Hawksford

Singapore new business trends

Q3 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 Q3 2017.

Economic review Q3 2017

The second half of 2017 has commenced with a positive note; the global recovery further firmed up in the Q3 of 2017 and the growth has become broad-based with strong numbers being reported by both developed and emerging economies. The sustained global recovery, the economic blow caused by hurricanes in the United States, Bank of England's strong signals of potential rate hike, Catalonian referendum, reforms induced slowdown in Indian economy, China's steady recovery, business optimism of the Eurozone and the central banks of the emerging economies mostly resorting to a neutral stand with respect to lending rates were the dominant themes of second quarter of 2017.

In the USA, the Q2 GDP growth at 3.1% hit a two-year high. Following this, the forecast for Q3 remained upbeat; however, the hurricanes Irma and Harvey that slammed the south-east coast of the country swept away a portion of the growth pace. Hence, the Q3 GDP growth will likely hover around 2.5%. Nevertheless, the economic fundamentals remain robust and the economists are confident that the fourth quarter would recoup the lost pace, partly aided by the economic response to the damage inflicted by the hurricanes. Consequently, the economy would likely achieve the state-set annualised target of 3%.

Economic growth in the UK gathered further momentum in Q3 and may have likely expanded by 0.4%. The unemployment rate fell to a record low during the quarter and the manufacturing sector registered strongest growth. Howsoever, the economic uncertainty triggered by Brexit still remains. The Bank of England would most likely proceed with its plans to hike the interest rate, if it does, we can anticipate two rate hikes by mid-2018.

The Eurozone area continued to enjoy its best phase of economic spell in the quarter aided by strong manufacturing output. The services Purchase Managers Index (PMI) dropped but underpinned by the strong exporter orders, the manufacturing PMI shot up above 57 points during the quarter. In Q3, the economic bloc is estimated to have grown by 0.5%. The European Central Bank anticipates the bloc to register an annualised growth of 2.2% for the year, highest in the decade. The Spanish skirmish over Catalonian referendum has raised concern in the Eurozone and its members are watching the developments closely. Germany, the star performer in the bloc, likely posted its best numbers in the recent years during the quarter.

Beating estimates, China's economy expanded by 6.9% Year-over-Year (YoY) in the second quarter, marking a third consecutive growth quarter. In Q3, it is likely to have to have grown by 1.7% on a quarterly basis. The world's second largest economy is on track to meet the full year GDP target of 6.5%. Though there were some slowdown, especially in property and infrastructure sector, caused by the government's measures to fight debt risk, the upswing in the manufacturing sector has made up for the dip. It must be noted that the central bank governor has suggested that the economy would achieve a full-year growth of 7%.

The implementation of Goods and Services Tax (GST) in India, soon after the demonetisation drive, appears to have disrupted the growth momentum of the country. Most of the economists have downgraded the GDP forecast, to 6.8% from 7.3%, for the whole year. The short spell of monsoon affected the seasonal agricultural output and the industrial and manufacturing output were also moderated during the quarter – manufacturers were largely clearing the inventory while adapting to the newly implemented GST. The central bank continued to maintain a neutral stand and its surveys have revealed that the consumer and business sentiments remain optimistic for the fourth quarter.

Russia likely sustained a sixth straight quarter of growth aided by the firming oil prices and accommodative monetary policy. The Russian economy is estimated to have expanded by 2.5%. Brazil, the largest Latin American economy, emerged from recession in the preceding quarter and managed to expand in Q3 as well and its composite PMI shot up beyond the 50 to indicate the expansionary mode of the economy.

Japan's economy is likely to have expanded by slightly over 1% in Q3, slower than the preceding quarter's annualised growth of 2.5%. Considering the fact that the Q2 growth was exceptionally strong, the Q3 growth likely sustained the pace of Japan's recovery. Buoyed by the global demand, its factory output and exports have gathered momentum and manufacturers and business sentiments remain upbeat.

Although Malaysia's trade performance benefited from the growth in global demand in Q2, the preliminary estimates indicate a slight dip in the Q3; it is likely to hover around 5.3%. The manufacturing PMI dropped below the 50-point threshold in September. However, with recovery in global trade sustained and more positive growth potential, Malaysia will likely regain the momentum in Q4.

Driven by the recovery in exports, continued growth of tourism and household income, the economy of Thailand expanded in Q3 and the government has revised up the forecast for the whole year to 3.9% from the earlier estimate of 3.6%. The Thai Baht has been strengthening against the US dollars during the year but the stronger currency has not dented the country's export competitiveness yet. The central bank ignored the government's call to slash lending rates and has maintained the rate.

Indonesian economy likely grew by 5.1% in the quarter largely aided by private consumption. The central bank with an aim of boosting credit induced growth, slashed the lending rate by 25 basis points to 4.5%. The Philippines GDP growth is estimated to have dropped compared to the previous quarter, and the weak Peso affected manufacturers by pushing up the input costs. While foreign investments and expansion of foreign businesses in the Philippines have plummeted, the business sentiments of the locals still remain upbeat.

