Chapter 7

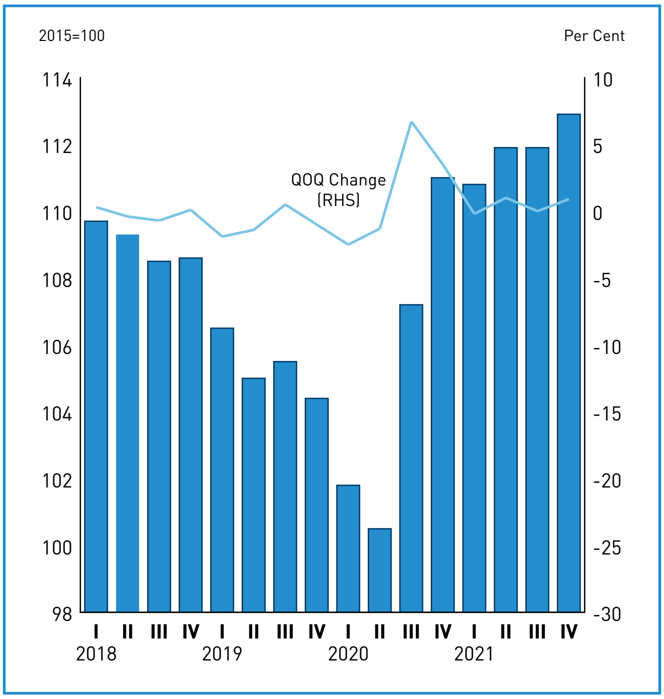
ECONOMIC OUTLOOK

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 0.9 per cent on a quarter-on-quarter basis in the fourth quarter of 2021, after remaining flat in the third quarter (Exhibit 7.1).

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

Exhibit 7.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2022

Since the Economic Survey of Singapore in November 2021, Singapore's external demand outlook has deteriorated slightly as the global surge in COVID-19 cases caused by the spread of the highly-transmissible Omicron variant has led to a tightening of restriction measures in many economies. Meanwhile, global supply bottlenecks remain and are expected to persist throughout the first half of 2022, thereby constraining industrial production and GDP growth in some external economies in the near term. Persistent supply bottlenecks, alongside rising energy prices due to geopolitical tensions, have also exacerbated global inflationary pressures.

Among the key economies, growth in the US economy in 2022 is projected to be slower than earlier expected. While personal consumption expenditure is likely to rise on the back of a sustained recovery in the labour market, a smaller additional fiscal stimulus than previously anticipated, near-term supply disruptions and more aggressive monetary policy tightening amidst elevated inflationary pressures may limit the extent of the increase. In the Eurozone, the Omicron-fuelled surge in COVID-19 cases and reinstatement of targeted restrictions are expected to weigh on economic activity in the near term. Nonetheless, economic growth is expected to pick up over the course of the year as the public health situation improves and production gathers pace in tandem with the gradual easing of supply bottlenecks.

In Asia, China's GDP growth is projected to slow as its COVID-19 measures and property market slowdown continue to dampen consumption and investment growth respectively. Meanwhile, the key Southeast Asian economies of Malaysia, Thailand and Indonesia are expected to grow at a faster pace this year due to a pickup in domestic demand and robust external demand. In particular, continued progress in vaccine deployment in Thailand and Indonesia should support the further easing of restrictions in these economies.

At the same time, downside risks in the global economy have increased. First, the trajectory of the COVID-19 pandemic remains a risk. While vaccination rates and booster rollouts have picked up in many economies, the potential emergence of more virulent strains of the virus continues to pose a risk to the global economic recovery. Second, if global supply disruptions are more protracted than expected due to further COVID-19 outbreaks and logistical or production constraints, global industrial production may be constrained for longer than currently projected. Third, there are significant upside risks to energy prices amidst supply concerns arising from escalating geopolitical tensions involving Russia and Ukraine, and in the Middle East, as well as unpredictable weather conditions. A spike in energy prices would exacerbate inflationary pressures and weigh on global economic growth. Fourth, if monetary policy tightening in the advanced economies is faster than expected, market adjustments could be disorderly and risks to financial stability could intensify. In particular, large capital outflows from regional economies with high dollar-denominated debt levels could lead to tighter financial conditions and derail growth in these economies.

Domestically, our high vaccination rate and steady rollout of booster shots should facilitate further progressive easing of domestic and border restrictions. This will support the recovery of our consumer-facing sectors and alleviate labour shortages in sectors that are reliant on migrant workers. Air travel and visitor arrivals are also expected to improve with the gradual loosening of travel restrictions and expansion of Vaccinated Travel Lanes.

Against this external and domestic backdrop, the Singapore economy is expected to continue to expand this year, although the outlook for the various sectors remains uneven. First, growth prospects for outward-oriented sectors (e.g., manufacturing and wholesale trade) remain strong given the continued global economic recovery. In particular, the manufacturing sector is projected to continue to expand, albeit at a more moderate pace following the strong outturn last year, supported by sustained global demand for semiconductors and semiconductor equipment. At the same time, growth in the information & communications and finance & insurance sectors is expected to remain healthy, driven by strong demand for IT and digital solutions, and credit and payment processing services respectively.

Second, the recovery of the aviation- and tourism-related sectors (e.g., air transport and accommodation) is expected to be slow as recurring COVID-19 outbreaks and potential virus mutations could delay the lifting of travel restrictions globally, and travel demand is also likely to take time to recover. Moreover, the accommodation sector will be weighed down by a projected fall in domestic demand as government demand for hotel rooms to serve as quarantine facilities decreases, and staycation demand drops with the relaxation of travel restrictions. Overall, activity in these sectors is expected to remain below pre-COVID levels even by the end of 2022.

Third, consumer-facing sectors (e.g., retail trade and food & beverage services) are projected to see a gradual recovery over the course of the year as domestic restrictions are progressively eased, and consumer sentiments improve amidst the turnaround in labour market conditions. However, the real value-added of the food & beverage services sector and some tourist-reliant segments of the retail trade sector are not expected to return to pre-COVID levels by end-2022, due in part to the slow recovery in visitor arrivals.

Fourth, activities in the construction and marine & offshore engineering sectors are projected to continue to recover on the back of the progressive easing of border restrictions on the entry of migrant workers from South Asia. Nonetheless, as it will take time to fully address the shortfall in labour required to meet business needs, labour shortages are likely to persist and weigh on the recovery of the sectors. In particular, the output of the construction sector is expected to remain below pre-pandemic levels throughout 2022.

Taking into account the global and domestic economic environment, and barring the materialisation of downside risks in the global economy, the Singapore economy is projected to expand by **"3.0 to 5.0 per cent"** in 2022.