Hawksford

Singapore new business trends

Q2 2017

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 Q2 2017.

Economic review Q2 2017

During the second quarter of 2017 global economy strengthened with growth synchronising across countries and industrial activity gathering momentum. There is an upswing in the overall business optimism. The sustained recovery of the US, Federal Reserve's second rate hike, surprising results at the UK parliamentary elections, higher than anticipated growth and optimism in the Eurozone, recovery of Chinese exports and the Indian economy gaining pace after the post-demonetisation lull were the dominant themes of second quarter of 2017.

In the US, the business and consumer sentiments remained upbeat in the second quarter. Unemployment claims fell during the quarter and the jobless rate fell to a 16 year low in May. The Federal Reserve again increased its lending rate for a second time this year despite softening of the inflation rate in the quarter, attributing it to idiosyncratic factors. Economists have revised up the Q1 GDP growth to 1.4% from 1.2% previously and the advance estimates for the second quarter GDP is over 2%. With improving growth pace, the Federal Reserve has indicated further rate hikes for the year.

The economic resilience seen after the Brexit referendum in the UK appears to be gradually fading. Companies are struggling amidst weaker consumer spending, higher costs and shortage of skills. While exports increased, imports have increased at a faster pace resulting in trade deficit. The economy is estimated to have expanded by a paltry 0.3% in the second quarter. The falling value of pound is impacting the household spending by driving up the costs. The surprising result of the snap polls has placed the conservative party led government in a precarious position, adding to the uncertainty that looms over potential investors. The downside risks remain high for the UK.

The Eurozone economy witnessed the strongest quarter in terms of economic data, in the last six years. The export data of the Eurozone economy was strong during the quarter; while Germany's trade surplus increased, France's trade deficit narrowed during the quarter. In Q2, the economic bloc is estimated to have grown by 0.7% as against 0.6% in the preceding quarter. The job market remains buoyant and export growth appears promising and the European Central Bank is optimistic of the growth momentum.

China's economy expanded by 6.9% Year over Year (YoY) in the quarter marking a third consecutive growth quarter, beating estimates. The economy is estimate to have grown by 1.7% on a quarterly basis. Largely, the world's second largest economy has performed well in the first half the year and has gathered enough momentum to tolerate any potential slowdown triggered by tightening of property market and the Government's deleveraging efforts. The resurgent manufacturing sector has been a key contributor to growth and the healthy global demand will keep up the exports growth in the second half of the year.

Fears of an economic slowdown in India have largely dissipated; the Indian economy is estimated to have regained its GDP momentum substantially in the second quarter after a brief deceleration in the preceding quarter following demonetisation. The Reserve Bank of India, which shifted its monetary stand to neutral from accommodative early this year, is anticipated to cut its lending rate in its next meeting in August because of the lower than the targeted inflation rate. Much of the economic growth in the quarter was aided by services sector. The economy will gain further impetus in the second half of the year with the implementation of Goods and Services Tax from 1 July 2017.

Russia, which managed to report a 0.5% YoY growth in the first quarter, likely sustained the recovery in the second quarter as well. Economists estimate its Q2 growth to be around 1% on a YoY basis. The slide of crude prices will take its toll on the oil producing economy.

Brazil, the largest Latin American economy, is turning for the better despite political uncertainty. The second quarter carried on the momentum generated in the first quarter and the growth was largely driven by the manufacturing sector. The recovery will be aided in the second half of the year by the reduction in interest rates.

Japan's recovery was sustained by seventh straight month of export growth helped by global demand and weaker Yen. Its factory output and exports have gathered momentum and manufacturers and business sentiments are upbeat. The GDP estimates for the second quarter hover around 0.5%.

Malaysia's trade performance benefited from the growth in global demand. Malaysia is gaining strongly from the export growth of both commodities and manufactured products. The country is expected to post a growth of over 5% in the second quarter. The benefits of trade surplus appear to have spilled over to the other sectors and reflected in higher domestic consumption.

Thailand's economy is estimated to have maintained the growth momentum, hovering around 3.5% in the quarter. Indonesian economy appears to have grown by over 5% on a YoY basis, largely aided by increase in retail spending due to Ramadan. The Philippines GDP is estimated to have grown at similar level as the first quarter, around 6.5%. Remittance from overseas and government spending on infrastructure continue to boost domestic consumption. Improved exports and rebound in manufacturing will aid the economy's growth in the second half of the year.

