CHAPTER 3

ECONOMIC OUTLOOK

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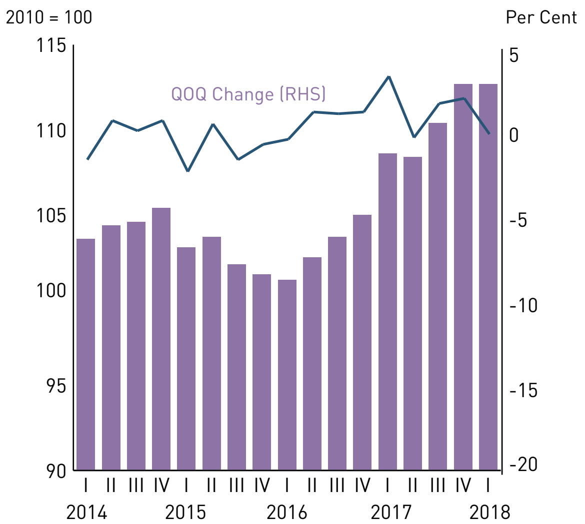
LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) was unchanged in the first quarter, easing from the 2.1 per cent increase in the previous quarter (Exhibit 3.1).

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

Exhibit 7.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2018

The global economy has remained on a steady expansionary path since the start of the year, with full-year growth expected to improve slightly as compared to 2017. The IMF has also upgraded the 2018 growth outlook of some of Singapore's key final demand markets, including the US and Eurozone.

In particular, the US economy is projected to grow at a faster pace in 2018, partly due to a larger expected boost to private investment from the recent tax reforms. Stable labour market conditions will also continue to support private consumption in the US. Meanwhile, the growth outlook for the Eurozone economy in 2018 has also improved slightly in view of improving labour market conditions, as well as healthy business and consumer sentiments.

In Asia, China's economic growth is projected to slow this year as compared to 2017 on the back of a moderation in exports and investment growth, with the latter due in part to the scaling back of infrastructure investments. On the other hand, 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.

However, alongside the improvement in the growth outlook of some of the key economies, uncertainties and downside risks in the global economy have also increased since early 2018. First, recent protectionist actions and tariff measures by the US have increased the risk of an escalation of global trade tensions. This could adversely affect international trade as well as dampen investor and consumer confidence, in turn weighing on global growth. Second, against the backdrop of rising global interest rates and generally tightening financial conditions, financial vulnerabilities in emerging market economies could surface, particularly for those with elevated debt levels, including in the region. If this occurs, there could be some pullback in investment and consumption growth in these economies.

On balance, the pace of growth in the Singapore economy is expected to remain firm in 2018, with growth supported primarily by outward-oriented sectors. In particular, the manufacturing sector is likely to continue to expand on the back of sustained growth in the electronics and precision engineering clusters, albeit at a more moderate pace as compared to 2017. Likewise, outward-oriented services sectors such as finance & insurance, transportation & storage and wholesale trade are projected to continue to benefit from healthy external demand. Growth is also expected to broaden to domestically-oriented services sectors like retail and food services over the course of the year, on the back of an improvement in consumer sentiments amidst the on-going recovery in the labour market. However, the performance of the construction sector is likely to remain lacklustre as the earlier weakness in construction demand, particularly from the private sector, is expected to continue to weigh on construction activities this year.

Taking into account the strong performance of the Singapore economy in the first quarter and the slightly improved external demand outlook for Singapore, MTI expects GDP growth for 2018 to come in at **"2.5 to 3.5 per cent"**, barring the full materialisation of downside risks.