CHAPTER 3

# ECONOMIC OUTLOOK

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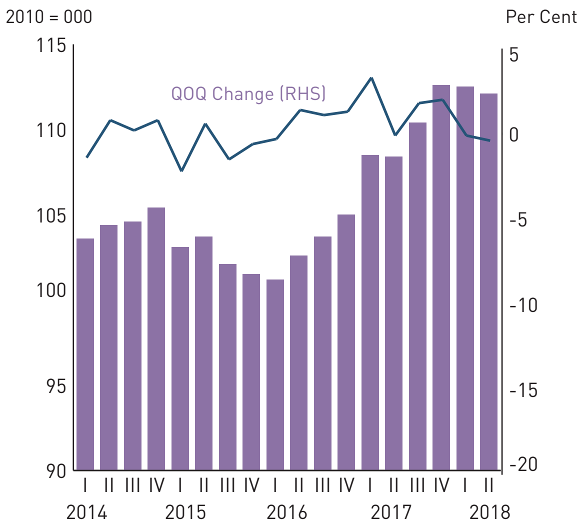
## LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) fell by 0.4 per cent in the second quarter, extending the 0.1 per cent decline in the previous quarter (Exhibit 3.1).

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

*Exhibit 3.1: Composite Leading Index Levels and Growth Rate*




## OUTLOOK FOR 2018

Since May 2018, the growth outlook of some of the key advanced economies such as the Eurozone and Japan has weakened slightly, in part due to their weaker-than-expected performance in the first half of 2018. Looking ahead, growth in several of Singapore's key final demand markets is expected to moderate in the second half of the year as compared to the first half of the year.

In the US, following a strong performance in the first half of 2018, GDP growth is expected to ease in the second half of the year. Growth for the rest of the year will continue to be supported by domestic demand. Resilient labour market conditions are likely to support private consumption, while private investment, which has been boosted by the tax reforms implemented at the start of the year, is expected to remain firm. Meanwhile, growth in the Eurozone economy came in weaker than anticipated in the first half of the year, and is likely to remain largely subdued for the rest of the year. Nonetheless, domestic demand is expected to provide some support to growth in the second half of 2018. In particular, labour market conditions are likely to improve further, thereby supporting private consumption, while financing conditions are expected to remain largely accommodative.

In Asia, China's economy expanded at a slower pace in the second quarter as compared to the first quarter. Growth is projected to ease further in the second half of 2018 on the back of a moderation in exports growth as well as investment growth. On the other hand, growth in the key ASEAN economies is expected to remain firm for the rest of the year, supported by sustained improvements in domestic demand as well as merchandise exports.

At the same time, uncertainties and downside risks in the global economy have increased. First, recent tariff measures by the US have led to retaliatory tariffs imposed on the US by China, the European Union (EU) and several of the US' key trading partners. There is a risk of a further escalation of the ongoing trade conflicts that could lead to a vicious cycle of tit-for-tat measures between the US and other major economies. Should this happen, there could be a sharp fall in global business and consumer confidence, and in turn, investment and consumption spending. This could then have an adverse impact on global trade flows and global growth. Second, against the backdrop of generally tightening global financial conditions, an upside surprise in inflation could lead to a faster-than-expected normalisation of monetary policy in the US. This could trigger disorderly capital outflows from emerging market economies in the region, causing financial vulnerabilities in these economies to surface, particularly for those with elevated debt levels. If this occurs, there could be some pullback in investment and consumption growth, with spillover effects on the rest of the region.

Against this external backdrop, the pace of expansion in the Singapore economy is expected to moderate in the second half of 2018, following the strong performance in the first half of the year. Growth will continue to be supported primarily by outward-oriented sectors. In particular, the manufacturing sector is expected to continue to expand, supported in part by the electronics cluster, although growth will moderate from the high levels seen in the first half of the year. Similarly, while outward-oriented services sectors such as finance & insurance, wholesale trade and transportation & storage are projected to remain on an expansionary path, their growth momentum is likely to ease in tandem with the moderation in growth projected for key advanced and regional economies in the second half of the year.

Meanwhile, growth in domestically-oriented services sectors like retail and food services is likely to be supported by a pickup in consumer sentiments amidst improvements in the labour market. Sectors like information & communications and other services are also projected to remain resilient. However, the performance of the construction sector is likely to stay lacklustre for the rest of the year, given the earlier weakness in contracts awarded.

Taking into account the global and domestic economic environment, as well as the performance of the Singapore economy in the first half of the year, the GDP growth forecast for 2018 is maintained at **"2.5 to 3.5 per cent"**.