According to advance estimates by the Ministry of Trade and Industry (MTI), Singapore's GDP growth on a YoY basis was 2.5% for the second quarter and it is well in line to support the whole year growth forecast.

The first quarter QoQ decline of 1.9% is likely to have been reversed with an estimated 0.4% quarterly growth. Manufacturing sector particularly, precision and electronic segments, continued to drive the growth. Because of the slowdown in the construction sector activities, the construction sector likely contracted by 5.6% on a YoY basis but rebounded by over 4% on a quarterly basis from a 14.4% contraction in the preceding quarter. Supported by the growth in wholesale & retail trade and transportation & storage sector, the Service sector expanded by 1.7% on a YoY basis, faster than the preceding quarter.

The global economic recovery has firmed up in the first half of the year. The major capital markets have largely remained resilient. In the developed western economies there is a broad-based growth in investment and business sentiments. This will continue to improve employment and aid steady growth in consumption raising growth prospects across the globe by accelerating trade and factory output. The prices of commodities will also register a steady rebound in the second half of the year. Regardless of Federal rate hikes, most of the Asian central banks would continue to maintain their accommodative policy. Risks to global outlook could rise mainly from political and policy uncertainties and geo-political tensions.

As for Singapore, the services sector needs to grow sharply to avoid any moderation in the overall economy towards the tail-end of the year. Businesses remain upbeat and buoyed by the sustained global recovery. Although the growth is patchy, the growth spurt in manufacturing and trade-related sectors will eventually spill over to the services sector as well. When economy rebounds after a lull, it is usually the manufacturing and trade sectors that break the inertia and the rest of the sectors will follow the growth trail and add to the momentum. The business formation trend will remain steady and would register a spike towards the end of second half of the year.

