potentially fuel growth in the region.

Singapore ended 2017 on a stronger note and the outlook for 2018 is favourable aided by strong domestic demand and improving global economy. Though manufacturing sector's growth would potentially moderate from its stronger base period numbers, the service sector is anticipated to propel the economy considerably by the second half of the year. Construction sector would moderately grow backed by government projects. Geopolitical tension, natural disasters increased global protectionism, any abrupt tightening of global financial conditions, and steeper-than-expected slowdown in major economies may potentially impact regional growth. As a country with major exposure to such threats, Singapore would not be immune. However, the region continues to be the bright spot for investment growth as well as business expansion. Hence, as a business hub in the region with inimitable inherent strengths Singapore will continue to be the preferred destination for setting up companies. Therefore, amidst the sustained global recovery the new business formation trend would register an upswing in 2018.



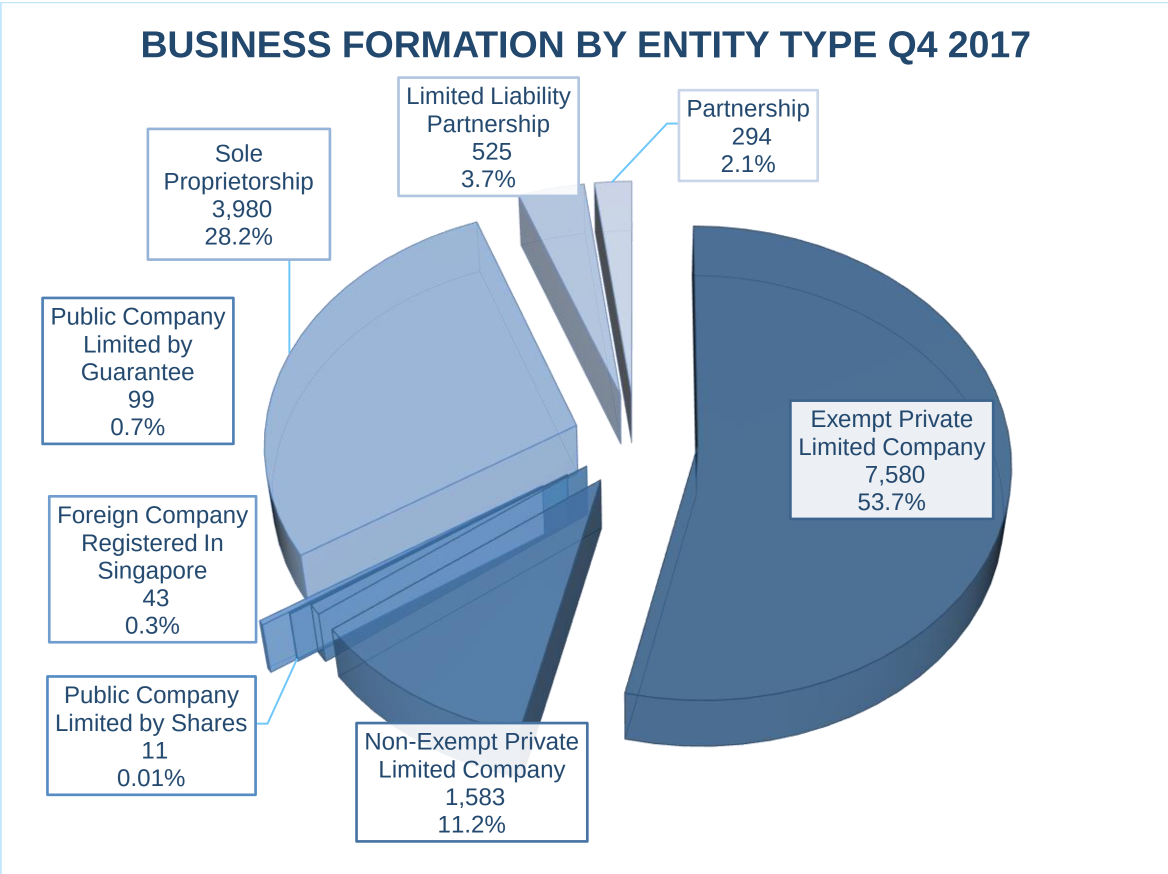
Report highlights

- There were 14,115 business formations in Q4 2017, dropping by 10.7% against the preceding quarter. It is also considerably lower than the 15,147 new business formations in Q4 2016.
- With 9,163 formations, the Private Limited Companies accounted for 64.9%, the highest share, in total business formation during the quarter.
- Sole Proprietorship, which conventionally holds the second largest share in total business formation, held a share of 28.2%, lower than the 32.3% share held in Q3 2017.
- Among the Private Limited Companies incorporated in Q4, Exempt Private Limited Companies (EPC), with 7,580 registrations, accounted for 82.7%.
- The number of Private Limited Companies formed declined by 4.5% against previous quarter, but compared to the corresponding quarter in 2016 the category has surged by 9.8%.
- The number of Public Companies Limited by shares formed during the quarter increased nearly four times; compared to only 3 companies in Q3, 11 companies were formed in Q4.
- 43 Foreign Companies were registered in Singapore during the quarter.
- The wholesale trade, financial services, and head office and management consultancy activities were the top sectors in terms of number of new business formation.
- The British Virgin Islands, the United States, Hong Kong, China, Japan and India continued to remain as the top investing countries in Singapore during the quarter.

1 Entity type

A total of 14,115 new businesses were formed in the Q4 of 2017, declining by 10.7% against Q3.

On a YoY basis, this marked a decline of 6.8%. It is typical for business formation numbers to fall during the last quarter compared to preceding quarter due to a general slowdown in business activities due to the holiday season. However, on a YoY basis the drop in new business formation is largely due to the significantly less number of Sole Proprietorship registration and may partially be attributed to the withdrawal of the Fed's normalization of lending rates.



With a total registration of 9,163, the Private Limited Company held a share of 64.9% as against 60.7% in the previous quarter. The Exempt Private Limited Companies (EPC), with a total registration of 7,580, held a share of 53.7% in the total registration and accounted for 82.7% share in the total Private Limited Company registration. The EPC is an ideal business structure as it not only limits the liability of the shareholders but it also has relatively minimal compliance requirement and is exempt from annual audits.