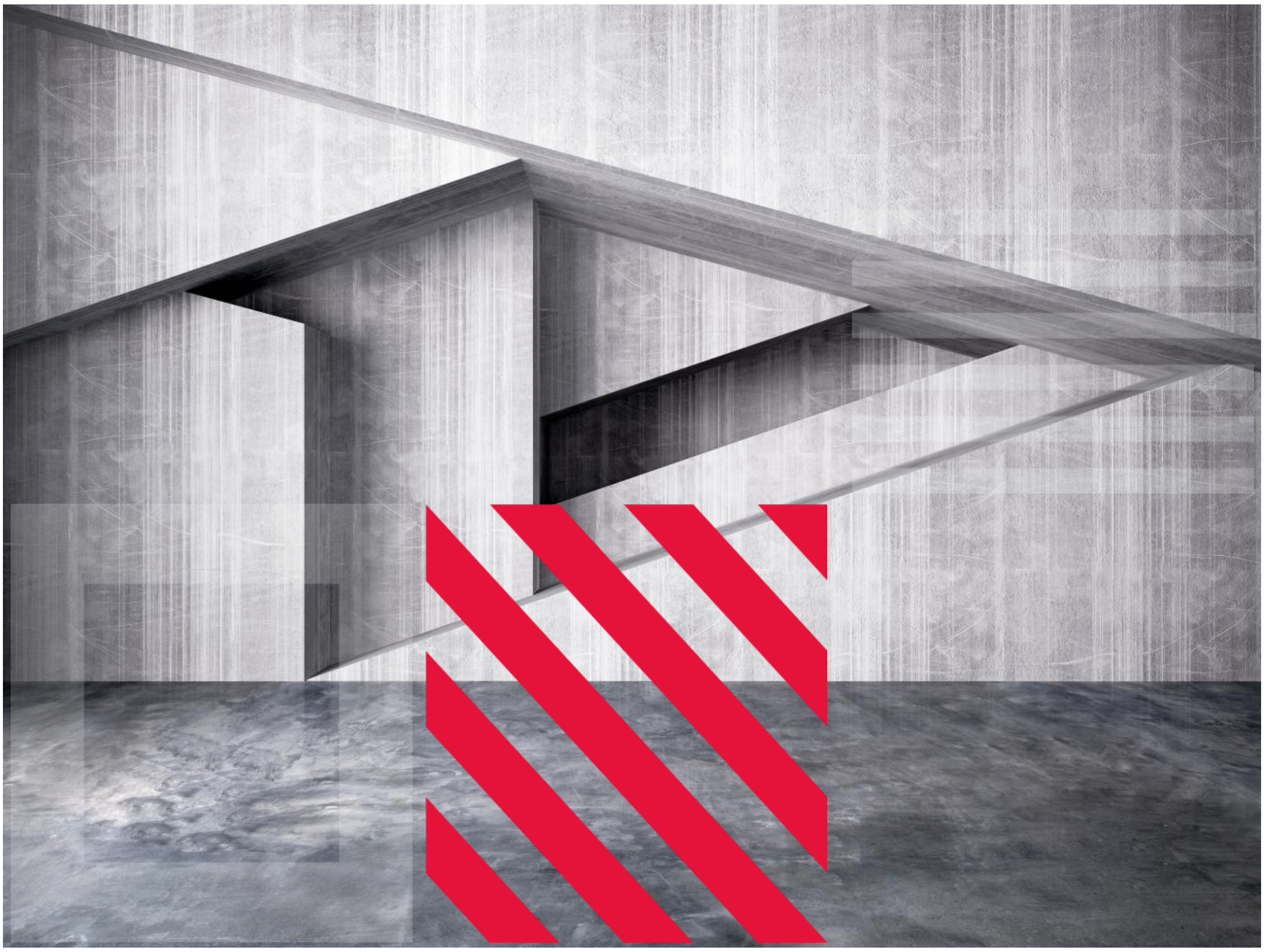
According to advance estimates by the Ministry of Trade and Industry (MTI), Singapore's Q3 GDP growth, on an annualised basis was 6.3% over Q2 and 4.6% on a YoY basis. Manufacturing sector, particularly, precision, bio-medical and electronic segments, continued to drive the growth. The growth phenomenon also extended to the service sector but the construction sector continued to decline. Overall, the expansion is the strongest since Q1 2014. The Monetary Authority of Singapore (MAS) maintained its neutral stand. The forecast for the whole year has now been narrowed to 2%-3% from the earlier 1%-3%, it must be noted that the upside of the forecast remains unchanged, indicative of a likely moderation in the last quarter of 2017.