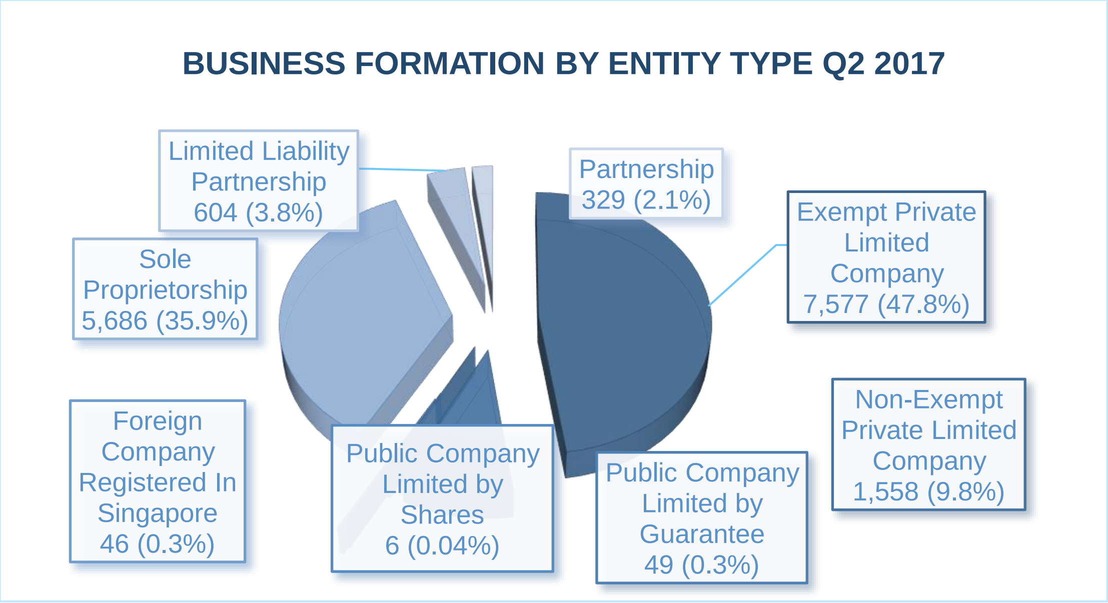
Report highlights

- A total of 15,855 businesses were formed in Q2 2017. Compared to Q1 2017, it showed a slight 1.5% decline.
- With 9,135 registrations, the Private Limited Company category held the largest share of 57.6% among the total businesses formed during the quarter.
- Against Q1 2017, the Private Limited Company category increased by 1.7%. Interestingly, much of the increase was driven by the rise in the number of Non-Exempt Private Limited Companies (NEPC) registered in the second quarter.
- EPC, with 7,577 registrations, accounted for 82.9% of the private companies formed during the quarter. This category also held the largest share of 47.8% in the quarter's total business formation.
- With 1,558 registrations, the formation of Non-Exempt Private Limited Company has sharply increased by 19.1% against Q1 2017. The category accounted for 9.8% share in the total registration.
- Sole Proprietorship, with 5,686 registrations, held the second largest share of 35.9%, declining from the 37.6% share held in the previous quarter.
- The wholly locally owned companies accounted for half of the company formation in the quarter. The share of companies with 100% foreign shareholding increased marginally to 38% from 37% in Q1 2017.
- The Wholesale Trade, Financial Services and Head Office & Management Consultancy Activities sector continue to reign as the top three industry sectors with the largest number of business formations.
- Companies from British Virgin Islands, Australia, Hong Kong, the United States, China, Japan and India were among the top to setup subsidiaries in Singapore during the quarter. The sharp increase in the share of foreign subsidiaries registered in the previous quarter was reversed with the share of Singapore subsidiaries rebounding to 55% in Q2 2017.
- Majority of the foreign individual shareholders were from Malaysia, China, India, Australia and Indonesia. The share of foreign individual shareholders continued to remain at 43% in Q2.

1 Entity Type

A total of 15,855 businesses were formed in Q2 2017, declining by 1.5% over the preceding quarter, during which a total of 16,096 businesses were formed.

Typically, the business formation number moderates in the second quarter but on a YoY basis also the number has declined by 10.1%. However, on a closer analysis we can see that much of the YoY decline is caused by a sharp fall in Sole-proprietorship and Partnership categories; the categories are generally used by small businesses and generally the number spikes only when the economy is underperforming. Overall, the business formation number remains nearly steady and upbeat.



With 9,135 registrations, the Private Limited Company category held the largest share of 57.6% in total businesses formed in Q2. Exempt Private Limited Companies (EPC), with 7,577 registrations held a share of 47.8% in the total number of business formed during the quarter. EPCs accounted for a major share of 82.9% among the private companies formed during the quarter. EPC are companies that are exempted from annual audit and it is the most preferred corporate vehicle among businesses because of the less stringent compliance requirements; it also limits the liability of shareholders.

The share of Non-Exempt Private Limited Companies in total registration increased by 1.7 percentage points against preceding quarter to 9.8% in Q2 2017. A total of 1,558 Non-Exempt Companies were formed during the quarter. As predicted in our Q1 2017 report, the numbers for the category has swung up following the budget. Typically, large companies wait for the budget provisions to gauge the policy direction and calibrate their business strategies and structures accordingly.

Sole Proprietorships with 5,686 registrations held a share of 35.9% in total registration, dropping marginally from the 37.6% share held in the previous quarter. This entity is a popular choice among owners of very small-scale businesses and home-based businesses that are usually less risky because the compliance requirements and costs involved are minimal. Generally, the number of this category goes up during economic uncertainty, when the rate of unemployment and layoffs go up. The fact that this category has dropped reflects well on the economy, which is sustaining the growth momentum gathered from global recovery.

A total of 933 Partnership businesses were formed, of which 604 were Limited Liability Partnerships (LLP). Its share has slightly declined to 3.8% from 4% in the preceding quarter. The LLP type of entity bundles the benefits of both the partnership and limited liability entity, whereby members can pool the capital and resources while limiting their liability and also enjoy the benefits of lenient compliance requirement. With 329 registrations the General Partnership category accounted for a 2.1% of the total registrations in Q2.

46 Foreign Company branch offices were registered in Singapore during the quarter, accounting for 0.3% of the total registration. We rightly predicted an upswing for the category in our preceding report. Generally, foreign companies tread cautiously, observing how the global events and economic data unfold in the first quarter of the financial year and also activate plans for expansions and business structuring after the host country discloses the fiscal and policy direction through its budget.

49 Public Companies Limited by Guarantee and 6 Public Companies Limited by Shares were formed during the quarter, and they held a share of 0.3% and 0.04% respectively. Public Company Limited by Guarantee is commonly used by non-commercial undertakings. Public Companies Limited by Shares can raise capital by offering shares and debentures to the public and need to comply with strict regulatory requirements. The entity is ideal for very large corporations.