Notably, with 1,583 registrations and 11.2%, the share of Non-Exempt Private Limited Company in the total business formation, its share increased by 0.5 percentage point against Q3 2017. This entity type is typically adopted by businesses of significant size, and the fact that the category sustained its share even in the final quarter of the year is indicative of the fact that Singapore has strong fundamentals to anchor large-scale businesses.

3,980 Sole Proprietorships were formed during the quarter. The share of the category dropped from 32.3% in the preceding quarter to 28.2% in Q4. Sole Proprietorship are popular among small business owners with minimal or low exposure to risks. While the greatest advantage of this type of entity is its minimal compliance requirements and low cost of setting up, the biggest disadvantage is the unlimited liability of the owner. There is no corporate veil that separates the owner's personal assets in the event of defaults and litigations. Typically, the number of registrations in this category goes up during sluggish economic growth or recession when the unemployment rate is high. Since 2017 was relatively a good year in terms of economic growth and employment, so it is natural for the category to have less number of new registration in the last quarter of the year during which business formations usually drops.

A total of 819 Partnership entities were registered, of which 525 were Limited Liability Partnerships (LLP) accounting for 3.7% in the total business formation. LLP is an ideal form of business arrangement that limits the liability of the partners. This entity type allows for pooling of capital by two or more partners and also limits the liability of the partners to the capital contributed or to an agreed sum. 294 General Partnerships were formed during the quarter taking a share of 2.1% in total business formation.

110 public companies and 43 branch offices, both of which only represented around 1.1% of the total number of formations, were registered in Q4 2017.

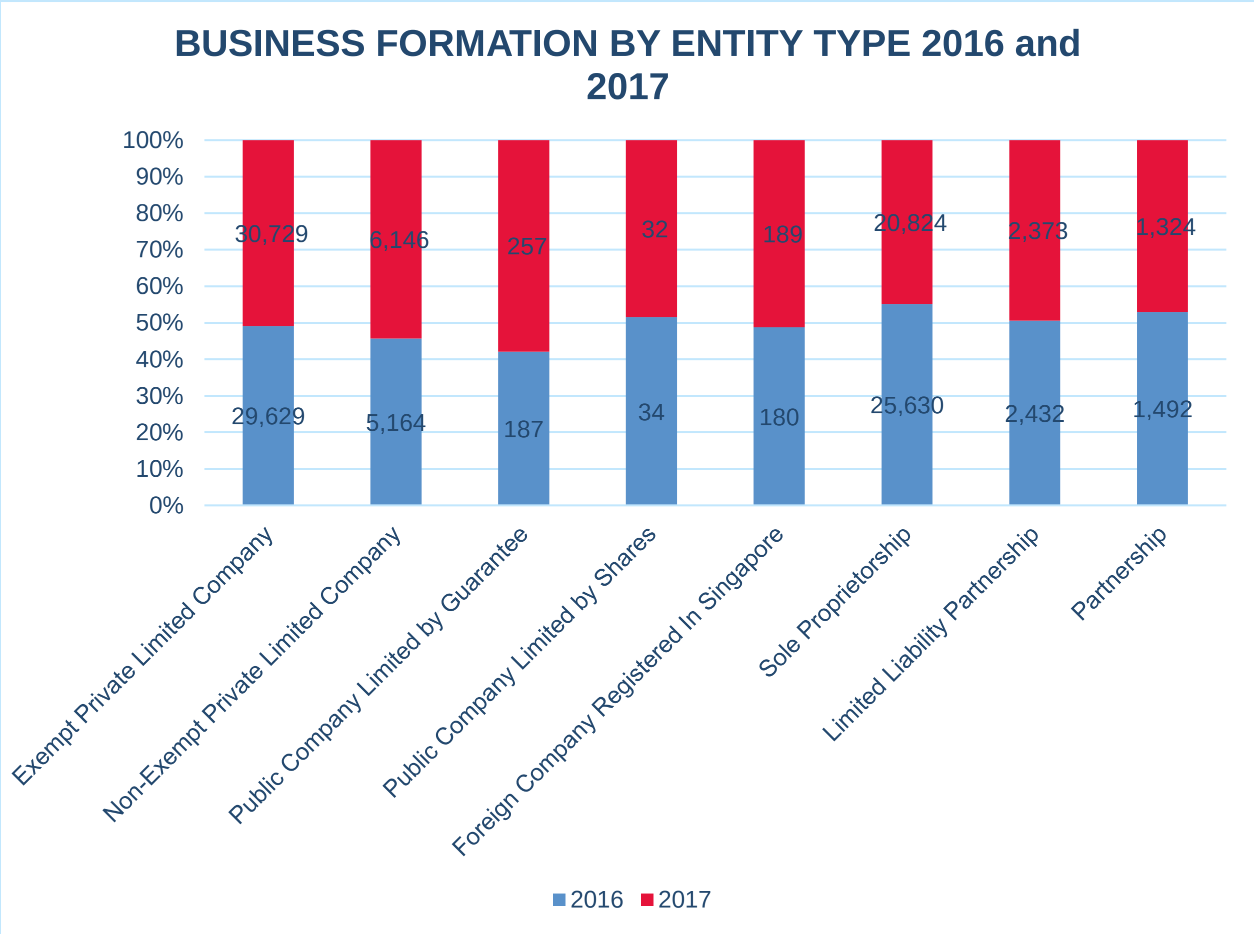
Type of Entity	**Increase/(Decrease) QoQ**	**Increase/(Decrease) YoY**
Exempt Private Limited Company	(4.1%)	9.8%
Non-Exempt Private Limited Company	(6.7%)	9.9%
Public Company	64.2%	42.9%
Foreign Company Registered In Singapore	(40.3%)	(12.2%)
Sole Proprietorship	(22.1%)	(31.3%)
Limited Liability Partnership	(13.5%)	(8.2%)
Partnership	(16.9%)	(5.2%)

On a QoQ basis, except for Public Company, all other categories registered a decline. Public Companies are of two types – Public Company Limited by Guarantee and Public Company Limited by Shares. Those that are limited by guarantee are non-commercial undertakings such as charities, clubs, associations and other organizations of non-profit nature. They do not have share capital and liability of members are limited to the amount of guarantee. Following the usual trend, majority of the public companies formed during the quarter were limited by guarantee.

