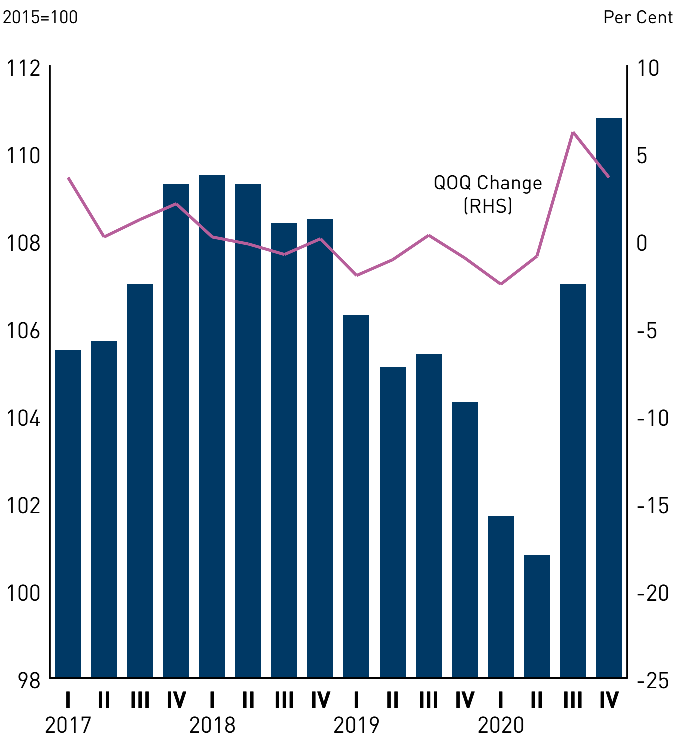
CHAPTER 7
ECONOMIC OUTLOOK

LEADING INDICATORS

The composite leading index (CLI) points to a continued recovery in the Singapore economy in the near term. Specifically, the CLI rose by 3.6 per cent on a quarter-on-quarter basis in the fourth quarter of 2020, extending the 6.2 per cent increase in the third quarter (Exhibit 7.1).

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

Exhibit 7.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2021

Since the last Economic Survey of Singapore in November 2020, there has been further progress in COVID-19 vaccine development and deployment, with several approved vaccines being rolled out in many economies around the world. Although the speed of vaccine deployment varies, advanced economies like the US and Eurozone are likely to reach population immunity by the second half of this year, which should in turn spur their economic recoveries. On the other hand, the growth prospects for regional economies such as Malaysia and Indonesia have weakened due to the recent resurgence in infections, which has necessitated the re-imposition of lockdowns and restrictions. On balance, as the positive developments in key economies broadly offset the negative ones, Singapore's external demand outlook remains largely similar compared to three months ago.

In particular, the US economy is projected to rebound this year on the back of a recovery in personal consumption expenditure, which is in turn expected to be bolstered by the injection of additional fiscal stimulus amidst an improvement in the health situation and the progressive rollout of vaccines. In the Eurozone, the recent surge in COVID-19 cases and resulting public health measures to contain the outbreak are likely to pose a drag on domestic demand and hence its economic recovery. Nonetheless, the pace of recovery is expected to pick up over the course of the year as the deployment of vaccines becomes more widespread. In Asia, China's economy is projected to continue to strengthen this year, driven by healthy growth in investment, consumption and exports. Meanwhile, the key ASEAN economies are expected to post a recovery this year, supported by a pickup in external demand, even though domestic demand is likely to be dampened by the recent wave of COVID-19 cases and associated measures taken to contain the virus.

At the same time, uncertainties and risks in the global economy remain. First, there continues to be significant uncertainty surrounding the course of the COVID-19 pandemic and the trajectory of the global economic recovery. How these pan out in the year ahead depends on factors such as the adequacy of vaccine supplies and speed of vaccine deployment, the possible emergence and spread of new strains of the virus, as well as the strength of policy support to drive economic recovery. Second, the protracted nature of the economic recovery in many countries could lead to financial system stresses, which could in turn trigger a tightening of financial conditions and adversely affect the global economic recovery. Excessive private sector indebtedness arising from loose monetary conditions also remains a concern. Third, continued geopolitical uncertainty involving the major economies could weigh on global trade and the global economic recovery.

Domestically, Singapore's COVID-19 situation remains under control and our vaccination programme is also underway. However, the pace of border re-opening has slowed amidst the global surge in COVID-19 cases and the emergence of more contagious strains of the virus.

Against this external and domestic backdrop, the Singapore economy is expected to see a gradual recovery over the course of the year, although the outlook remains uneven across sectors. First, outward-oriented sectors, including trade-related services sectors (e.g., wholesale trade and water transport), are projected to benefit from the pickup in external demand. The manufacturing sector, in particular, is likely to expand at a faster pace than previously projected due to robust semiconductor demand from the 5G and automotive markets. Meanwhile, the information & communications and finance & insurance sectors are expected to continue to post steady growth, supported by sustained enterprise demand for IT and digital solutions, and credit and payment processing services respectively.

Second, the tourism- and aviation-related sectors (e.g., accommodation and air transport) are projected to see a weaker recovery than previously expected due to the slower-than-anticipated lifting of global travel restrictions, as well as sluggish travel demand. Economic activity in these sectors is likely to remain below pre-COVID levels even by the end of 2021.

Third, consumer-facing sectors (e.g., retail trade and food & beverage services) are expected to benefit from an improvement in consumer sentiments amidst a gradual turnaround in labour market conditions. However, the slower recovery in visitor arrivals and capacity constraints arising from safe distancing measures are likely to weigh on their performance. On balance, economic activity in these sectors is not likely to return to pre-COVID levels by end-2021.

Fourth, while the construction and marine & offshore engineering sectors are projected to recover from the low base last year, activity levels at construction worksites and shipyards will continue to be dampened by the requirement for safe management measures. The recovery in output in these two sectors is also expected to be slow due to the plunge in contracts awarded for construction works in 2020 and the weakness in the global oil & gas market respectively.

Taking into account the developments in the global and domestic economic environment, the GDP growth forecast for 2021 is maintained at **"4.0 to 6.0 per cent"**.