

CHAPTER 7

Economic Outlook





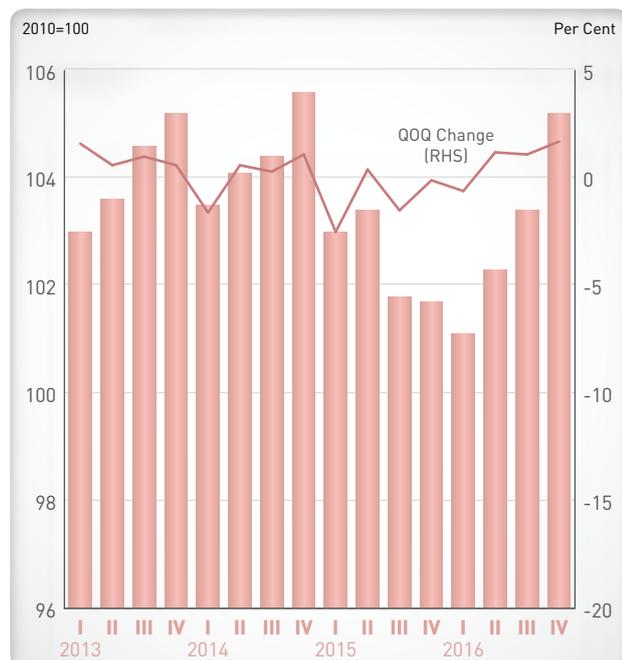
CHAPTER 7

ECONOMIC OUTLOOK

LEADING INDICATORS

The composite leading index (CLI) points to a modest pick-up in growth in the Singapore economy in the near term. The CLI rose by 1.7 per cent on a quarter-on-quarter basis in the fourth quarter of 2016, an improvement from the 1.1 per cent increase in the third quarter (Exhibit 7.1). Of the nine components within the index, six components increased, namely wholesale trade, money supply, non-oil retained imports, the US Purchasing Managers' Index, stock price and new companies formed. On the other hand, domestic liquidity and the stock of finished goods declined. The final component, non-oil sea cargo handled, remained flat.

Exhibit 7.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2017

Global growth is projected to pick up slightly in 2017. In particular, growth in the US and key ASEAN economies is expected to improve, even as growth in China continues to moderate.

Exhibit 7.2: GDP and World Trade Forecasts

	2016 (Estimate)	2017 (Forecast)
World Trade	1.9	3.8
World GDP	3.1	3.4
United States	1.6	2.3
Eurozone	1.7	1.6
Japan	1.0	0.8
China	6.7	6.5
Hong Kong SAR	1.5	1.8
South Korea	2.7	2.5
Taiwan	1.5	1.9
Indonesia	5.0	5.3
Malaysia	4.2	4.3
Thailand	3.2	3.2
Singapore	2.0	1.0-3.0^

Source: Various Official Sources, IMF and Bloomberg Forecasts

^ MTI's forecast range

The US economy is projected to grow at a faster pace in 2017, supported by domestic demand and expected fiscal stimulus under the new US administration. On the other hand, growth in the Eurozone is likely to remain modest, as consumption growth may be dampened to some extent by sluggish labour market conditions. In Asia, China's economic growth is expected to ease further, as investment growth continues to slow on the back of a slowdown in the housing market and continued efforts to reduce overcapacity in the heavy industries. Meanwhile, key ASEAN economies are expected to register a modest uptick in growth in 2017, supported by resilient domestic demand as well as exports demand on the back of an expected improvement in global growth.

However, uncertainties and downside risks in the global economy remain. First, political risks and economic uncertainties have risen. Even as the UK navigates through "Brexit", upcoming elections in key Eurozone economies may create further uncertainties regarding the future of the monetary union. There are also signs of a rise in anti-globalisation sentiments. If protectionist approaches become the norm, global trade will be adversely affected, with knock-on effects on economic growth worldwide. Political risks and the lack of clarity on the policies of the new US administration have also heightened economic uncertainties globally and led to financial market volatility. These uncertainties may in turn weigh on business and consumer confidence, thereby dampening investments and consumption, and causing a pullback in global growth. Second, if monetary conditions tighten further in China and result in a steeper-than-intended pullback in credit, investment spending and hence growth in China could slow down more sharply than expected.

Against this global backdrop and barring the materialisation of downside risks, externally-oriented sectors such as the manufacturing and transportation & storage sectors are likely to provide support to growth in the Singapore economy in 2017. In particular, the improved momentum seen in the manufacturing sector towards the end of 2016 is expected to be sustained into 2017, supported by a continued recovery in the global demand for semiconductors and semiconductor equipment. Likewise, the transportation & storage sector is likely to benefit from the projected improvement in global trade flows. At the same time, the information & communications and education, health & social services sectors are expected to remain resilient.

On the other hand, the outlook for the construction sector has weakened on the back of the drop in contracts awarded in the last two years, largely due to sluggish private sector demand. Other sectors like the marine & offshore, retail and food services sectors are also likely to continue to face headwinds.

Taking the above factors into account, the Singapore economy is expected to grow at a modest pace of **"1.0 to 3.0 per cent"** in 2017.