Registration of Branch Office of foreign companies declined steeply in the quarter, falling by 40.3% on a QoQ basis. The firming economic recovery likely steered the foreign companies to focus on fortifying their businesses in their domestic market; moreover, they typically wait for the countries to unveil their forecast and policy outlook for the upcoming year as predictability of the economic direction of the countries is helpful in planning foreign market expansions. The decline across other categories is normal for the last quarter.

On a YoY basis, except for the Private Limited and Non-Exempt Private Limited Companies all other entities have registered a significant decline. The sharp decline in Sole Proprietorships against the corresponding period in 2016 is largely attributable to the growth in employment.

1.1 Entity type – overview 2017

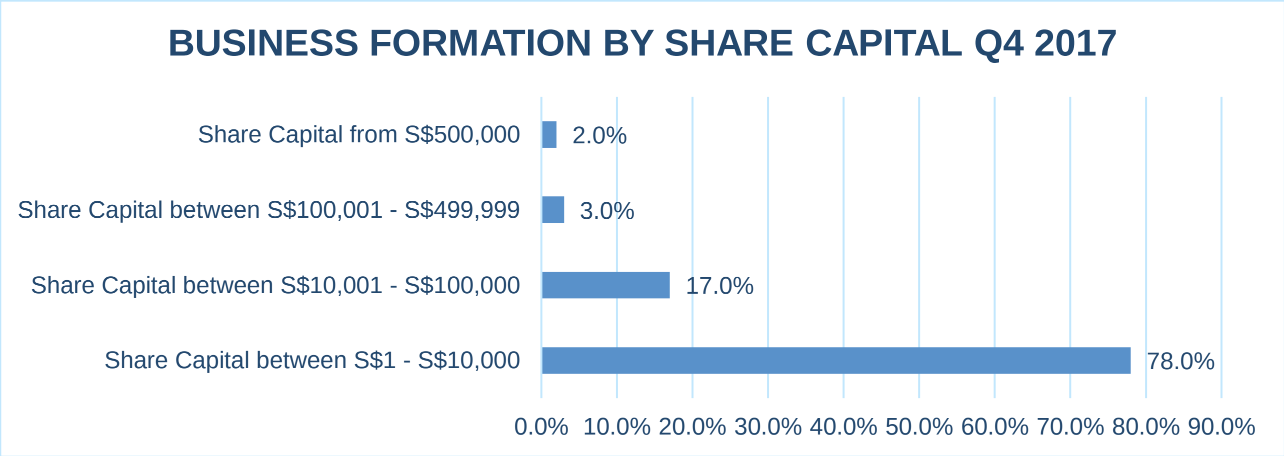


Notably, compared to 2016, more Non-Exempt Private Limited Companies and Public Companies Limited by Guarantee were set up in Singapore during 2017. Particularly, the Non-Exempt Private companies increased by 19% and this is indicative of the fact that more large and medium scale companies were being established in 2017.

The registration of Public Companies Limited by Guarantee increased by 37.4%. The decline in the registration of Sole Proprietorship, LLP, and Partnerships in 2017 alongside the increase in the number of Foreign Company branches is reflective of the sustained global and regional recovery.

2 Share capital

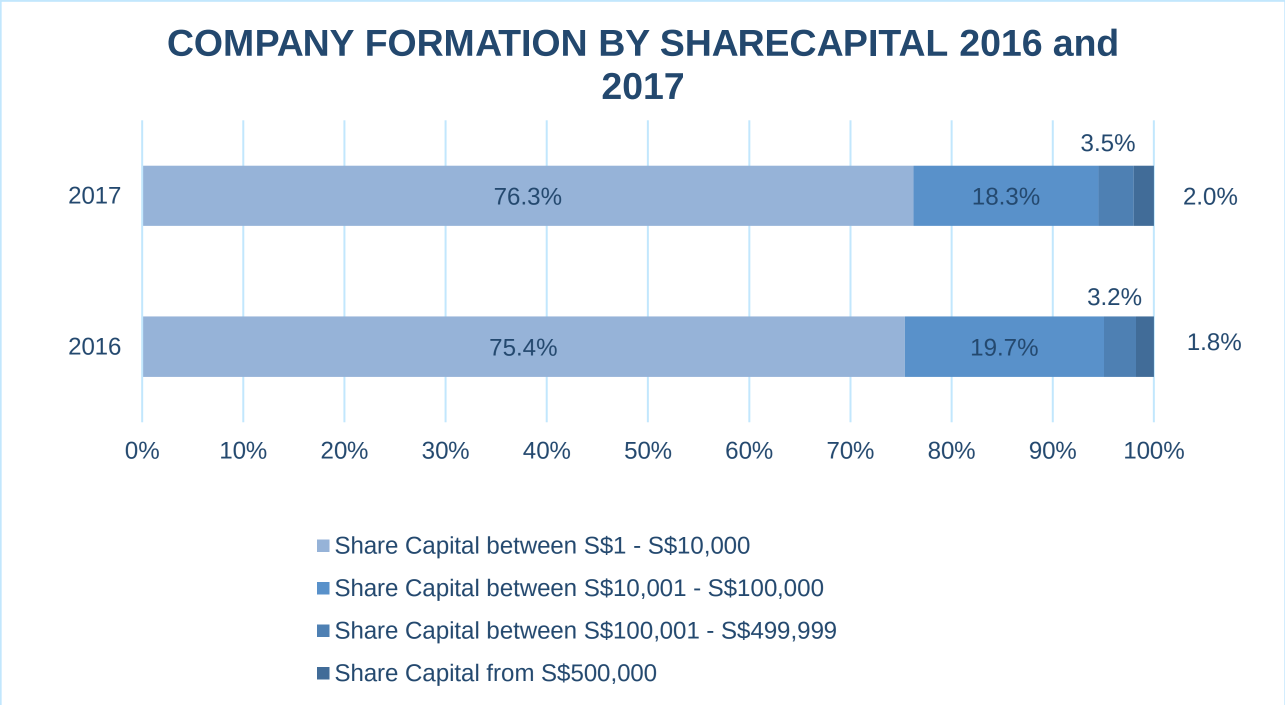
In line with the historical trend, majority of the entities were formed with a share capital of less than S$10,000.