The global economy has progressed into the second half of 2017 with the recovery firming up further. There is a broad-based optimism and growth signals are strong across both developing and developed markets as the fundamental drivers of economy gain strength. However, we can anticipate a moderation in the pace of growth in the upcoming quarters as the base effect tapers and economies settle into normalisation mode. As growth becomes further entrenched, the central banks of major economies will shift from being accommodative to tightening, essentially to prevent the economy from becoming too hot. Risks to global outlook could rise mainly from political and policy uncertainties and geo-political tensions.

As for Singapore, our forecast remains unchanged. The services sector needs to grow sharply to avoid any moderation in the overall economy towards the tail-end of the year. Though businesses remain upbeat and buoyed by the sustained global recovery, they have to enhance productivity and control cost to remain competitive against other regional economies. It is worthy to note that in our earlier report we had predicted that the services sector would soon catch up with the manufacturing and trading sector and the sector has managed to retain the pace in Q3. Driven by the global recovery, the sector would significantly enhance its pace by the end of the year. The business formation trend will remain steady and would register a spike towards the end of second half of the year.

Report highlights

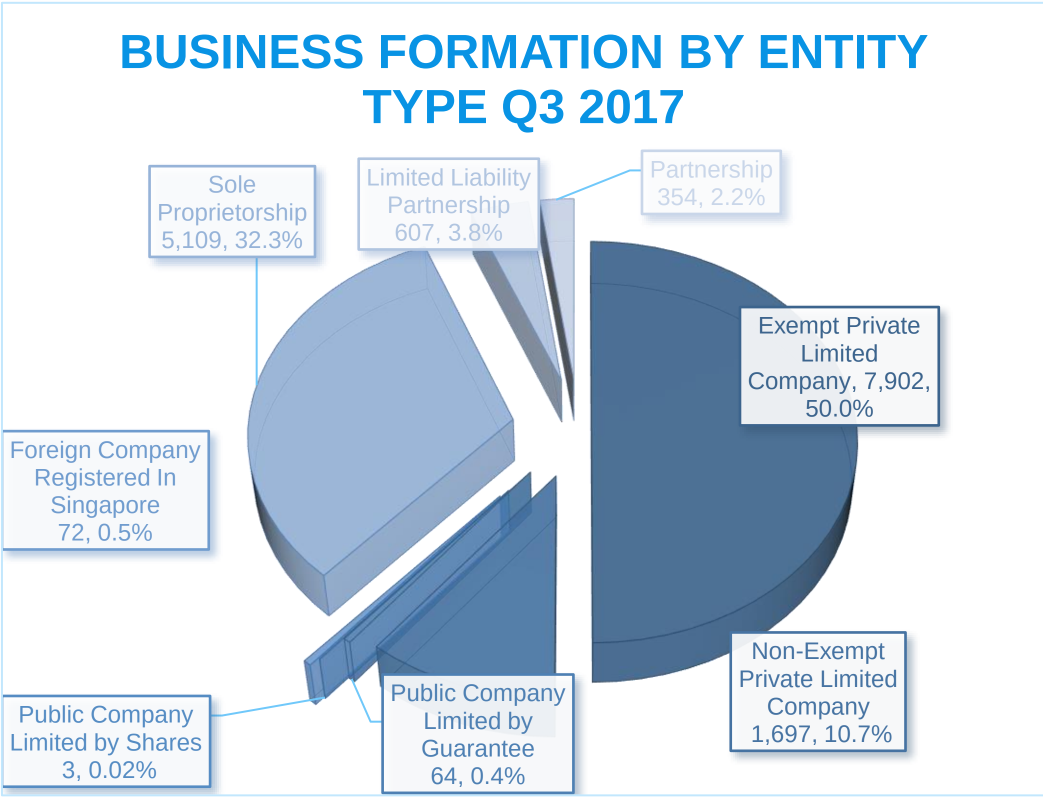
- In Q3 2017, a total of 15,808 new businesses were formed; a negligible drop of 0.3% compared to the preceding quarter figure of 15,855.
- With 9,599 registrations, the Private Limited Company category held the largest share of 60.7% among the total businesses formed during the quarter.
- Against Q2 2017, the Private Limited Company category increased sharply by 5.1% in Q3.
- With 50% share, the Exempt Private Companies (EPC) accounted for half of new businesses formed during the quarter; with 7,902 registrations, the EPCs accounted for 82.3% of the private companies formed during the quarter.
- With 1,697 registrations, the formation of Non-Exempt Private Limited Company has increased by 8.9% against Q2. The category accounted for 10.7% share in the total registration.
- Sole Proprietorship, with 5,109 registrations, held the second largest share of 32.3%, declining from the 35.9% 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 remained unchanged from the preceding quarter.
- 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 jurisdictions such as British Virgin Islands, Cayman Islands and Hong Kong accounted for most of the subsidiaries setup in Singapore during the quarter. The share of local subsidiaries increased from 55.1% in the preceding quarter to 57.8% in Q3.
- Majority of the foreign individual shareholders were from Malaysia, China, India, Australia and Indonesia. The share of foreign individual shareholders increased marginally to 43.7% in Q3 as against 42.6% in Q2.



