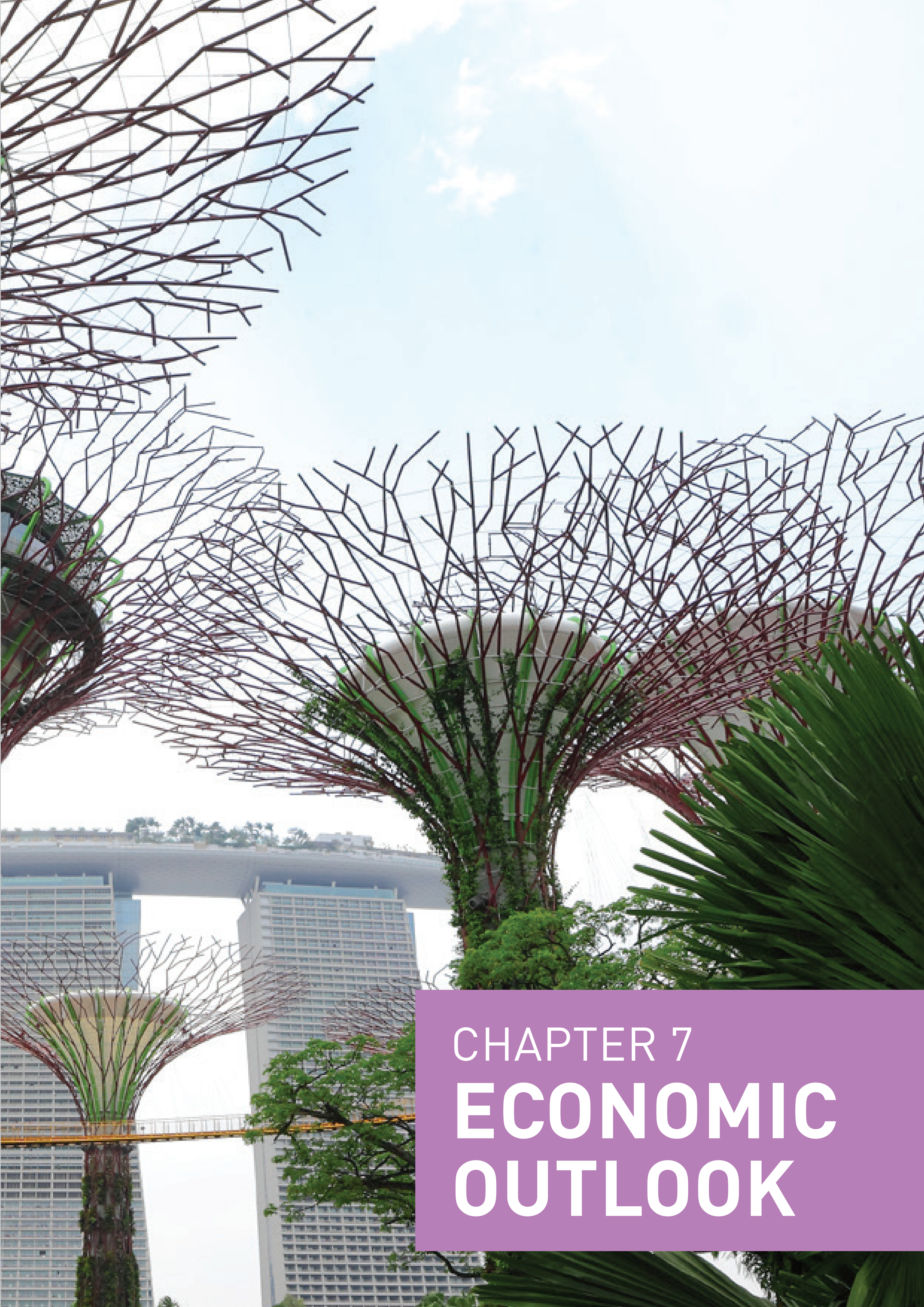

Image courtesy of Singapore Tourism Board



CHAPTER 7

ECONOMIC OUTLOOK

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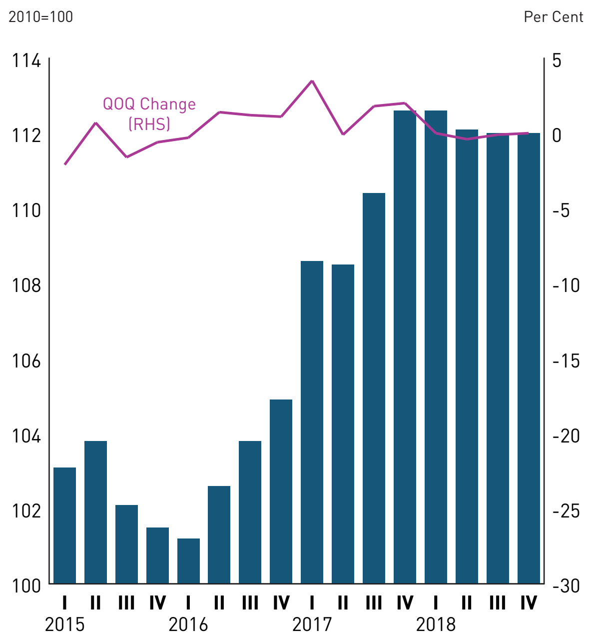
LEADING INDICATORS