Singapore’s Company Law allows for companies to be established with a share capital S$1. Entrepreneurs and startups capitalize on this provision in the regulatory framework. It also facilitates existing companies to set up separate entities to achieve tax and operating efficiency.

The share of the companies incorporated with less than S$10,000 as share capital, increased by 1.6 percentage point to 78% in Q4. The shares of companies incorporated with share capital of S$10,001-S$100,000marginally decreased by 0.8 percentage point to 17% in the quarter. Also, the share of companies with share capital of S$ 100,001 – S$ 499,999 and those with S$500,000 or more declined by 0.7 percentage point and 0.1 percentage point to 3% and 2% respectively. Typically, the establishment of companies with medium and large business scale remain concentrated in the second the third quarter of the year and tapers in the last quarter.

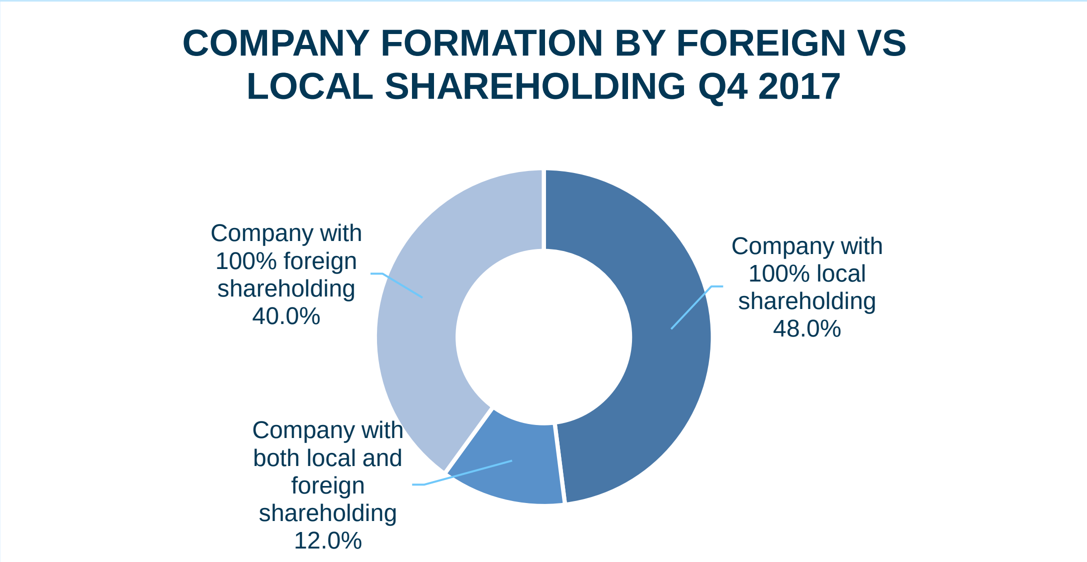
2.1 Share capital – overview 2017



Notably, in 2017, the share of companies formed in higher capital tiers went up marginally. For instance, the share of companies with a capital of more than S$500,000 went up from 1.8% in 2016 to 2.0% in 2017 and the share of companies with capital of S$100,001 to S$499,999 went up from 3.2% to 3.5%. This demonstrates that more large size businesses were being setup in Singapore during 2017. There was also a marginal increase in the share of companies with share capital of less than S$10,000, an increase of 0.9 percentage point over previous year. Correspondingly, there was a drop in the share of companies with share capital S$10,001 – S$100,000 (from 19.7% in 2016 to 18.3% in 2017). The fact that both large scale business formation and small business formation was on the increase indicates that both ends of the spectrum of enterprise was growing, a clear sign of the emergence of balanced growth.

3 Shareholding structure

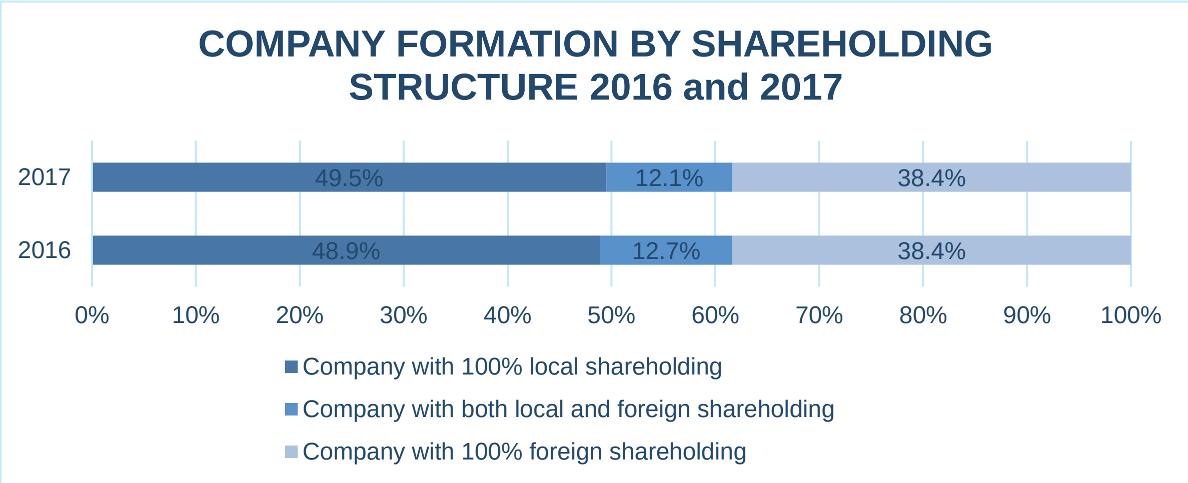
A majority of businesses formed in Q4 2017 were foreign owned, with 40% wholly owned by foreigners and 12% having mixed shareholding of locals and foreigners.