1 Entity Type

A total of 15,808 businesses were formed in Q3 2017, declining negligibly by 0.3% over the preceding quarter, during which a total of 15,855 businesses were formed.

Compared to the corresponding quarter in 2016, it has declined by 1.6%. However, on a closer analysis, we can see that both the Quarter over Quarter (QoQ) as well as the YoY decline are caused by a fall in the number of Sole-proprietorship formation. Sole Proprietorship is largely used by small businesses and entrepreneurs and the numbers typically go up when the economy is subpar and the unemployment rate is high. The formation of private limited companies, which accurately reflects the business optimism in the country, remains robust and has actually increased compared to preceding quarter. Overall, the business formation trend remains resilient underpinned by the firming recovery of global and domestic economy.



With 9,599 registrations, the Private Limited Company category held the largest share of 60.7% amongst the total businesses formed in Q3. Exempt Private Limited Companies (EPC), with 7,902 registrations held a share of 50.0% in the total number of business formed during the quarter. EPCs accounted for a major share of 82.3% among the private companies formed during the quarter. It is slightly lower than the 82.9% share held in the preceding quarter. EPC companies have less ongoing compliance formalities, hence it is the most preferred corporate vehicle.

In Q3 2017, the share of Non-Exempt Private Limited Companies in total registration increased by 0.9 percentage point against preceding quarter to 10.7% in Q2 2017. A total of 1,697 Non-Exempt Companies were formed during the quarter. The increase in the number of Non-Exempt companies significantly contributed to the rise in the number of Private Limited Companies in Q3.

Sole Proprietorships with 5,109 registrations held a share of 32.3% in total registration, dropping marginally from the 35.9% share held in the previous quarter. Small business persons generally prefer this business vehicle because it is less expensive to set up and the on-going compliance is minimal. However, as the vehicle does not restrict the liability of the owner, this entity type would not suit a business that entails considerable risk of litigation. The formation of this entity is typically high during tough economic conditions when the unemployment rate goes up and layoffs increase. Those who are not able to find jobs in the regular job market venture out on their own as small traders, or service providers. Nevertheless, this is a very convenient business vehicle for the self-employed people who do not wish to incur high compliance cost yet would like to render a formal identity to their business.

A total of 961 Partnership businesses were formed in Q3 2017. 607 were Limited Liability Partnerships (LLP) and this category continued to hold on to its share of 3.8% it held in the preceding quarter. With 354 registrations, the General Partnership category accounted for a 2.2% of the total registrations in Q2. It is worthy to note that unlike the LLP, which allows for pooling of capital and resources from unlimited partners while also limiting the liability of shareholding partners, a general partnership cannot have more than 20 shareholders and most importantly, the liability of the partners is unlimited.

72 Foreign Company branch offices were registered in Singapore during the quarter, accounting for 0.5% of the total registration. Foreign companies are buoyed by the sustained recovery in the global economy and Singapore’s resilient and conducive business fundamentals and regional trade relationship. In Q4 2017, we anticipate that more of such branch offices will be set up before moderating in the subsequent quarter.

64 Public Companies Limited by Guarantee and 3 Public Companies Limited by Shares were formed during the quarter, and they held a share of 0.4% and 0.02% respectively. Public Companies Limited by Shares are subjected to strict regulation as they issue shares and raise capital from the public. This vehicle is for large corporations, it is typical of this category to moderate beyond the second quarter as large business plans are concentrated in the second and third quarter of the year.

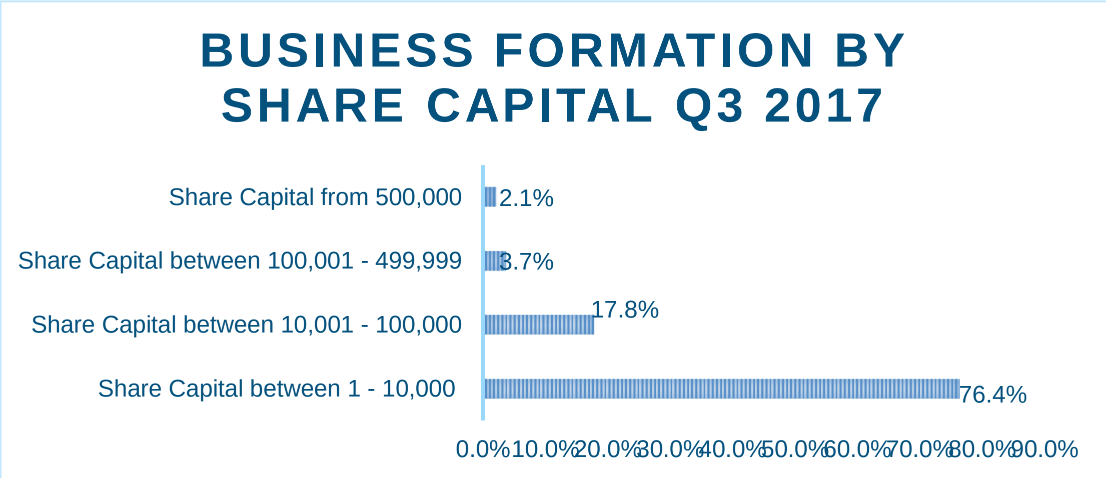
Type of Entity	**Increase/(Decrease) QoQ**	**Increase/(Decrease) YoY**
Exempt Private Limited Company	4.3%	5.5%
Non-Exempt Private Limited Company	8.9%	21.5%
Public Company	21.8%	28.8%
Foreign Company Registered In Singapore	56.5%	125%
Sole Proprietorship	(10.1%)	(17.0%)
Limited Liability Partnership	0.5%	2.7%
Partnership	7.6%	2.3%

