CHAPTER 7

ECONOMIC OUTLOOK

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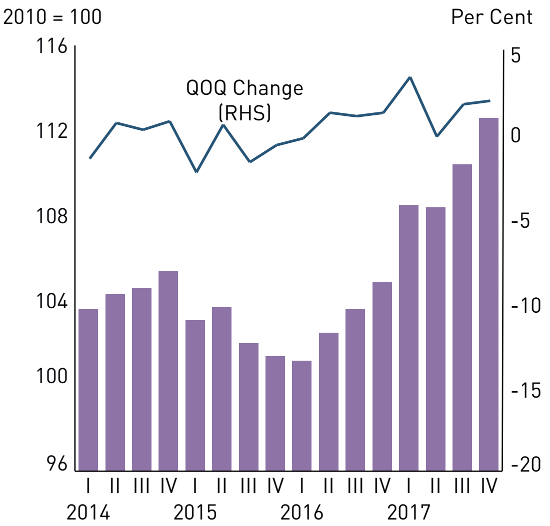
LEADING INDICATORS

The composite leading index (CLI) points to a modest pickup in growth in the Singapore economy in the near term. The CLI rose by 2.0 per cent on a quarter-on-quarter basis in the fourth quarter of 2017, slightly faster than the 1.8 per cent increase in the third quarter (Exhibit 7.1). All the nine components within the index – namely wholesale trade, money supply, non-oil retained imports, the US Purchasing Managers' Index, stock price, new companies formed, domestic liquidity, the stock of finished goods, and non-oil sea cargo handled – increased.

Exhibit 7.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2018

Since November 2017, the outlook for global growth has improved slightly, with the IMF upgrading its global growth forecast for 2018 to 3.9 per cent, partly on the back of higher growth expected in the US due to the recently approved tax reforms (Exhibit 7.2). However, as compared to 2017, growth in most of Singapore's key final demand markets such as the Eurozone, Japan, NIEs and ASEAN-5 is projected to moderate or remain unchanged in 2018.

Exhibit 7.2: GDP and World Trade Forecasts

	2017 (Estimate)	2018 (Forecast)
World Trade	4.7	4.6
World GDP	3.7	3.9
United States	2.3	2.7
Eurozone	2.3	2.2
Japan	1.8	1.2
China	6.9	6.6
Hong Kong SAR	3.7	2.8
South Korea	3.1	3.0
Taiwan	3.3	2.4
Indonesia	5.1	5.3
Malaysia	5.8	5.3
Thailand	3.9	3.8
Singapore	3.6	1.5-3.5^

Source: Various Official Sources, IMF and Bloomberg Forecasts

^ MTI's forecast range

In the US, GDP growth is projected to improve further in 2018, supported by domestic demand and fiscal stimulus arising from the recently approved tax reforms, although there are uncertainties around the extent to which investments would respond to the tax reforms. On the other hand, growth in the Eurozone economy is projected to moderate in 2018, following the rebound seen in 2017. Growth will be underpinned by continued improvements in labour market conditions and largely accommodative monetary policies. In Asia, China's growth is also expected to ease in 2018 on the back of a slowdown in investment, even as consumption is likely to remain stable and provide support to growth. Meanwhile, growth in the key ASEAN economies is expected to remain firm in 2018, supported by sustained improvements in domestic demand as well as merchandise exports.

On balance, the external demand outlook for Singapore is expected to be slightly weaker in 2018 as compared to 2017. Furthermore, while global macroeconomic risks have receded to some extent since the end of 2017, there remain some downside risks that could weigh on the global economy if they materialise. First, concerns over protectionist sentiments and in particular, the US administration's trade policies remain. An increase in trade barriers could adversely affect global trade, with spillover effects on economic growth worldwide. Second, an upside surprise in inflation could cause monetary policy in the US to normalise faster than expected. This could in turn cause global financial conditions to tighten more than anticipated, and potentially lead to sharp corrections in financial markets. Should this occur, regional economies with elevated debt levels could be disproportionately affected, and there could be some pullback in investment and consumption growth in these economies.

Against this external backdrop, the pace of growth in the Singapore economy is expected to moderate in 2018 as compared to 2017, but remain firm. First, the manufacturing sector is likely to continue to expand and provide support to growth in the overall economy. In particular, the electronics and precision engineering clusters are projected to sustain a healthy, though more moderate, pace of growth in 2018 on the back of robust global demand for semiconductors and semiconductor equipment. Second, externally-oriented services sectors such as finance & insurance, transportation & storage and wholesale trade are expected to benefit from firm external demand, although their pace of growth is also likely to ease in 2018. Third, growth is expected to broaden to domestically-oriented services sectors like retail and food services on the back of an improvement in consumer sentiments amidst the on-going recovery in the labour market. Meanwhile, the information & communications and education, health & social services sectors are expected to remain resilient.

However, the performance of the construction sector is likely to remain lacklustre in 2018 as the earlier weakness in construction demand, particularly from the private sector, continues to weigh on construction activities in the sector. Apart from construction, the outlook for the marine & offshore engineering segment is also expected to remain challenging due to weak demand conditions faced by local yards and firms producing oilfield and gasfield equipment amidst the low oil price environment and excess capacity in the global offshore rig market.

Taking into account the global and domestic economic environment, MTI has maintained the 2018 GDP growth forecast at "**1.5 to 3.5 per cent**". MTI's central view is that **growth will likely come in slightly above the middle of the forecast range**, barring the materialisation of downside risks.