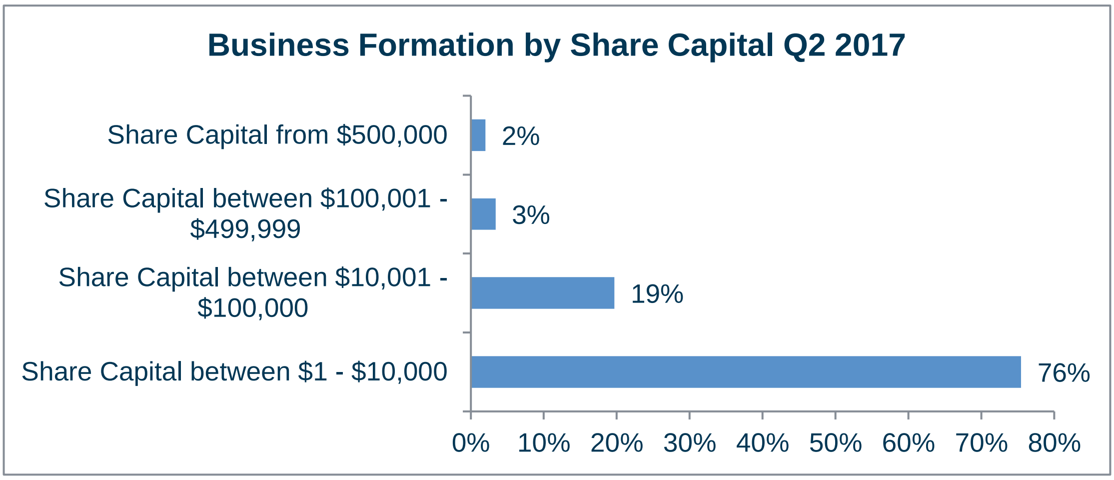
Type of Entity	**Increase/(Decrease) QoQ**	**Increase/(Decrease) YoY**
Exempt Private Limited Company	(1.2%)	(4.1%)
Non-Exempt Private Limited Company	19.1%	8.9%
Public Company	(3.5%)	(8.3%)
Foreign Company Registered In Singapore	64.3%	(19.3%)
Sole Proprietorship	(6.0%)	(19.4%)
Limited Liability Partnership	(5.2%)	(9.2%)
Partnership	(5.2%)	(27.4%)

On a Quarter on Quarter (QoQ) basis, except for the Non-Exempt Private Limited Company and Foreign Company categories, all other categories marked a decline. Sharpest decline was registered in Sole Proprietorship followed by Partnership categories. As stated earlier, the global economic rebound has boosted the business confidence among enterprises and entrepreneurs. This is evident from the growth of Non-Exempt Private Limited companies, which are generally large businesses. Also, the number of Branch offices of Foreign Companies registered in Singapore has gone up this quarter, underpinning the reputation of Singapore as a hub and launch pad for regional business operations. The sharp decline in Sole proprietorship and Partnership conveys the resurgence of domestic economy.

On a Year on Year (YoY) basis, except for Non-Exempt Private Limited Company all other categories have marked a decline. While the economy is rebounding the growth remains patchy, hence most small and medium businesses and entrepreneurs would wish to move cautiously. Also, the Federal Reserve has hiked the rates triggering concerns of potential tightening. The decline in registration of EPCs and Foreign Company branch offices against Q2 2016 is attributable to the cautionary approach over rate hikes. The decline across Sole Proprietorships and Partnerships categories is largely corrective in nature. The registration of small entities such as Sole Proprietorship and Partnership normally increases when the economy is subpar and unemployment and layoff rates are high. The YoY upswing in Non-Exempt Private Limited companies testifies the business confidence and an uptick in Singapore’s economy.