On a Quarter on Quarter (QoQ) basis, except for the Sole Proprietorship category all other entities increased, with a sharp increase in Foreign Company branch offices registered in Singapore. The global recovery has spurred the international companies to go ahead on an expansionary mode and as Asia continues to be the market and manufacturing centre, Singapore is a natural fit for such branch offices. Next significant increase is in the registration of Public Company but majority of the companies registered during the quarter were companies limited by guarantee. These companies are used for non-commercial purposes such as non-profits, associations and charities. It is of interest to note that the number of new Non-Exempt Private companies have significantly increased compared to previous quarter; these companies are considerably large-scale businesses. The rise in the number of Foreign Company branch offices and Non-Exempt Private Limited Company are reflective of Singapore's strong business climate.

On a Year on Year (YoY) basis, except for Sole Proprietorship all other categories have markedly increased. Again, the number of branches offices of Foreign Companies and Non-Exempt Private Limited Companies formed in Q3 2017 shot up by 125% and 21.5% respectively. Also, the number of new businesses in other categories have also gone up, this bodes well for the businesses as it indicates that the growth momentum is much improved compared to the same time in the preceding year and the business sentiments are upbeat among both large and small businesses.

2 Share capital

76.4%, of the new companies registered were entities with a share capital of S$10,000 or less.

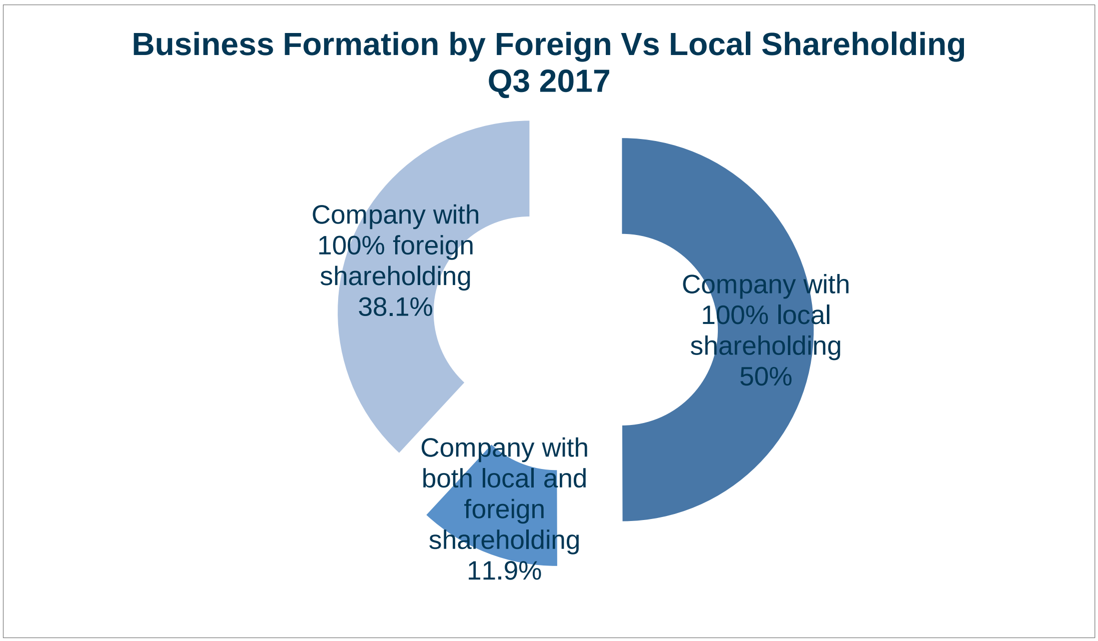


A nominal share capital of S$1 is sufficient to incorporate a company in Singapore. This easily facilitates small business owners to upgrade the status of their business to that of an incorporated entity. Such a setup limits the personal liability of the business owners when their business expands and also conveys a better image and long-term vision and commitment to the various stakeholders of the business. Thus, we find that majority of companies are formed within the 'S$10,000 or less' share capital tier. On the other hand, it also makes it easy for foreign entrepreneurs to set up a formalized legal structure without committing too much capital, to enter into contracts or perform the preliminary transactions prior to commencing full-fledged business.

