CHAPTER 3
Economic Outlook

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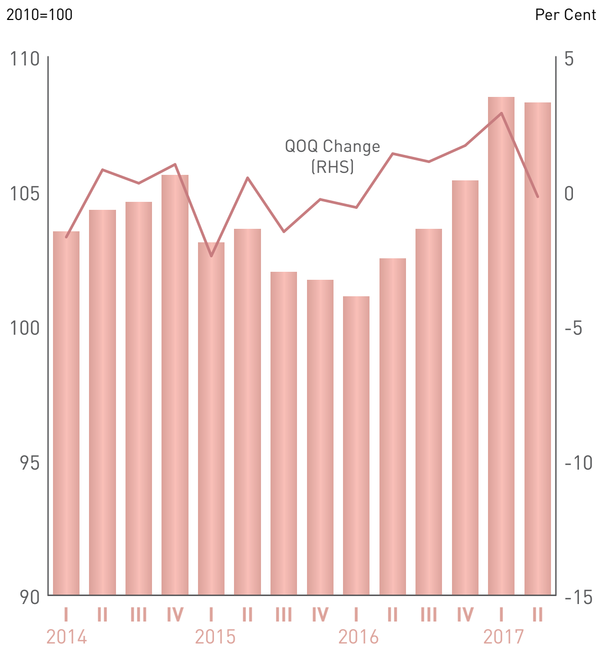
ECONOMIC OUTLOOK

LEADING INDICATORS

The composite leading index (CLI) dipped slightly by 0.2 per cent on a quarter-on-quarter basis in the second quarter of 2017, after posting strong growth of 2.9 per cent in the previous quarter (Exhibit 3.1).

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



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

OUTLOOK FOR 2017

The outlook for the global economy has remained stable in recent months, with global growth on track to come in higher in 2017 as compared to 2016.

In the US, the economy rebounded to grow at a faster pace in the second quarter of the year as compared to the first quarter. The growth momentum is expected to be sustained in the second half of 2017, supported primarily by domestic demand. In particular, resilient labour market conditions will continue to boost private consumption. Private investment is also expected to pick up on the back of a recovery in mining and equipment investments. For 2017 as a whole, the US economy is expected to grow at a faster pace as compared to 2016.

Meanwhile, the Eurozone economy is expected to remain stable, and to continue to grow at a modest pace for the rest of 2017. Within the Eurozone, labour market conditions have improved, with unemployment rates on a downward trend even though they remain elevated. At the same time, improving business and consumer sentiments, coupled with accommodative monetary policies, are also likely to support domestic demand. On balance, growth in the Eurozone is expected to pick up slightly in 2017 as compared to 2016.

In Asia, China's growth is projected to ease slightly in the second half of 2017, following stronger-than-expected growth in the first half of the year. In particular, real investments are likely to see a modest slowdown over the course of the year. However, exports are expected to remain robust, with the recent pickup in external demand likely to be sustained into the second half of the year, thereby supporting GDP growth. In ASEAN, growth in the Indonesian and Malaysian economies is projected to remain resilient for the remaining quarters of the year on the back of healthy domestic demand and a sustained improvement in merchandise exports.

While the global economic recovery is expected to continue on a firm footing for the rest of the year, downside risks remain. First, anti-globalisation sentiments could adversely affect global trade if they lead to increased protectionism, with knock-on effects on economic growth worldwide. Global political risks and policy uncertainty also remain elevated, reflecting in part uncertainties over the policies of the US administration and on-going Brexit negotiations. Second, at this advanced stage of the US' economic expansion, monetary policy could normalise faster than expected, thus causing global financial conditions to tighten more than anticipated. There also remains the risk of a steeper-than-intended pullback of credit in China as efforts to contain leverage and risks in the financial system continue. Nonetheless, the potential for these downside risks to have a significant impact on global growth in 2017 has eased compared to three months ago.

Against this external backdrop, the manufacturing sector is likely to continue to provide support to the Singapore economy in the second half of the year. In particular, the strong performance of the electronics and precision engineering clusters is expected to be sustained into the second half of the year on the back of robust global demand for semiconductors and semiconductor-related equipment, although the pace of expansion may moderate given less favourable base effects. Likewise, externally-oriented services sectors such as the transportation & storage, wholesale trade and finance & insurance sectors are expected to benefit from the pickup in global trade. Meanwhile, the information & communications and education, health & social services sectors are likely to remain resilient. On the other hand, the performance of the construction sector is expected to remain lacklustre, weighed down by the continued weakness in private and public sector construction activities.

Taking into account the global and domestic economic environment, as well as the GDP growth of 2.7 per cent achieved in the first half of the year, the full-year growth forecast for the Singapore economy is narrowed upwards to **"2.0 to 3.0 per cent"**, from "1.0 to 3.0 per cent". Barring unexpected outcomes in the global economy and key sectors in the domestic economy for the rest of the year, MTI's central view is that GDP growth for the full year is likely to come in at around 2.5 per cent.