

CHAPTER 3

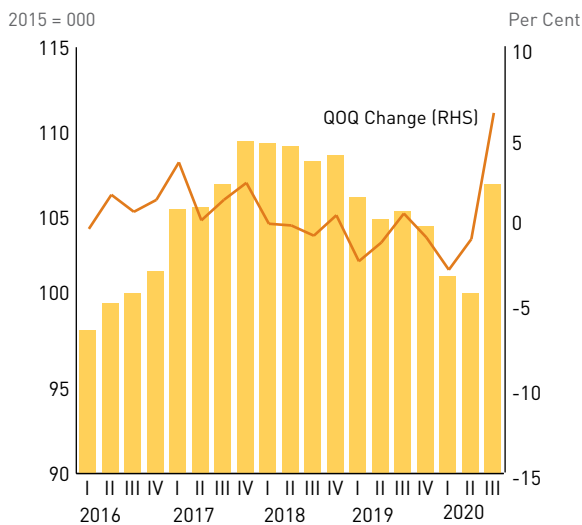
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) rose by 6.4 per cent in the third quarter, reversing the 1.0 per cent decline in the previous quarter (Exhibit 3.1).

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

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2020

Since the Economic Survey of Singapore in August, the global economic situation has remained subdued. While some economies like China are expected to see a sustained recovery for the rest of 2020 as their domestic COVID-19 outbreaks remain under control, others like the US and Eurozone are experiencing a resurgence in infections, which may dampen their recovery as restrictions are re-imposed to slow the spread of the virus.

Domestically, weak external demand conditions and ongoing global travel restrictions are expected to continue to weigh on trade-related services sectors like wholesale trade, and aviation- and tourism-related sectors like air transport and accommodation. Although consumer-facing sectors such as retail and food services have recovered from their troughs with the phased re-opening of the economy, sales volumes are likely to remain below last year's levels due to dampened consumer sentiments and capacity constraints imposed by safe management measures. On the other hand, the outlook for the manufacturing sector has improved, driven primarily by the electronics cluster on the back of robust demand for semiconductors from the 5G market, data centres and cloud services.

Taking these factors, as well as the performance of the Singapore economy in the first three quarters of the year (i.e., -6.5 per cent year-on-year), into account, the 2020 GDP growth forecast for Singapore is narrowed to **"-6.5 to -6.0 per cent"**, from **"-7.0 to -5.0 per cent"**.

OUTLOOK FOR 2021

For 2021, the major advanced and developing economies are expected to recover from the massive economic disruptions caused by COVID-19 and see a rebound in their GDP from the low base this year. However, the path to recovery is expected to be slow and uneven across economies, with many economies not likely to return to pre-COVID levels until end-2021.

In the US, the resurgence in COVID-19 cases has prompted a pause in, or reversal of, re-opening measures in some states. These developments are likely to weigh on the labour market and dampen the recovery in personal consumption. Similarly, the surge in COVID-19 cases and re-tightening of restrictions in the Eurozone will pose a drag on consumer and business sentiments, as well as weigh on the labour market. In Asia, China is expected to maintain a robust pace of growth, supported by strong investment spending as credit levels remain elevated. Meanwhile, GDP growth in the key ASEAN economies of Malaysia, Thailand and Indonesia is expected to pick up alongside the improvement in global economic conditions.

At the same time, uncertainties and risks in the global economy remain. First, notwithstanding positive news on vaccine development, as well as advancements in therapeutics and testing, the risk of periodic resurgence of infections around the world remains. The re-imposition of lockdowns, even in a limited way, could dampen business and consumer confidence, and pose a drag on the global economic recovery. Second, the protracted nature of the economic recovery in many countries could cause renewed pressures on corporate and financial sector balance sheets, which could in turn lead to financial system stresses and financial market dislocations such as capital outflows from emerging market economies. These could then trigger feedback loops and negatively affect the global economy. Excessive private sector indebtedness arising from loose monetary conditions also remains a concern. Third, amidst elevated uncertainty surrounding the COVID-19 situation, there is a higher risk of a miscalibration of policy settings which, together with tightening funding conditions, could result in a premature withdrawal of policy support in the key economies, thereby impeding their recovery. Fourth, there continues to be geopolitical uncertainty involving the major economies, which could in turn weigh on global trade and the global economic recovery.

On balance, given the improved growth outlook for key external economies, as well as a further easing of global travel restrictions and domestic public health measures that is expected in the year ahead, the Singapore economy is projected to return to growth in 2021.

First, trade-related services sectors (e.g., wholesale trade and water transport) are expected to benefit from the pickup in external demand. At the same time, the manufacturing sector is projected to continue to expand, with the electronics and precision engineering clusters boosted by robust semiconductor demand from the 5G market. Likewise, growth in the information & communications and finance & insurance sectors is expected to remain healthy, bolstered by sustained demand for IT and digital solutions, and credit and payment processing services respectively. Second, aviation- and tourism-related sectors (e.g., air transport and accommodation) are projected to see a gradual recovery in air passenger volumes and visitor arrivals. Similarly, consumer-facing sectors (e.g., retail trade and food services) are expected to benefit from the recovery in visitor arrivals, as well as an improvement in consumer sentiments amidst better labour market conditions. However, economic activity in these sectors is not likely to return to pre-COVID levels even by end-2021. Third, the construction sector is projected to recover from the low base this year, although construction activity will continue to be dampened by the implementation of safe management measures.

Taking these factors into account, the Singapore economy is projected to grow by **“4.0 to 6.0 per cent”** in 2021. The recovery of the Singapore economy in the year ahead is expected to be gradual, and will depend to a large extent on how the global economy performs and whether Singapore is able to continue to keep the domestic COVID-19 situation under control.