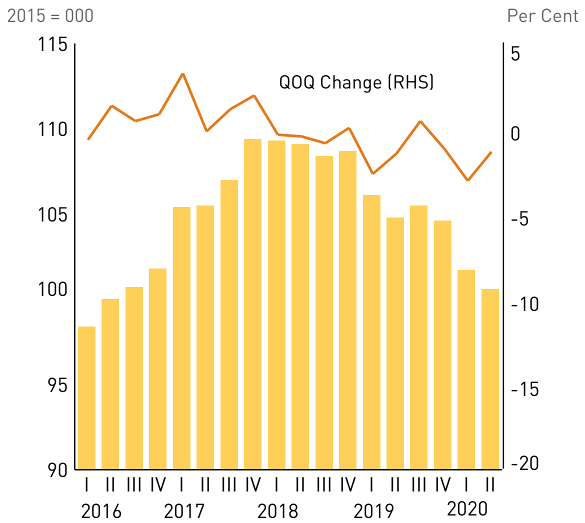
CHAPTER 3
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) fell by 1.1 per cent in the second quarter, extending the 2.8 per cent decline in the previous quarter (Exhibit 3.1).

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

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2020

In May, MTI downgraded Singapore's GDP growth forecast for 2020 to "-7.0 to -4.0 per cent" due to the expected economic impact of the Circuit Breaker (CB) measures, and the sharp deterioration in the growth outlook of major economies that were grappling with the COVID-19 pandemic. Since then, Singapore's external demand outlook has weakened slightly. Many of Singapore's key final demand markets saw worse-than-projected economic disruptions in the second quarter, and are also expected to experience a more gradual pace of recovery in the second half of 2020 due to the threat of localised outbreaks and the continued need for restriction measures to contain such outbreaks as they occur.

In the US, GDP contracted sharply in the second quarter and the pace of recovery in the second half of 2020 is expected to be slower than previously forecast due to a resurgence of infections across the Southern and Western states, which has prompted a pause in, or rollback of, the reopening plans in some of these states. The rise in infections, and the step-up in public health measures in response, are expected to dampen consumer sentiments and weaken labour market conditions, which will in turn weigh on personal consumption expenditures. Similarly, the Eurozone economy saw a steep contraction in the second quarter, and economic recovery in the second half of 2020 is expected to be slower than previously projected. Domestic demand will likely remain subdued as elevated uncertainty surrounding the COVID-19 situation and the continued need for safe distancing measures are expected to pose a drag on consumer and business sentiments, and also weigh on the labour market.

In Asia, China's economy rebounded in the second quarter, following a decline in the first quarter, primarily supported by fixed asset investments. Investment growth is expected to continue to drive China's economic recovery in the second half of 2020, even though private consumption growth is likely to stay subdued because of continued safe distancing measures amidst fears of renewed COVID-19 outbreaks. Meanwhile, China's exports growth is expected to remain sluggish for the rest of the year due to weak global demand. Growth in the key ASEAN economies of Malaysia, Thailand and Indonesia in the second half of 2020 is likely to be slower than earlier anticipated, mainly due to the weaker-than-expected recovery of external demand.

Furthermore, there remain significant uncertainties in the global economy. First, a major resurgence of COVID-19 infections could lead to a significant tightening of public health measures or a re-imposition of nationwide lockdowns across the major advanced and emerging economies. This could result in an even sharper and more protracted period of economic slowdown in these economies. Second, the global economic downturn could increase financial system stresses, including a rise in corporate indebtedness, financial market dislocations and capital outflows from emerging market economies. These could in turn trigger negative feedback loops and potentially intensify the global recession. Third, there are risks arising from geopolitical tensions and anti-globalisation sentiments, such as increased protectionism, which could result in further disruptions to global supply chains. The latter could in turn weigh on global trade and the global economic recovery.

Against this backdrop, the outlook for the Singapore economy has weakened slightly since May. First, the subdued external economic environment will continue to pose a drag on several of Singapore's outward-oriented sectors such as transportation & storage and wholesale trade. Second, due to the protracted COVID-19 situation worldwide, the reopening of international borders is expected to take place more gradually than earlier anticipated. This is likely to weigh on the outlook of sectors that are reliant on tourism (e.g., accommodation, tour operators and MICE organisers) and air travel (e.g., air transport and aerospace). Third, the resumption of activity for sectors that are reliant on foreign workers who reside in dormitories has been slower than expected due to the longer time taken to clear these workers for work, as well as the challenges faced by firms in meeting the safe management measures required at workplaces for a safe restart. In particular, the downturn in the construction and marine & offshore engineering sectors is projected to be deeper and more protracted than previously anticipated. A sharper slowdown in these sectors is also expected to have negative spillover effects on firms in supporting industries, such as professional services firms providing architectural & engineering services for construction projects.

Nonetheless, there are several areas of strength in the Singapore economy. In particular, the outlook for the electronics and precision engineering clusters has improved, as the stronger-than-expected demand for semiconductors and semiconductor equipment seen in the second quarter is expected to be sustained in the second half of 2020. The biomedical manufacturing cluster is also expected to continue to grow, supported by the production of pharmaceutical and biological products. Likewise, the finance & insurance and information & communications sectors are projected to expand this year. The former will be supported in part by the strong demand for digital payment processing services, while the latter will benefit from firms' continued demand for IT and digital solutions.

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 Singapore for 2020 is narrowed to **"-7.0 to -5.0 per cent"**, from "-7.0 to -4.0 per cent". Notwithstanding the narrowing of the forecast range, there continues to be significant uncertainty over how the COVID-19 situation will evolve in the coming quarters, and correspondingly, the trajectory of the economic recovery in both the global and domestic economies.