Wholly locally owned companies accounted for 48%. The shares of wholly foreign owned entities increased by 1.9 percentage points to 40% and correspondingly, the share of wholly locally owned companies dropped to 48% from 50% in Q3.

Singapore is a preferred business location for foreigners because it allows for 100% foreign shareholding. It also allows free repatriation of profits and there is no tax on capital gains. More importantly, Singapore's wide network of Avoidance of Double Taxation Treaties with the countries and relatively lower corporate tax rate are very attractive to foreign enterprises and entities setting up companies in Singapore.

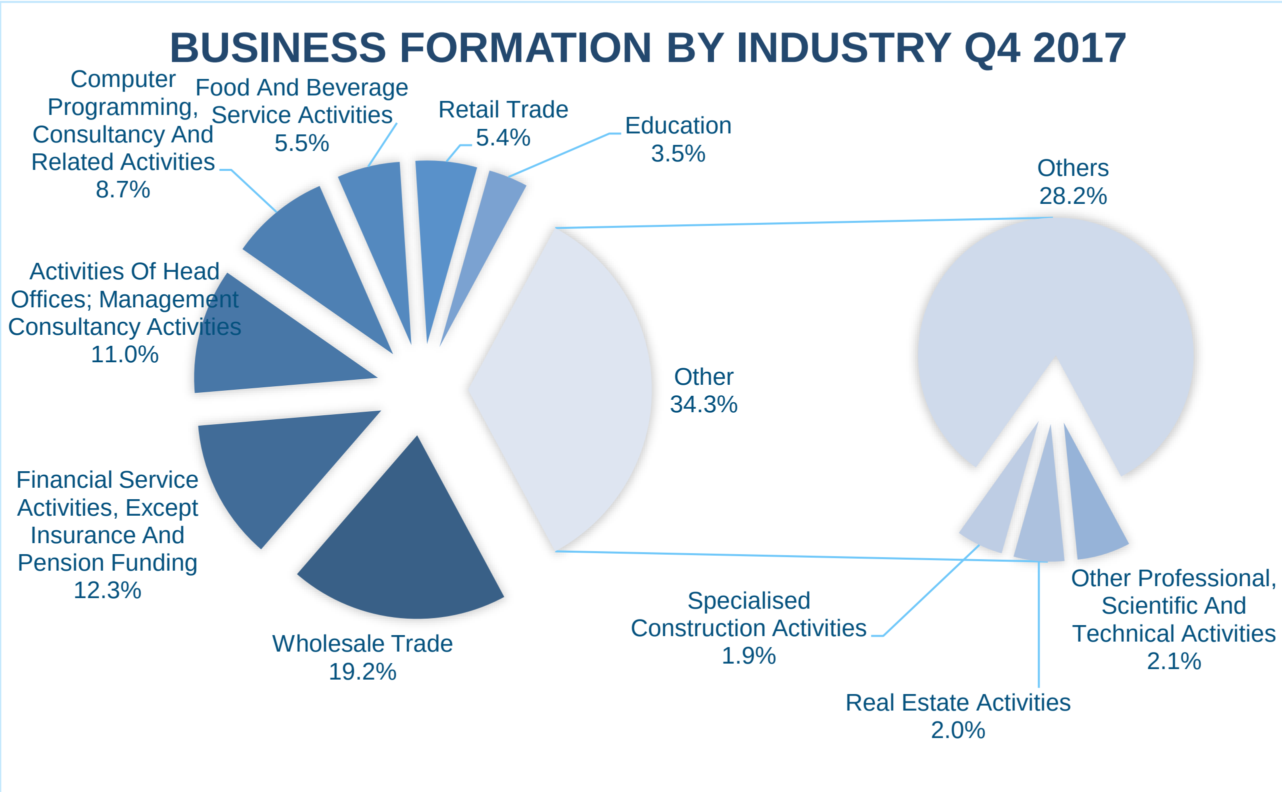
3.1 Shareholding structure - overview 2017



The share of companies with 100% foreign shareholding remained unchanged across both the years while the share of companies with 100% local shareholding increased by 0.6 percentage point to 49.5% in 2017. With the local and regional economies gaining strength, the business opportunities were growing hence the share of wholly locally-owned companies was on the rise. The share of mixed shareholding dropped marginally by 0.6 percentage point to 12.1% in 2017. It is interesting to note that the share of foreign owned business enterprises nearly remained the same regardless of the Fed's reversal of monetary policy. This demonstrates the strength of Singapore as a regional business hub.