2 Share capital

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

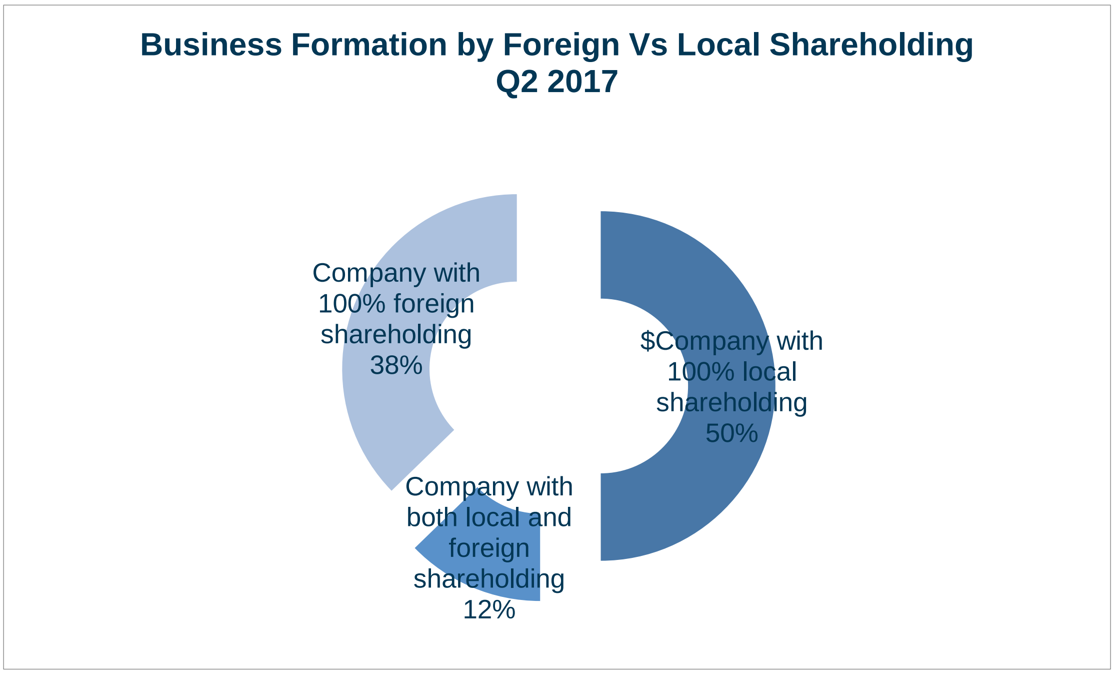


The minimum capital requirement for registering a company in Singapore is just S$1. Entrepreneurs and small businesses find it immensely benefiting. Many Sole Proprietors upgrade their business entity to EPCs when they find their business growing or foresee potential business expansion. This nominal requirement of paid-up capital facilitates easy and almost instantaneous incorporation without having to scramble for capital. This is one of the key reasons that Singapore is consistently ranked as the easiest place in Asia (second easiest in the world) to do business in the World Bank's Doing Business survey.

In Q2 of 2017, 76% of the company formations had a share capital of less than S$10,000; it slightly increased from 75% share held in Q1 of 2017. The share of companies formed with a share capital of S$10,001 – S$100,000 dropped by one percentage point to 19% against 20% in Q1 2017. The share of other capital tiers covered in the report remained unchanged against preceding quarter.

3 Shareholding structure

The share of wholly locally owned companies and the share of companies with foreign ownership were equal in Q2 2017.