Further in Q3, the share of companies formed with S$10,000 or less share capital moderately increased from 75.8% to 76.4%. It is of interest to note that in Q3, the share of companies in S$10,001- S$100,000 tier dipped against Q2 by one percentage point to 17.8% but the share of companies in S$100,001 – S$499,999 and S$500,000 or more tiers increased to 3.7% and 2.1% respectively from their Q2 shares. The increase in the share of higher share capital tiers is reflective of the growing business confidence and enterprise activity in Singapore.

3 Shareholding structure

In Q3 2017, the number of wholly locally owned companies were equal to the number of companies formed with foreign shareholding.

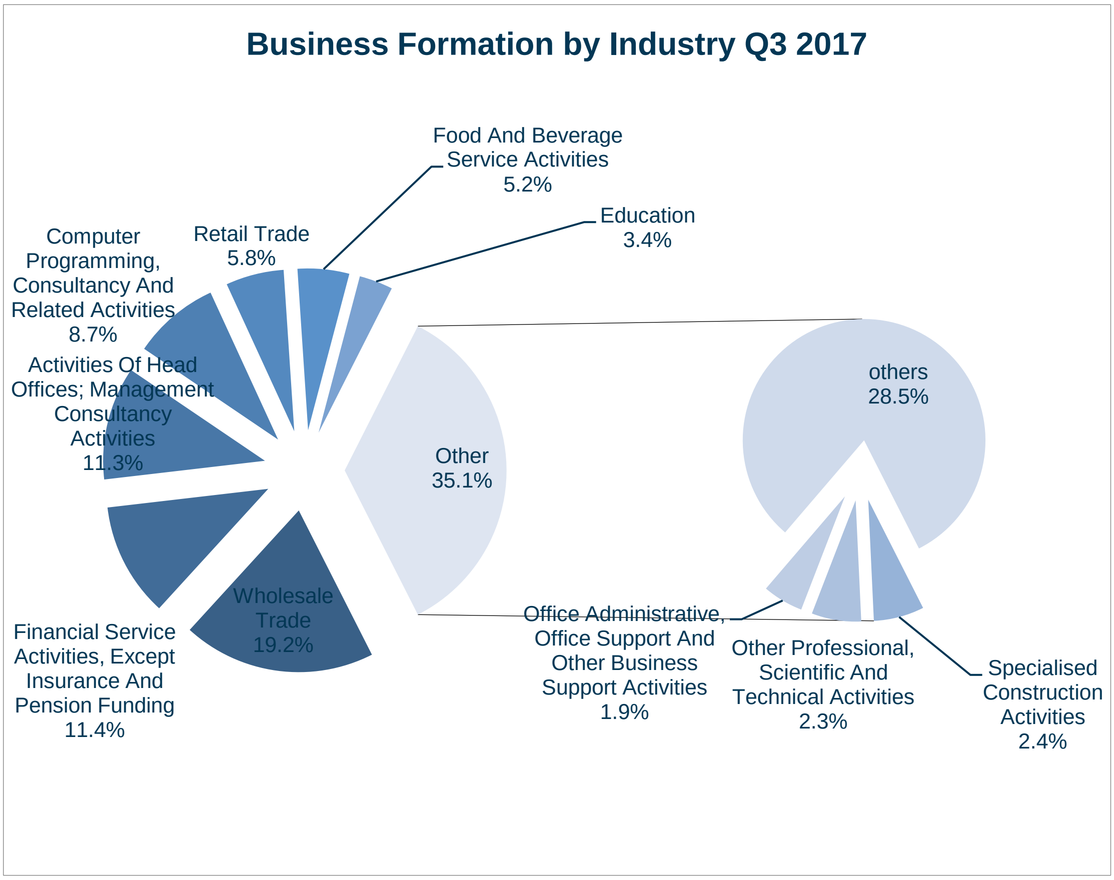


While the wholly locally held companies held a share of 50% the share of wholly foreign held companies was 38.1%. Companies with mixed shareholding, that is, both local and foreign shareholders, held a share of 11.9%. There is no change in the shares of all three categories against the preceding quarter.

Singapore allows for 100% foreign shareholding and this is one of the key tractions for foreign investors, enterprises and entrepreneurs to locate their regional hub in Singapore. The sustained recovery and revival of global trade have boosted the business sentiments of foreigners, hence the share of companies with foreign shareholding remains intact.

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.



In Q3, the share of Wholesale Trade dipped slightly to 19.2%, against 19.7% in Q2. The share of Financial Services sector and Activities of Head Office and Management Consultancy sector increased marginally against their corresponding Q2 share by 0.5 percentage point to 11.4% and 11.3% respectively.