4 Industry

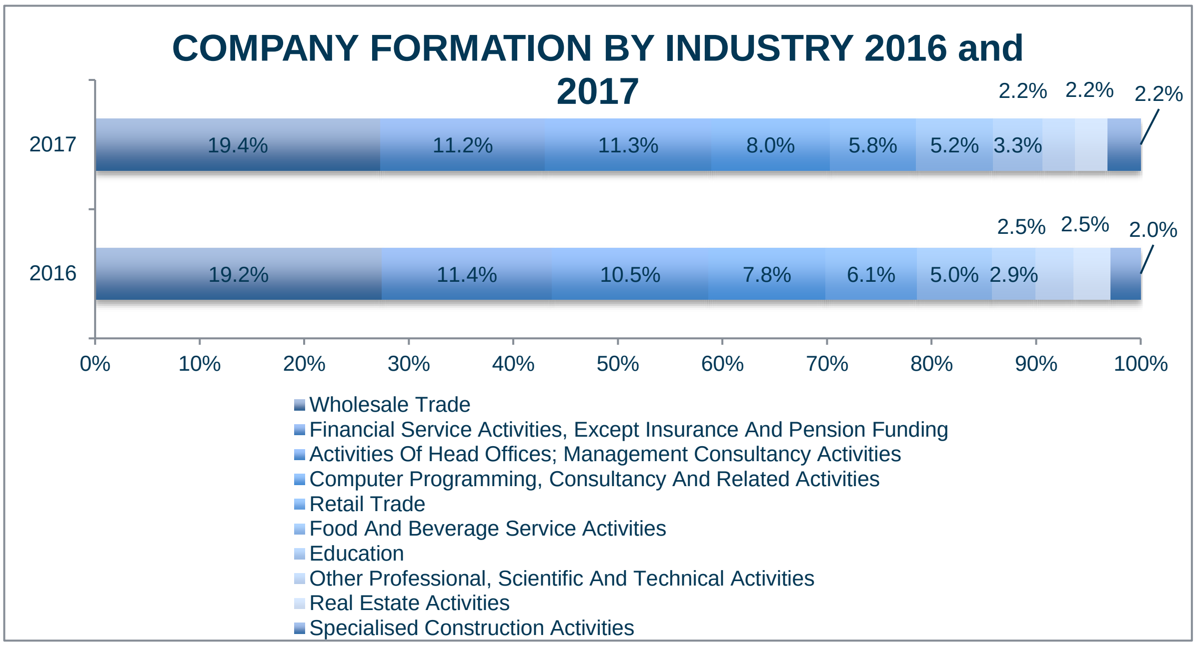
Reaffirming the convention, a maximum number of business formations was in the Wholesale Trade industry, followed by Financial Services and Activities of Head Office and Management consultancy.



In the final quarter, the share of companies in Financial Services activities marginally increased to 12.3% from the 11.4% share held in the preceding quarter. The transparent and robust regulatory environment along with the presence of several international banks and world-class infrastructure and its proximity to the resurgent Asia, where investment opportunities are plenteous, make Singapore an ideal location for setting up financial services business. The extensive network of Avoidance of Double Taxation network and the less intensive tax framework also make Singapore an attractive destination for the ultra-high net worth individuals to park and grow their wealth. Additionally, the sector focused policy reforms and schemes have been instrumental for the strong growth of the sector.

Thanks to the strategic geographic location along the corridors of the west and east, Singapore's supremacy as the distribution hub remains unchallenged and inimitable. Hence, the share of companies formed in the Wholesale Trade sector continued to remain the highest and in the final quarter the share of the sector was 19.2%. The share of Head Office Activities and Management Consultancy sector dipped marginally from 11.3% in preceding quarter to 11% which is typical for the final quarter.

4.1 Industry - overview 2017



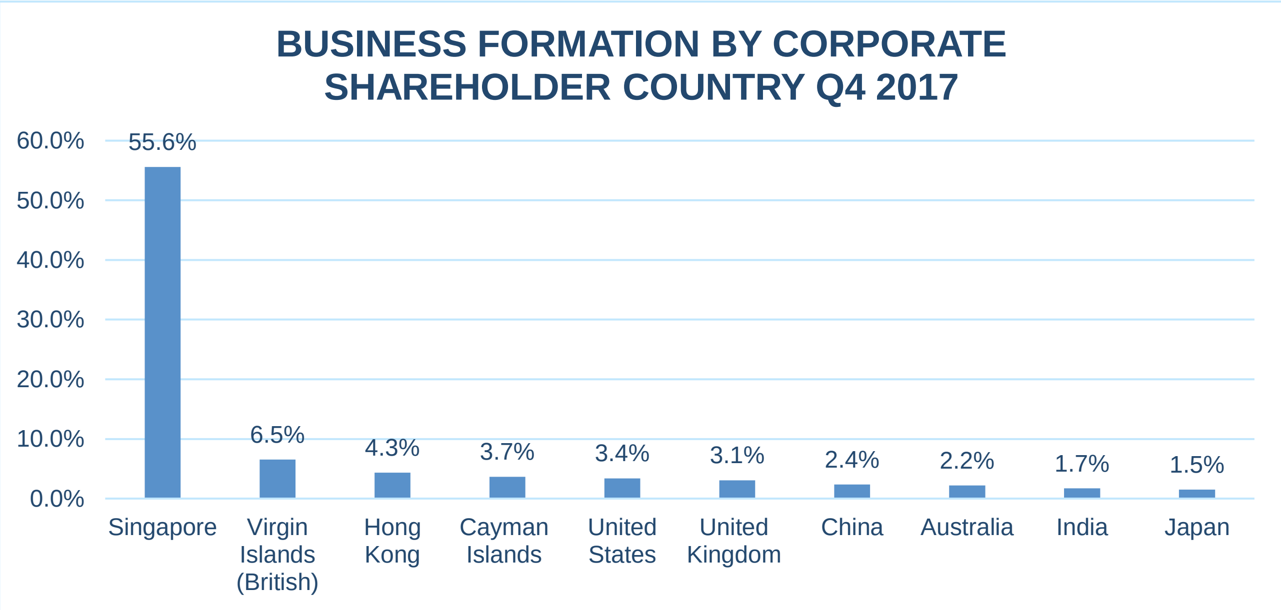
In 2017, the share of all the sectors that are covered for the purpose of this report, had only marginal changes. The Wholesale Trade sector gained by 0.2 percentage points, while financial services activities dropped by the same measure. The Activities of Head Offices and Management Consultancies sector was the top gainer in 2017; it increased by 0.8 percentage point. This was most likely due to large international companies consolidating their position in the region in anticipation of a stronger growth in regional economies aided by global recovery.

The dip in the share of Professional, Scientific and Technical Activities (PST) may likely be due to the impending expiry of the Productivity and Innovation Credit (PIC) scheme, which was a stimulant for the growth of PST services businesses providing customized automation and productivity enhancement solution to companies. Another likely reason is the tightened qualifying criteria for foreign Professional, Managerial, Executive and Technical (PMET) professionals to obtain work pass in Singapore that has resulted in scarcity of talent. The local PMETs are likely absorbed with competitive salaries into the workforce leaving very few to venture on their own; and the paucity of local talent and curbs on foreigners are likely precluding potential foreign start-ups or small foreign enterprises from expanding into Singapore.