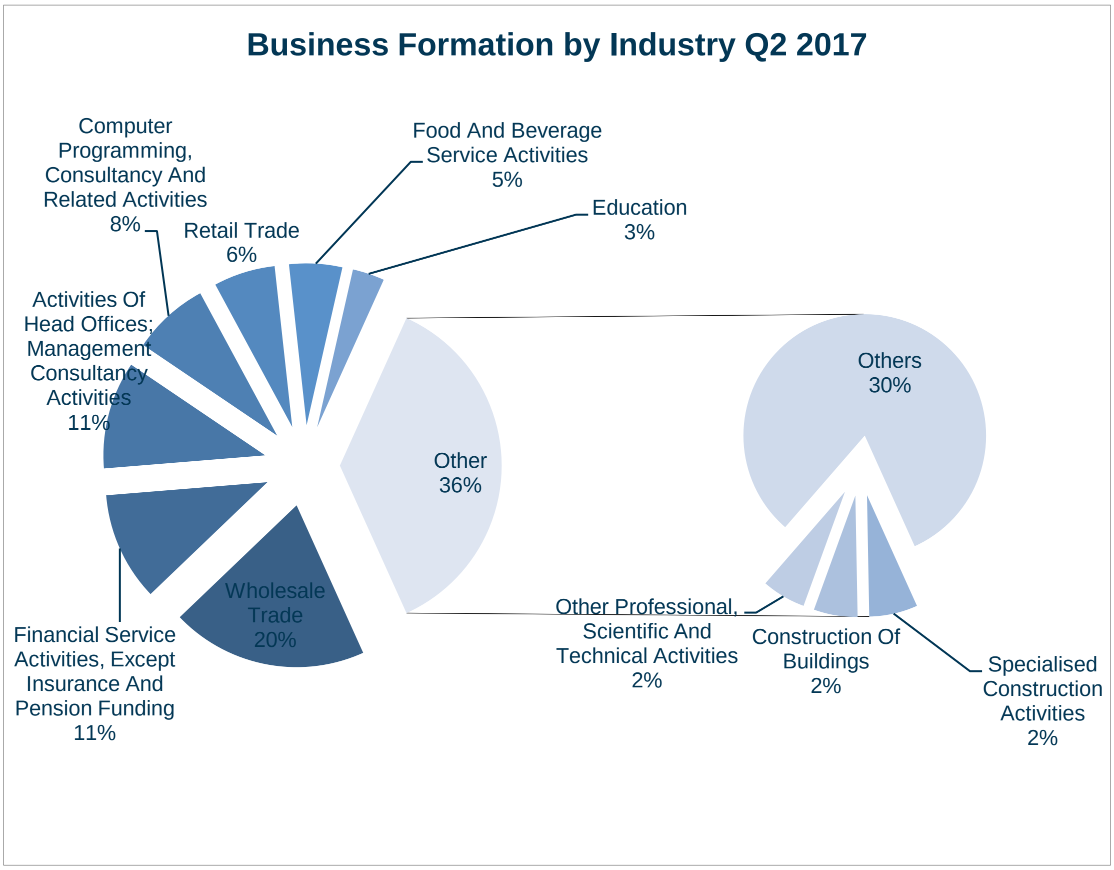


While the share of wholly locally owned companies was 50%, the share of wholly foreign held companies increased marginally to 38% from 37% in Q2 2017. The share of companies with mixed shareholding marginally dropped to 12% against 13% in the preceding quarter.

The continued global recovery and rebounding of the regional economies and the accommodative monetary policy of the Asian central banks and the governments' spending on infrastructure reflects well on the regional business prospects, hence the share of foreign owned companies remains steady.

4 Industry

Wholesale Trade industry, followed by Financial Services sector and Activities of Head Office & Management consultancy continued to dominate with highest share of businesses formed.



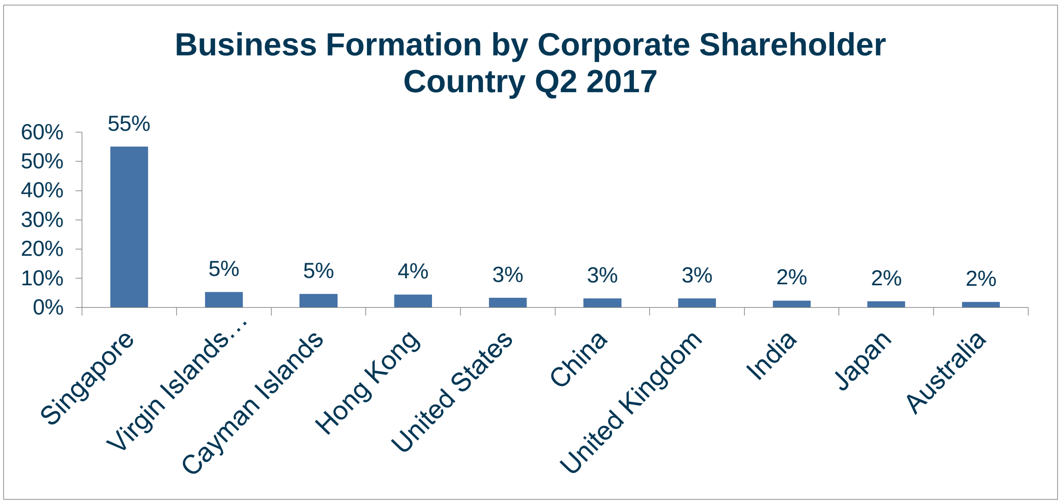
The share of Wholesale Trade went up marginally to 20%, against 19% in Q1, reflective of the surge in global trading but the share of Financial Services sector dropped from 12% to 11%, the rate hike is attributable to the decline but this is merely transitory and would rebound if regional recovery strengthens further in the second half of the year.

