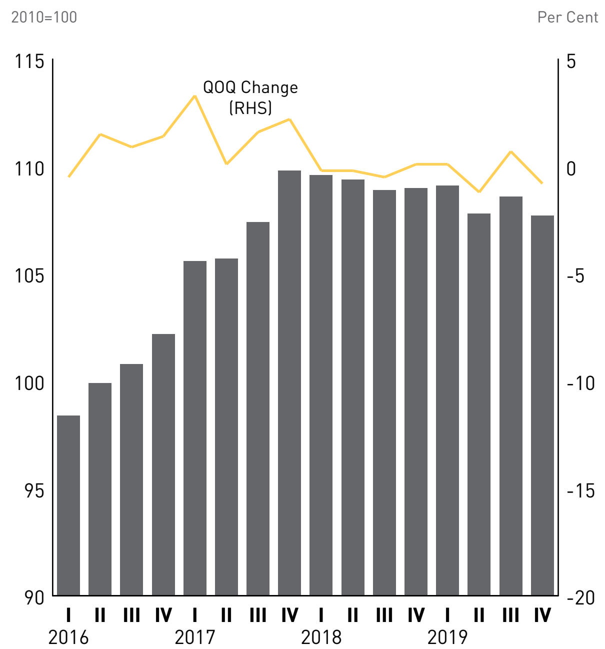
CHAPTER 7
ECONOMIC OUTLOOK

LEADING INDICATORS

The composite leading index (CLI) points to a weaker outlook for the Singapore economy in the near term. Specifically, the CLI declined by 0.8 per cent on a quarter-on-quarter basis in the fourth quarter of 2019, reversing the 0.7 per cent increase in the third quarter (Exhibit 7.1).

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

Exhibit 7.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2020

In November 2019, MTI announced a GDP growth forecast of "0.5 to 2.5 per cent" for 2020. The forecast was premised on a modest pickup in global growth, along with a recovery in the global electronics cycle, in 2020. Since then, the outbreak of the coronavirus disease 2019 (COVID-19) has affected China, Singapore and many countries around the world.

In Asia, the COVID-19 outbreak is likely to dampen the growth prospects of China and other affected countries this year. In China, GDP growth in 2020 is expected to come in lower than earlier projected due to a pullback in household consumption as a result of the lockdowns and travel restrictions implemented in several major Chinese cities to contain the spread of the virus. Industrial production has also been disrupted because of work stoppages and delays arising from these containment measures. These developments in China will, in turn, have a knock-on impact on regional economies, including the ASEAN economies, through lower outbound tourism and other import demand from China, as well as disruptions to supply chains. Regional economies directly affected by the COVID-19 outbreak, such as Japan, Thailand and Malaysia, may also experience a drop in domestic consumer sentiments, and hence private consumption growth.

Elsewhere, the growth outlook for the US and Eurozone economies in 2020 remains broadly unchanged. In the US, GDP growth is expected to moderate this year, as the impact of the 2018 tax cuts wanes and trade policy uncertainty continues to weigh on private investment. Nevertheless, private consumption is likely to remain firm on the back of a healthy labour market and resilient wage growth. Growth in the Eurozone economy in 2020 is expected to be similar to last year's, as stable labour market conditions and favourable financing conditions are likely to lend support to domestic demand.

At the same time, uncertainties in the global economy remain. First, should the COVID-19 outbreak be more widespread, severe and protracted than anticipated, there could be a sharper pullback in global consumption, as well as more prolonged disruptions to global supply chains and production. A sharper-than-expected slowdown in the Chinese economy arising from the outbreak will also negatively affect global trade and economic growth. Second, notwithstanding the Phase 1 trade deal, US-China trade relations remain uncertain, especially as they turn to more contentious issues in the next phase of their negotiations. Third, geopolitical tensions in the Middle East could affect financial and commodity markets, which will have negative spillover effects on the region and Singapore.

Against this backdrop, the outlook for the Singapore economy has weakened since the last review in November. In particular, the COVID-19 outbreak is expected to affect the Singapore economy through several channels. First, outward-oriented sectors such as manufacturing and wholesale trade will be affected by the weaker growth outlook in several of Singapore's key final demand markets, including China. Firms in these sectors could also be affected by supply chain disruptions arising from prolonged factory closures and labour shortages in China as a result of the measures implemented by the Chinese government to contain the outbreak.

Second, the outbreak has led to a sharp fall in tourist arrivals, particularly from China, to Singapore. This has badly affected the tourism (e.g., hotels, travel agents and cruise operators) and transport (e.g., air transport) sectors. Third, domestic consumption in Singapore is likely to decline as locals cut back on shopping and dining-out activities. This will adversely affect firms in segments such as retail and food services.

Nonetheless, there are pockets of relative strength in the Singapore economy. These include the construction sector, which is projected to post steady growth given the rebound in construction demand since 2018. The information & communications sector is also expected to be resilient on account of sustained enterprise demand for IT solutions.

Taking into account the global and domestic economic environment, the GDP growth forecast for 2020 is downgraded to **"-0.5 to 1.5 per cent", with growth expected to come in at around 0.5 per cent**, the mid-point of the forecast range. As the COVID-19 situation is still evolving, MTI will continue to monitor developments and their impact on the Singapore economy closely.