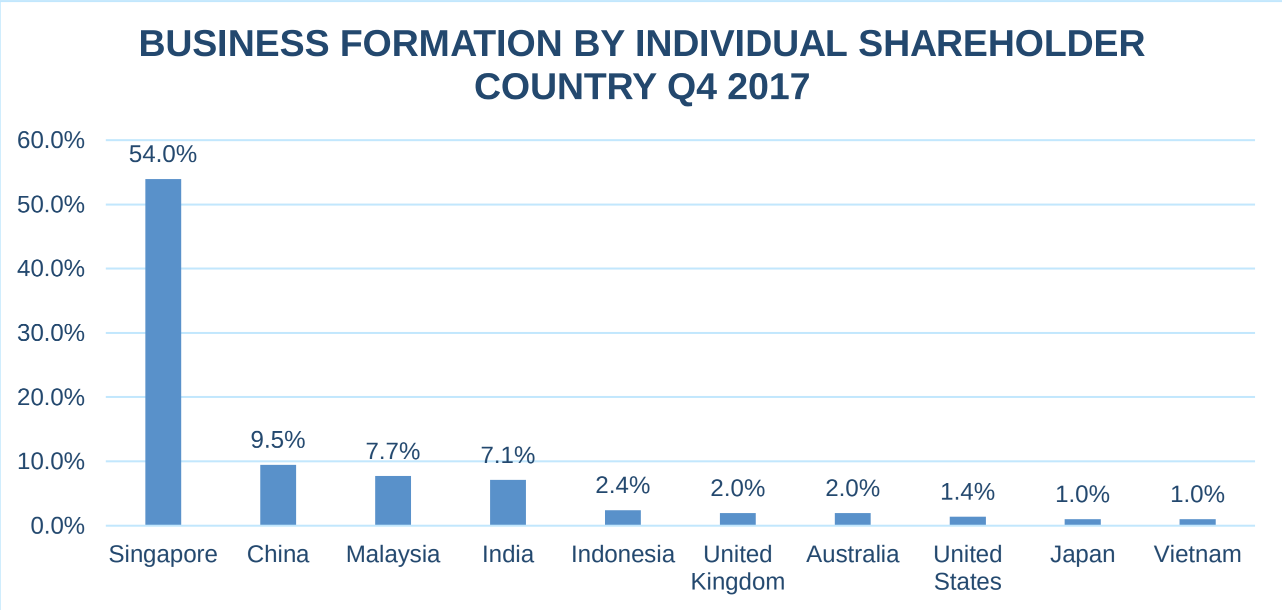
It is of interest to note that while the share of Food and Beverage sector gained 0.2 percentage point in 2017 the Retail Trade sector's share dropped by 0.3 percentage point. The onslaught of ecommerce and the ease of online purchasing has dampened the retail industry, this likely caused the share of the sector to slide in 2017. Notably, the share of the Education sector increased by 0.4 percentage point; government measures to catalyze skills upgrading probably lifted the share of the sector.

5 Shareholders’ Country

The share of foreign subsidiaries in new company formation increased by 2.2 percentage points to 44.4% in the final quarter of 2017.

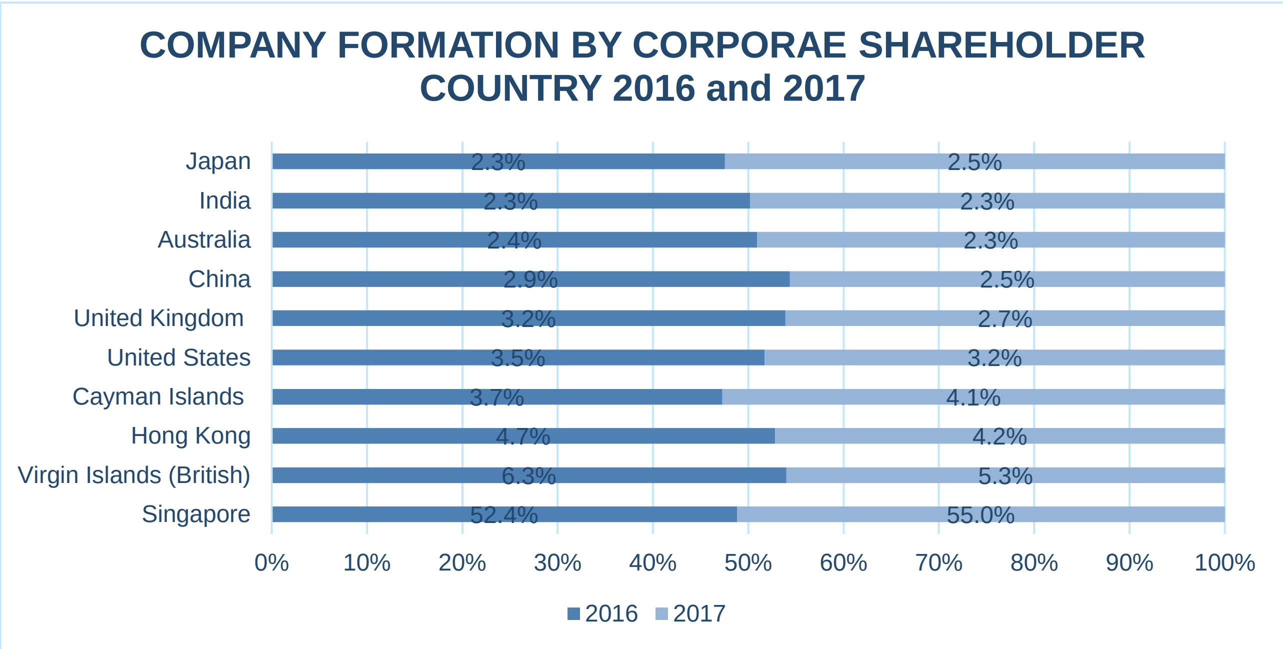


Typically, companies from British Virgin Islands (BVI), Hong Kong, the USA, the UK, China and Australia have set up subsidiaries in Singapore and the final quarter continued to attract companies from these source countries. Notably, territories such as BVI, Hong Kong and Cayman Islands with 6.5%, 4.3% and 3.7% respectively, continued to account for the highest share of foreign subsidiaries formation. During Q4, while the share of BVI and Cayman Islands increased by 1.3 and 0.7 percentage points respectively, the share of Hong Kong declined by 0.3 percentage point; the decline in Hong Kong’s share was likely caused by the decelerating inflow of investment from the mainland China where the government has introduced restrictions on overseas investments and curbs on southbound mutual fund investments.