The 11% share held in the Q2 by Activities of Head Office & Management Consultancy sector, recorded an increase of one percentage point over the preceding quarter. Besides the geographic proximity to the robust Asian economies, Singapore offers several tax incentives for stationing head office and treasury activities in Singapore. The world-class infrastructure, English-speaking workforce and robust judicial regime bring operational efficiency to locate head office operations in Singapore.

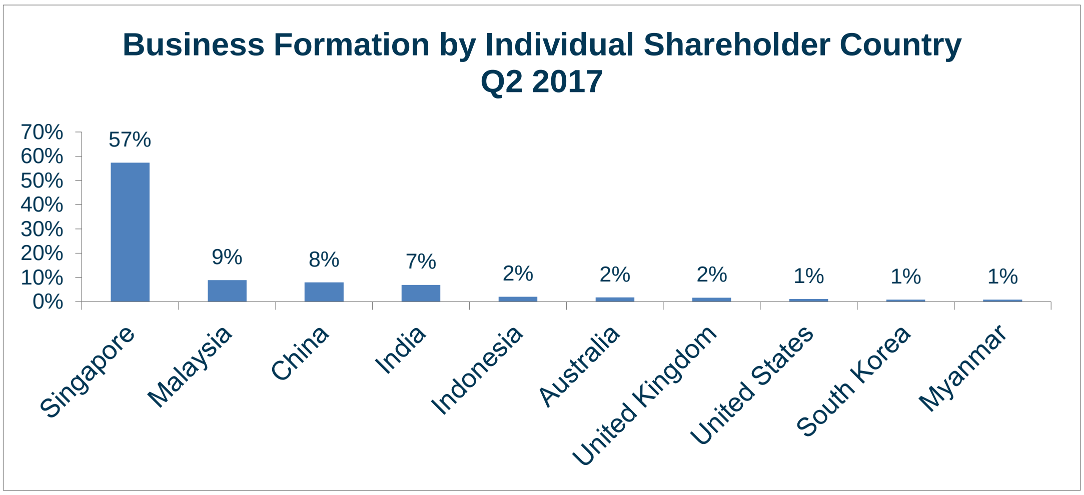
The share of other top sectors remained unchanged.

5 Shareholders' Country

55% of the subsidiaries formed in Singapore had Singapore corporate shareholders.



With 45%, the share of foreign subsidiaries dropped by four percentage points over Q1 2017. In Q2, British Virgin Islands and Cayman Islands, with a share of 5% each, and Hong Kong, with a share of 4%, were the top foreign source countries/jurisdictions of subsidiaries. The share of all source countries/jurisdictions, except that of China and Cayman Islands, dropped in the quarter. Broad-based and sustained global recovery may have prompted companies to focus domestically.



In Q2 the share of Singaporean shareholders and foreign shareholders remained unchanged at 57% and 43% respectively. Singapore continued to attract individual investors and entrepreneurs from Malaysia, China, India, and Australia. The share of the source countries remained largely unchanged against preceding quarter.

Comparison of business formation activities over the last 4 quarters

	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Total Number of Business Registrations	15,855	16,096	15,147	16,603
Exempt Private Limited Company	7,577	7,670	6,904	7,488
Non-Exempt Private Limited Company	1,558	1,308	1,441	1,397
Sole Proprietorship	5,686	6,049	5,794	6,157
Partnership	329	347	310	346
Limited Liability Partnership	604	637	572	591
Public Limited Company	55	57	77	52
Foreign Company Registered in Singapore	46	28	49	32
Registration by Share Capital				
S$1 to S$10,000	76%	75%	76%	76%
S$10,001 to S$100,000	19%	20%	19%	19%
S$100,001 to S$500,000	3%	3%	3%	4%
Above S$500,000	2%	2%	2%	1%
Registration by Shareholding				
100% Local Shareholding	50%	50%	48%	49%
100% Foreign Shareholding	12%	13%	12%	38%
Both Local and Foreign Shareholding	38%	37%	40%	13%

Thinking beyond tomorrow

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