Image courtesy of Singapore Tourism Board

CHAPTER 3

ECONOMIC OUTLOOK

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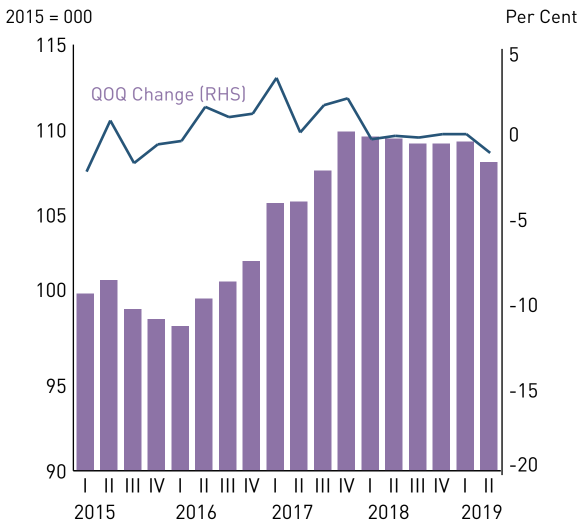
LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) fell by 1.1 per cent in the second quarter, after remaining unchanged 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 money supply, stock price and non-oil retained imports. By contrast, new companies formed, non-oil sea cargo handled, stock of finished goods, domestic liquidity and the US Purchasing Managers' Index declined compared to a quarter ago.

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2019

Since the last Economic Survey of Singapore published in May, the global growth outlook has weakened further, with the IMF downgrading its global growth forecast for 2019 in its July review. In particular, the growth prospects of key emerging markets and developing economies such as ASEAN-5 and China have worsened, partly due to the escalation in the US-China trade conflict in recent months. Concurrently, the global electronics cycle has entered a sharper-than-expected downswing, with the ongoing downturn exacerbated by the uncertainty caused by the US-China trade conflict. The global electronics downswing will pose a greater drag on economies with sizeable electronics and related sectors.

Looking ahead, GDP growth in many of Singapore's key final demand markets in the second half of 2019 is expected to slow from, or remain similar to, that recorded in the first half. In the US, following a better-than-anticipated performance in the first half of 2019, GDP growth is expected to moderate in the second half of the year, as the effects of the fiscal stimulus implemented in early-2018 dissipate even as slowing global growth and prolonged trade uncertainty weigh on private investment. Nonetheless, growth for the rest of the year is likely to be supported by private consumption on the back of firm labour market conditions. Meanwhile, the Eurozone economy registered weaker growth in the second quarter as compared to the first quarter. Growth momentum is likely to remain subdued for the rest of the year, with some support coming from domestic demand. In particular, labour market conditions are likely to remain healthy, while borrowing costs are expected to remain low due to accommodative monetary policies.

In Asia, China's economy expanded at a slower pace in the second quarter of 2019 as compared to the first quarter. Growth is projected to ease further in the second half of the year on the back of weaker investment growth and a continued decline in exports, exacerbated by the increase in the US's tariffs on its exports. However, private consumption is likely to remain stable, supported in part by government measures to boost household spending. On the other hand, GDP growth in the key ASEAN economies is expected to remain resilient for the rest of the year. While slowing merchandise exports are likely to weigh on growth, consumer sentiments are expected to remain firm and hence largely supportive of private consumption.

At the same time, uncertainties and downside risks in the global economy have increased since three months ago. First, the US's recent announcement of possible tariffs on an additional US$300 billion of imports from China has led to a further escalation of the trade conflict between the US and China. This could severely dent global business and consumer confidence, with adverse implications on global trade and global economic growth. Second, a steeper-than-expected slowdown of the Chinese economy could be precipitated by additional tariffs imposed by the US. This could in turn lead to a sharp fall in Chinese import demand and negatively affect the region's growth. Third, the risk of a "no-deal" Brexit has increased with the recent change in UK's political leadership. If it happens, substantial trade frictions between the UK and its trading partners could arise and adversely affect consumer and business sentiments in the UK and EU, with negative repercussions on their economic growth. Fourth, there are risks arising from the uncertainties in Hong Kong, the trade dispute between Japan and South Korea, as well as geopolitical tensions in North Korea and the Strait of Hormuz.

More broadly, prolonged uncertainties as a result of heightened risks in the global economy could further weaken business and consumer confidence, and lead to a cutback in global investment and consumption, thereby lowering global growth.

Against this challenging external macroeconomic backdrop, and the deepening downturn in the global electronics cycle, the Singapore economy is likely to continue to face strong headwinds for the rest of the year. In particular, the weaker-than-expected performance of the electronics and precision engineering clusters in the first half of 2019 is expected to be sustained into the remaining quarters of the year due to the deterioration in the outlook for global semiconductor demand. The downturn in these clusters will also continue to have negative spillover effects on the wholesale trade segment. At the same time, the chemicals cluster is likely to soften given weakening import demand from China. In addition to wholesale trade, growth in other trade-related services sectors like transportation & storage is likely to ease in tandem with slowing global trade volumes.

Nonetheless, there are several areas of strength in the Singapore economy. Within the manufacturing sector, the aerospace and food & beverage manufacturing segments are expected to continue to do well given firm demand conditions. Among the services sectors, the growth of the information & communications and finance & insurance sectors is projected to remain healthy, bolstered by sustained demand for enterprise IT solutions and increased demand for payment processing services respectively. Meanwhile, the education, health & social services segment's growth is likely to be resilient, supported by the ramp-up of operations in healthcare facilities. The recovery in the construction sector is also expected to be sustained.

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 2019 is downgraded to "**0.0 to 1.0 per cent**", from "1.5 to 2.5 per cent", with **growth expected to come in at around the mid-point of the forecast range**.