CHAPTER 3

ECONOMIC OUTLOOK

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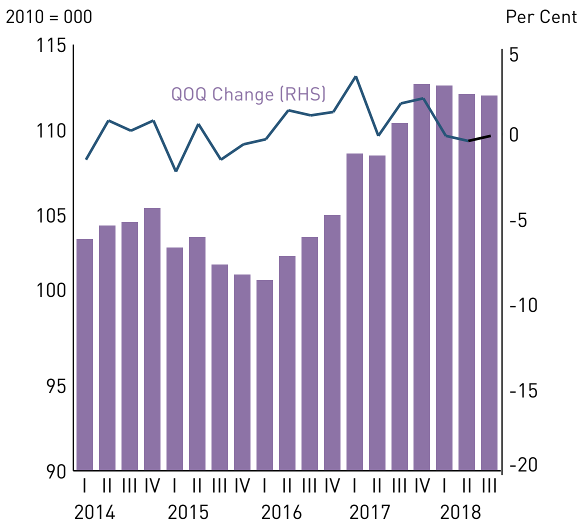
LEADING INDICATORS

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

Of the nine components in the CLI, five of them increased on a quarter-on-quarter basis, namely money supply, stock of finished goods, non-oil retained imports, non-oil sea cargo handled and the US Purchasing Managers' Index. By contrast, wholesale trade, stock price and domestic liquidity declined compared to a quarter ago. There was no change in the number of new companies formed.

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2018

At the last Economic Survey of Singapore update in August, MTI maintained the GDP growth forecast for the Singapore economy in 2018 at "2.5 to 3.5 per cent". Underpinning the forecast was the expectation that GDP growth in the second half of 2018 would moderate from that in the first half, given the projected slowdown in growth in Singapore's key final demand markets such as the US and China.

Since then, growth in Singapore's key final demand markets has evolved largely as expected. While the IMF has downgraded the global growth forecast for 2018, this was mainly on account of poorer growth prospects in some emerging market and developing economies such as Latin America. On the other hand, the growth outlook for 2018 for many of Singapore's key external demand markets, including the US, China and ASEAN-5 economies, has remained as earlier projected.

Against this backdrop, the Singapore economy performed broadly in line with expectations in the third quarter, with growth primarily supported by the finance & insurance, manufacturing and business services sectors. Taking into account Singapore's GDP performance in the third quarter, GDP growth in the first three quarters of the year came in at 3.6 per cent on a year-on-year basis.

For the remaining quarter of the year, Singapore's GDP growth is expected to moderate but remain firm. In particular, outward-oriented sectors such as the manufacturing and finance & insurance sectors are expected to continue to expand, albeit at a more moderate pace, and support GDP growth for the rest of the year.

Taking these factors into consideration, the 2018 GDP growth forecast for Singapore is narrowed upwards to **"3.0 to 3.5 per cent"**, from "2.5 to 3.5 per cent".

OUTLOOK FOR 2019

For 2019, the pace of economic expansion across most of the major advanced and regional economies is expected to ease from 2018's levels, in part due to the impact of the ongoing trade conflicts between the US and its key trading partners.

Growth in the US economy is projected to moderate in 2019, as the effect of the fiscal stimulus implemented earlier this year starts to fade and monetary policy tightens further. However, private consumption is expected to continue to support growth on the back of strong labour market conditions and healthy wage growth. Meanwhile, the Eurozone economy's growth is likely to ease slightly in 2019. Growth is expected to be supported by firm domestic demand on the back of an improving labour market, healthy business and consumer sentiments, as well as favourable financing conditions.

In Asia, China's growth is also projected to moderate in 2019 on account of a continued moderation in credit growth and softer external demand, although accommodative macroeconomic policies and stable domestic demand are likely to provide some support to growth. Similarly, growth in the key ASEAN economies is expected to ease or remain unchanged in 2019, supported by resilient domestic demand even as growth in merchandise exports moderates.

On balance, MTI's assessment is that the external demand outlook for the Singapore economy in 2019 is slightly weaker as compared to 2018. At the same time, risks in the global economy are tilted to the downside. First, there is the risk of a further escalation of the ongoing 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 adverse impact on economic growth. Second, a faster-than-expected tightening of global financial conditions could lead to disorderly capital outflows from emerging markets, including economies in the region. This could cause financial vulnerabilities to surface in some of these economies, particularly 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 growth in the Singapore economy is expected to moderate in 2019 as compared to 2018. In particular, the manufacturing sector is likely to see a more modest pace of expansion. Within the sector, the electronics and precision engineering clusters are expected to face external headwinds due to weaker demand conditions in the global semiconductor and semiconductor equipment markets with the fading of the global electronics cycle. Similarly, growth in outward-oriented services sectors such as wholesale trade, transportation & storage and finance & insurance is projected to ease in tandem with the moderation in growth in key advanced and regional economies.

On the other hand, other services sectors such as information & communications and education, health & social services 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 performance of the construction sector is projected to improve in 2019, as the pickup in contracts awarded since the second half of 2017 is expected to translate into construction activities in the quarters ahead.

Taking into account the global and domestic economic environment, and barring the full materialisation of downside risks, the Singapore economy is expected to grow by **"1.5 to 3.5 per cent"** in 2019.