

CHAPTER 3

Economic Outlook





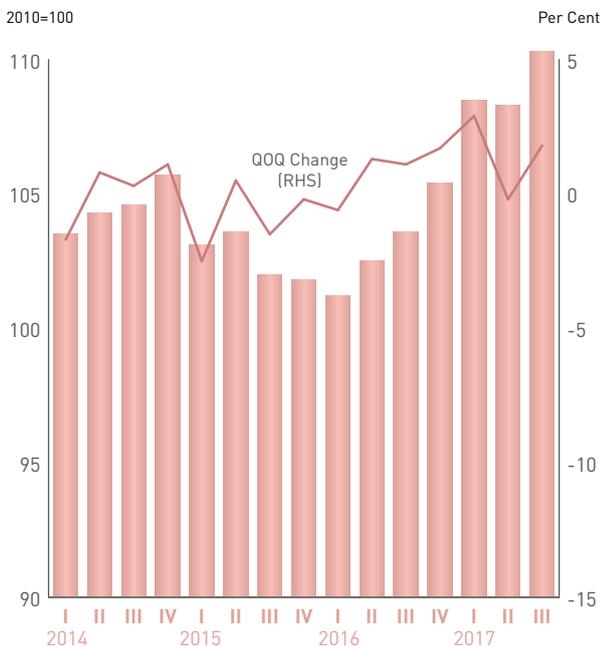
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ECONOMIC OUTLOOK

LEADING INDICATORS

The near-term economic outlook for Singapore has improved. The composite leading index (CLI) rose by 1.8 per cent on a quarter-on-quarter basis in the third quarter, a reversal from the 0.2 per cent dip in the previous quarter (Exhibit 3.1).

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



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

OUTLOOK FOR 2017

In recent months, the growth outlook for Singapore's key external demand markets such as the US, Eurozone, China and ASEAN-5 has improved, alongside a stronger-than-expected recovery in global electronics demand. In line with stronger external demand conditions, the Singapore economy performed better than expected in the third quarter. Growth in the quarter was primarily supported by externally-oriented sectors such as the manufacturing, finance & insurance, wholesale trade and transportation & storage sectors. Taking into account the robust performance of the Singapore economy in the third quarter, GDP growth in the first three quarters of the year came in at 3.5 per cent on a year-on-year basis.

For the rest of the year, Singapore's GDP growth is expected to moderate but remain firm. In particular, the externally-oriented sectors are projected to continue to expand, albeit at a more modest pace, and support growth for the rest of the year. Domestically-oriented sectors like the health, education & social services sector are also expected to remain resilient.

Taking these factors into consideration, the GDP growth forecast for 2017 is upgraded to **"3.0 to 3.5 per cent"**, from "2.0 to 3.0 per cent".

OUTLOOK FOR 2018

Global growth is expected to pick up marginally in 2018 on the back of stronger growth in the US and some emerging markets and developing economies. However, growth in several of Singapore's key external demand markets such as China and the Eurozone is projected to ease in the coming year.

In the US, growth is expected to pick up slightly in 2018, with continued support coming from private consumption and investment expenditure. On the other hand, the Eurozone's growth is projected to ease in 2018 following the rebound in 2017. Growth will continue to be supported by gradual improvements in labour market conditions and largely accommodative monetary policies. In Asia, China's growth is also expected to moderate 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 stay resilient, supported by domestic demand and merchandise exports.

At the same time, there continues to be downside risks in the global economy. First, global policy uncertainty remains elevated, reflecting in part uncertainty over the US administration's policies and lingering concerns over the rise in protectionist sentiments. At the same time, geopolitical tensions in North Korea remain, and could affect the economies of regional countries if tensions escalate. Second, at this relatively advanced stage of the US' economic recovery, an upside surprise in inflation cannot be ruled out. Should this happen, monetary policy in the US could normalise faster than expected, thereby causing global financial conditions to tighten more than anticipated.

Against this external backdrop, the pace of growth of 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 overall GDP growth. In particular, the electronics and precision engineering clusters are expected to see sustained expansions on the back of healthy demand conditions in the global semiconductor and semiconductor equipment markets, although the pace of expansion is likely to taper in 2018 given less favourable base effects.

Second, externally-oriented services sectors such as wholesale trade, transportation & storage and finance & insurance are expected to benefit from the global economic recovery, although their growth momentum may ease in tandem with the moderation in growth in key advanced and regional economies. Third, sectors such as the information & communications and education, health & social services sectors are likely to remain resilient, supported by domestic drivers of growth like the Smart Nation initiatives and expansions in healthcare facilities respectively. Fourth, unlike most of the other sectors, the performance of the construction sector is expected to remain lacklustre, weighed down by the continued weakness in construction demand.

Taking into account the global and domestic economic environment, the Singapore economy is expected to grow by **"1.5 to 3.5 per cent"** in 2018. Barring unexpected outcomes in the global economy and key sectors in the domestic economy, MTI's central view is that GDP growth in 2018 is likely to come in around the middle of the forecast range.