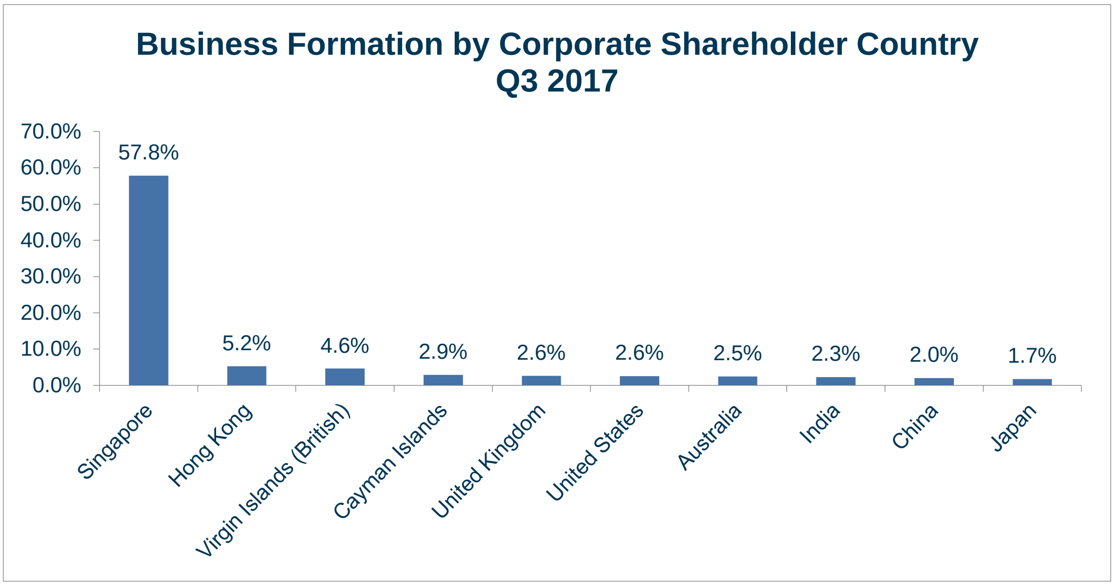
Computer Programming and Consultancy sector chalked up one percentage point against the preceding quarter to take a share of 8.7% during Q3.

This is indicative of businesses becoming more optimistic to commit capital towards IT capabilities and such capital investment by enterprises cascades down the entire sector triggering new business formation or restructuring to scale up service capabilities.

The share of other top sectors covered for the purpose of this report, either remained unchanged against Q2 or registered insignificant change of less than 0.5 percentage point.

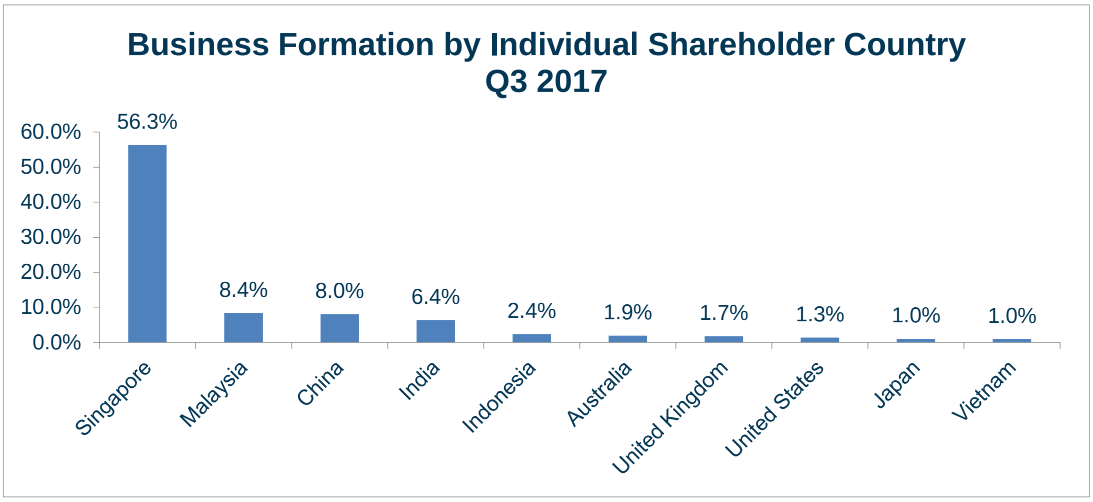
5 Shareholders’ Country

57.8% of the subsidiaries formed during Q3 were subsidiaries of Singapore companies.