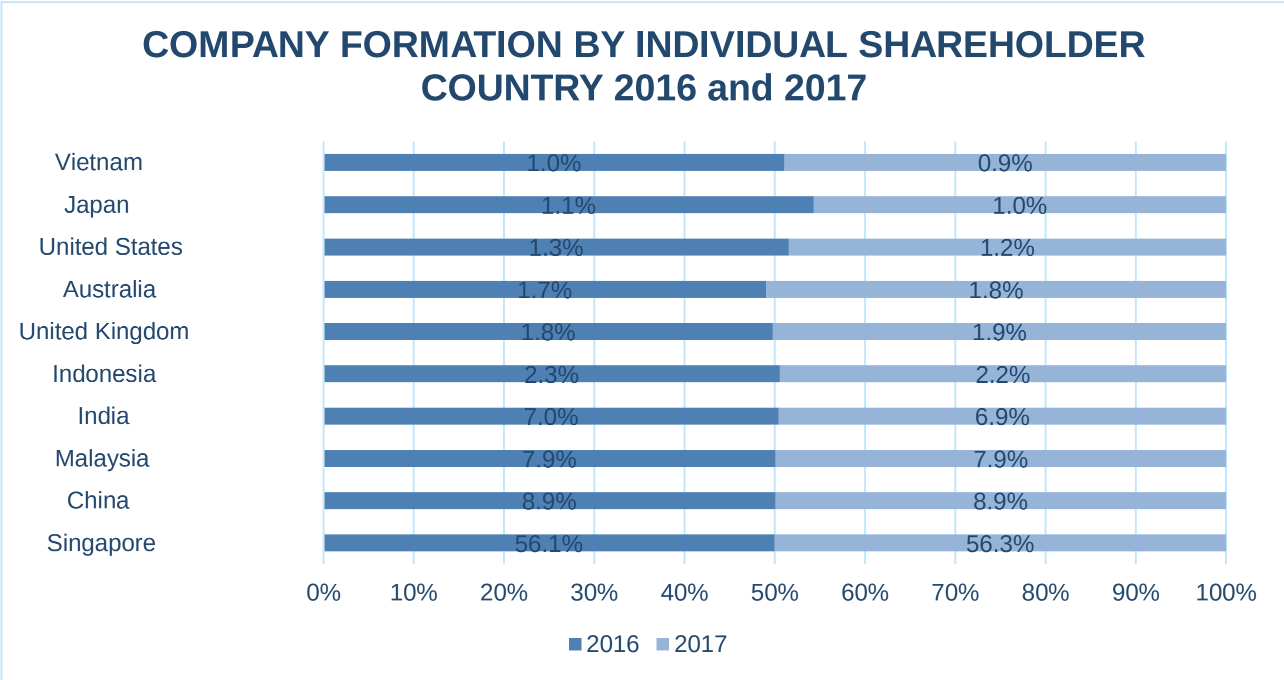
Singapore continued to attract international investors and entrepreneurs. The share of foreign individual shareholders increased from 43.7% in the previous quarter to 46% in the final quarter. China, Malaysia, India and Indonesia continue to remain as the top source countries for individual shareholders. Interestingly, in Q4 the share of both China and India increased by 1.1 and 0.7 percentage point respectively. The structural slowdown in China and reforms induced slowdown in India probably urged the individual investors to look for better prospects in the region. Individual investors were also increasingly coming from diverse source countries such as Japan, Australia, Indonesia, the UK and France.

5.1 Shareholders' Country - Overview 2017



The share of the subsidiaries setup by Singapore companies went up by 2.6 percentage point to 55% in 2017, as against 52.4% in 2016. The local companies went on an expansion mode backed by the strong rebound in the local economy and relatively good regional market conditions. Except Japan, Cayman Islands and India, the share of all countries dropped in 2017. This was likely caused by the Fed rate hikes and the recovery of domestic economies whereby the companies decided to strengthen their home ground before expanding overseas. However, the share of key territories that serve as a conduit for holding companies to manage investments such as BVI and Hong Kong dropped significantly.

Japan's share increased in 2017, most likely the negative interest rates and sluggish domestic economy prompted the companies to establish subsidiaries to explore regional opportunities. India's share remained unchanged during the year and it is attributable to the low lending rates and subdued economic activity.



In 2017, the share of foreign individuals forming company in Singapore dropped marginally from 43.9% in 2016 to 43.7%. The share of the top source countries of individual investors such as China, Malaysia and India remained unchanged, while the share of countries such as the UK, the US, Indonesia and Vietnam dropped negligibly.

Comparison of business formation activities over the last 4 quarters

	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Total Number of Business Registrations	14,115	15,808	15,855	16,096
Exempt Private Limited Company	7,902	7,577	7,670	6,904
Non-Exempt Private Limited Company	1,697	1,558	1,308	1,441
Sole Proprietorship	5,109	5,686	6,049	5,794
Partnership	354	329	347	310
Limited Liability Partnership	607	604	637	572
Public Limited Company	67	55	57	77
Foreign Company Registered in Singapore	72	46	28	49
Registration by Share Capital				
S$1 to S$10,000	78.0%	76.4%	75.8%	75.3%
S$10,001 to S$100,000	17.0%	17.8%	18.8%	19.3%
S$100,001 to S$500,000	3.0%	3.7%	3.5%	3.4%
Above S$500,000	2.0%	2.1%	1.9%	2.0%
Registration by Shareholding				
100% Local Shareholding	48.0%	50.0%	50.0%	50.0%
100% Foreign Shareholding	12.0%	11.9%	11.9%	12.7%
Both Local and Foreign Shareholding	40.0%	38.1%	38.1%	37.3%

Thinking beyond tomorrow

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