CHAPTER 3
Economic Outlook

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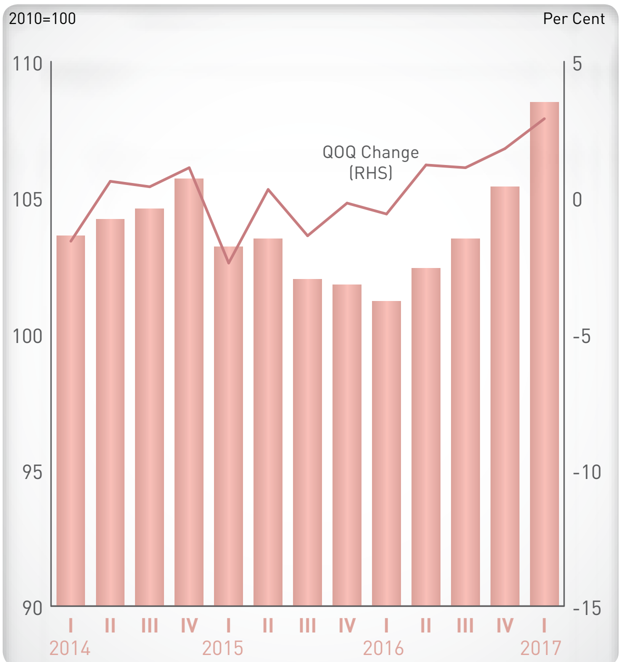
ECONOMIC OUTLOOK

LEADING INDICATORS

The near-term economic outlook for Singapore has improved slightly. The composite leading index (CLI) rose at a faster pace of 2.9 per cent on a quarter-on-quarter basis in the first quarter of 2017, compared to the 1.8 per cent increase in the previous quarter (Exhibit 3.1).

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



Of the nine components within the CLI, eight of them increased compared to the preceding quarter, namely stock of finished goods, money supply, US Purchasing Managers' Index, domestic liquidity, stock price, new companies formed, non-oil sea cargo handled, money supply and wholesale trade. On the other hand, non-oil retained imports declined compared to a quarter ago.

OUTLOOK FOR 2017

The outlook for the global economy has improved slightly since early 2017 on the back of an improvement in the growth outlook for the advanced economies. Overall, global growth this year is expected to be higher than that in 2016.

The US economy, in particular, is projected to grow at a faster pace in 2017. While the US' growth momentum slowed in the first quarter, the slowdown is likely to be transitory. Growth for full year is expected to be supported primarily by domestic demand on the back of resilient labour and housing market conditions. On the other hand, growth in the Eurozone is likely to remain modest given that consumption growth may be dampened to some extent by rising energy prices, which could have a negative impact on consumers' real disposable income.

In Asia, China's economic growth is projected to ease marginally this year, as the continued slowdown in the heavy industries is likely to weigh on investments for the rest of the year. Meanwhile, growth among the key ASEAN economies is expected to pick up in 2017, supported by resilient domestic demand and the recovery in merchandise exports.

Despite the improved growth prospects for the global economy, uncertainties and downside risks remain. First, rising anti-globalisation sentiments could have an adverse impact on global trade if they lead to increased protectionism, with knock-on effects on global growth. Furthermore, political risks and economic uncertainties persist, including in Europe where the UK is navigating through "Brexit" and in the US where policy uncertainties remain elevated. Second, monetary conditions may tighten further in China amidst efforts to contain leverage and risks in the financial system. Should there be a steeper-than-intended pullback in credit, investment spending and hence growth in China could slow down more sharply than expected.

Against this external backdrop, trade-related sectors such as the manufacturing and transportation & storage sectors are likely to provide support to the Singapore economy in 2017. In particular, growth in the electronics and precision engineering clusters is expected to be sustained for the rest of the year on the back of the strong recovery in global demand for semiconductors and semiconductor manufacturing equipment. Likewise, the transportation & storage sector is likely to benefit from the projected improvement in global trade flows. Meanwhile, the information & communications and education, health & social services sectors are expected to remain resilient. However, cautious consumer sentiments amidst sluggish labour market conditions are likely to weigh on the food services and retail trade segments, while the construction sector is expected to be adversely affected by the weakness in private sector construction activities.

Taking these factors into account, the GDP growth forecast for 2017 is maintained at **"1.0 to 3.0 per cent"**. Although the performance of the Singapore economy was resilient in the first quarter, and the global growth outlook has improved slightly, downside risks in the global economy remain. Barring the materialisation of downside risks, GDP growth is likely to come in higher than the 2.0 per cent in 2016.