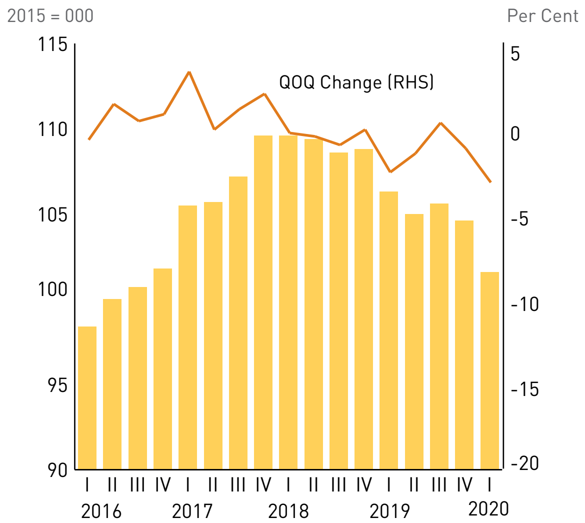
CHAPTER 3
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) fell by 2.9 per cent in the first quarter, extending the 0.9 per cent decline in the previous quarter (Exhibit 3.1).

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

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2020

In March, MTI highlighted that the escalation of the COVID-19 outbreak worldwide had led to a significant deterioration in the external economic environment. Since then, the disruptions to economic activity in major economies around the world have been more severe than expected. In its April review, the IMF projected that the global economy would contract by 3.0 per cent in 2020, with most of the major advanced and emerging economies expected to see full-year recessions.

In the US, GDP is forecast to decline in 2020 on the back of sustained weakness in personal consumption expenditure due to the COVID-19 outbreak. The curtailment of economic activity from "stay-at-home" orders issued by state governments has triggered large-scale job losses and weakened consumer spending. Even as the states begin to re-open, consumer spending is unlikely to recover strongly in the near-term given heightened uncertainties in the labour market. Similarly, the Eurozone economy is expected to be in recession this year, as measures implemented by the Eurozone countries to contain the spread of COVID-19 have taken a heavy toll on economic activity and weakened labour market conditions.

In Asia, China's economy is projected to slow sharply in 2020 as compared to 2019 due to the lockdowns and restrictions imposed to curb the spread of COVID-19. Private consumption growth is expected to remain weak as households cut back on spending due to uncertainty about the future and subsequent waves of infections, while exports growth is likely to be subdued because of sluggish global demand. Growth in the key ASEAN economies of Malaysia, Thailand and Indonesia is also expected to be weighed down by weak external demand and domestic consumption as a result of the COVID-19 outbreak.

There remain significant uncertainties in the global economy. First, there is a risk that subsequent waves of infections in major economies such as the US and Eurozone may further disrupt economic activity. In particular, if infections start to rise and strict measures such as lockdowns and movement restrictions are re-imposed, the downturn in these economies could be more severe and prolonged than expected. Second, a growing perception of diminished fiscal and monetary policy space in many major economies could damage confidence in authorities' ability to respond to shocks, undermining risk appetite and driving further financial market volatility, with negative spillovers for the broader global economy.

Against this backdrop, the outlook for the Singapore economy has weakened further since March. First, outward-oriented sectors such as manufacturing, wholesale trade and transportation & storage will be adversely affected by the sharper-than-expected slowdown in many of Singapore's key markets, as well as more prolonged supply chain disruptions. Second, the Circuit Breaker (CB) measures implemented to curb the spread of COVID-19 in Singapore, which include the closure of most workplace premises, have further dampened domestic economic activity, along with domestic consumption. In particular, consumer-facing segments such as retail and food services have been negatively affected by the CB measures. Firms across most sectors, especially those that cannot operate fully from home, have also been working under reduced capacity as a result of the workplace closures and the fall in demand. Third, sectors like construction and marine & offshore engineering have been severely affected by manpower shortages due to the outbreak of infections among foreign workers, especially those living in foreign worker dormitories.

Nonetheless, there are pockets of resilience in the Singapore economy. Within the manufacturing sector, the biomedical manufacturing cluster is expected to continue to expand, supported by the production of pharmaceutical and biological products. Among the services sectors, the information & communications sector is also projected to grow given firms' resilient demand for IT and digital solutions.

In view of the deterioration in the external demand outlook for Singapore as well as the expected economic impact of the CB measures, the GDP growth forecast for Singapore for 2020 is downgraded to "**-7.0 to -4.0 per cent**", from "-4.0 to -1.0 per cent". Notwithstanding the downgrade, there continues to be a significant degree of uncertainty over the length and severity of the COVID-19 outbreak, as well as the trajectory of the economic recovery, in both the global and Singapore economies.