The composite leading index (CLI) points to stable growth in the Singapore economy in the near term. Specifically, the CLI was flat on a quarter-on-quarter basis in the fourth quarter of 2018, following a marginal 0.1 per cent decline in the third quarter (Exhibit 7.1).

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

Exhibit 7.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2019

Since November 2018, the external demand outlook for Singapore has weakened slightly. In particular, the IMF has revised downwards its 2019 global growth forecast by 0.2 percentage-point to 3.5 per cent, with downgrades to the forecasts for some of Singapore's key final demand markets such as the Eurozone and ASEAN-5 economies. As compared to 2018, growth in most of the key advanced and regional economies is expected to moderate in 2019.

Exhibit 7.2: GDP and World Trade Forecasts

	2018 (Estimate)	2019 (Forecast)
World Trade	4.0	4.0
World GDP	3.7	3.5
United States	2.9	2.5
Eurozone	1.9	1.5
Japan	0.8	1.0
China	6.6	6.2
Hong Kong SAR	3.4	2.4
South Korea	2.6	2.4
Taiwan	2.7	2.1
Indonesia	5.2	5.1
Malaysia	4.7	4.5
Thailand	4.2	3.7
Singapore	3.2	1.5-3.5^

Source: Various Official Sources, IMF and Consensus Forecasts
^ MTI's forecast range

In the US, GDP growth is projected to ease in 2019 as the economy enters the later stages of the macroeconomic cycle and the impact of the fiscal stimulus implemented last year starts to fade. Nonetheless, private consumption is expected to continue to support growth on the back of strong labour market conditions and healthy wage growth. Growth in the Eurozone economy is projected to moderate in 2019, following the easing in growth momentum since early 2018. However, healthy labour market conditions and low borrowing costs should help to support domestic demand in the Eurozone economy. In Asia, China's economy is expected to ease further in 2019 on the back of a slowdown in investment and exports growth, even as private consumption is likely to remain stable, supported in part by government measures to boost household spending. Meanwhile, the key ASEAN economies are projected to expand at a slower pace in 2019, weighed down by a moderation in merchandise exports. Nevertheless, domestic demand is likely to remain resilient on account of firm consumer sentiments.

At the same time, uncertainties and downside risks in the global economy have increased since three months ago. First, there remains the risk of a further escalation of the trade conflicts between the US and its key trading partners, which could trigger a sharp fall in global business and consumer confidence. Should this happen, global investment and consumption spending would decline, with an adverse impact on global economic growth. Second, a sharper-than-expected slowdown of the Chinese economy could adversely affect the region's growth due to falling import demand from China, especially given regional economies' close interlinkages with China through their participation in manufacturing and trade-related services value chains. Third, there is a risk that the UK will leave the EU without a withdrawal agreement. A "no-deal" Brexit could lead to substantial trade frictions between the UK and its trading partners, and weigh on consumer and business sentiments in the UK and EU, with potential negative effects on global growth. The heightened uncertainties and risks in the global economy have led to a rise in volatility in global financial markets. Should the downside risks materialise, financial market volatility could spike and adversely affect investor sentiments, thereby exacerbating the negative effects on global growth.

Against this external backdrop, the pace of growth in the Singapore economy is expected to slow in 2019 as compared to 2018. First, the manufacturing sector is likely to see a significant moderation in growth following two years of robust expansions. In particular, the electronics and precision engineering clusters are expected to face external headwinds due to weakening global demand for semiconductors and semiconductor equipment with the fading of the global electronics cycle. Second, growth in outward-oriented services sectors such as wholesale trade, transportation & storage and finance & insurance is expected to ease in tandem with the moderation in growth in key advanced and regional economies.

Nonetheless, the information & communications sector and the education, health & social services segment are expected to remain resilient, supported by firms' robust demand for IT and digital solutions and the ramp-up of operations in healthcare facilities respectively. Meanwhile, the construction sector is likely to see a turnaround after three consecutive years of contraction, as the pickup in contracts awarded since the second half of 2017 should translate into construction activities in the quarters ahead.

Taking into account the global and domestic economic environment, MTI has maintained the 2019 GDP growth forecast at **"1.5 to 3.5 per cent", with growth expected to come in slightly below the mid-point of the forecast range.**