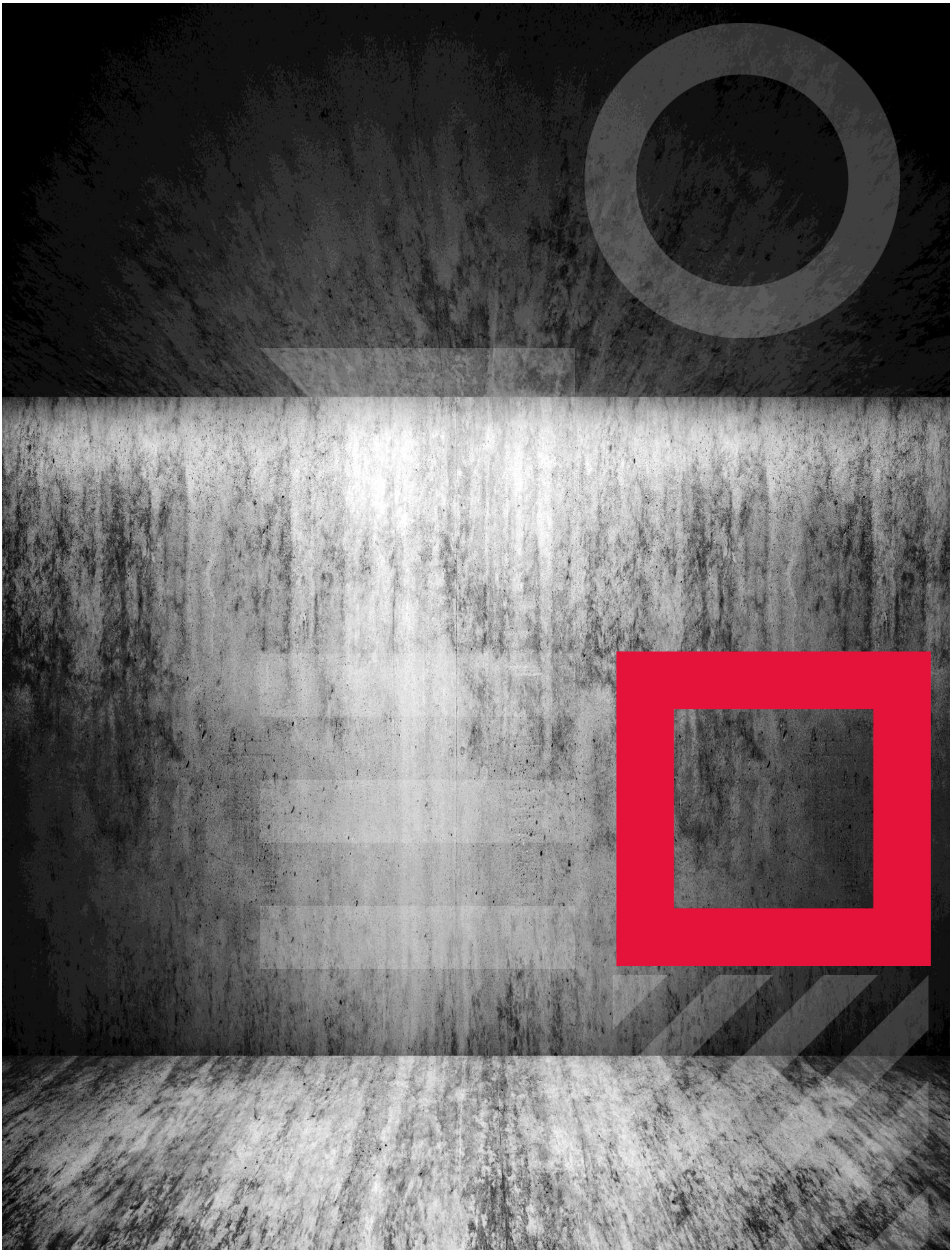


The share of foreign subsidiaries dropped to 42.2% from nearly 45% share held in Q2.

Compared to the preceding quarter the share of Hong Kong subsidiaries increased sharply from 4% to 5.2%. While the share of Indian subsidiaries remained unchanged against Q2, Chinese subsidiaries dropped by one percentage point. The share of the UK and the USA subsidiaries dropped marginally against Q2, reflecting the liquidity concerns. In Q3, as per the historical trend, subsidiaries from Hong Kong, British Virgin Islands and Cayman Islands continued to hold the highest share among foreign subsidiaries.



In Q3, the share of companies held by Singaporean (natural persons) shareholders dipped marginally by 1.1 percentage points. Correspondingly, the share of companies held by foreign shareholders increased to 43.7%. Singapore continued to attract individual investors and entrepreneurs from Malaysia, China, India, and Australia. Except Malaysia and India, which registered a minor decline, the share of the major source countries remained largely unchanged against preceding quarter.



Comparison of business formation activities over the last 4 quarters

	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Total Number of Business Registrations	15,808	15,855	16,096	15,147
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	76.4%	75.8%	75.3%	76.2%
S$10,001 to S$100,000	17.8%	18.8%	19.3%	18.5%
S$100,001 to S$500,000	3.7%	3.5%	3.4%	3.1%
Above S$500,000	2.1%	1.9%	2.0%	2.2%
Registration by Shareholding				
100% Local Shareholding	50.0%	50.0%	50.0%	48.2%
100% Foreign Shareholding	11.9%	11.9%	12.7%	12.2%
Both Local and Foreign Shareholding	38.1%	38.1%	37.3%	39.6%

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