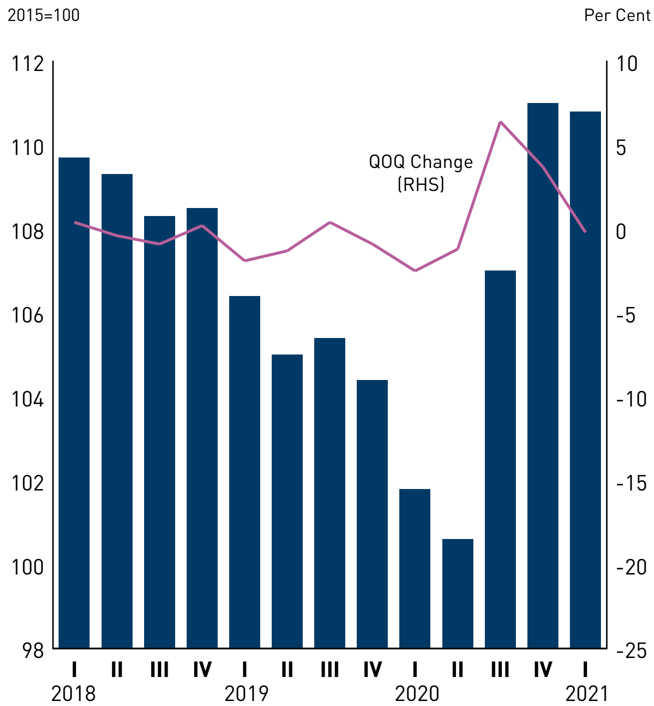
CHAPTER 3
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) declined by 0.2 per cent in the first quarter of 2021, a reversal from the 3.7 per cent increase in the fourth quarter of 2020 (Exhibit 3.1).

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

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2021

Since February, the external economic environment has improved, even though the pandemic continues to disrupt activities in many economies and threatens to undermine any recovery.

In the US, the economy is projected to see robust expansion in 2021. The rollout of a large fiscal stimulus package, improvements in the domestic health situation and rapid deployment of vaccines are expected to boost labour market recovery, which will in turn bolster personal consumption expenditure in the US. The Eurozone economy, which has been adversely affected by disruptions caused by repeated waves of infections, is also expected to recover gradually this year as its vaccination drive makes more progress and domestic restrictions are eased in tandem.

In Asia, China's GDP growth is expected to strengthen in 2021, with the driver of growth increasingly shifting from investment to private consumption. In India, even though the recent surge in COVID-19 cases has disrupted its economy, GDP is projected to recover from the low base in 2020 and as the pace of vaccination picks up. Japan's economy is also expected to recover in 2021 on the back of stronger external demand given the global economic rebound.

Within Southeast Asia, economies such as Malaysia, Indonesia and Thailand are projected to rebound in 2021 from the contractions in 2020, supported in large part by external demand. However, the extent of their recovery hinges on their respective COVID-19 situations. While the number of new COVID-19 infections has appeared to stabilise in economies such as Indonesia, others like Malaysia, Thailand and Vietnam are grappling with a resurgence of infections, which is likely to be a drag on their economic recoveries.

Domestically, the performance of the Singapore economy in the first quarter of 2021 was stronger than expected. While the recent tightening of domestic restrictions and border controls represents a setback to segments of the economy, the broader economy should still see a recovery this year in tandem with the global economic rebound and further progress in the domestic vaccination programme.

Against this backdrop, the pace of recovery of the various sectors of the economy this year is likely to be more uneven than earlier expected. First, outward-oriented sectors, including trade-related services sectors (e.g., wholesale trade), are projected to benefit from the pickup in external demand. In particular, the manufacturing sector is expected to expand more strongly than earlier projected due to robust semiconductor demand from the 5G and automotive markets. At the same time, growth in the finance & insurance and information & communications sectors is likely to remain strong, supported in part by further improvements in domestic and foreign credit demand, as well as healthy demand for digital solutions and games & software publishing activities, respectively.

Second, tourism- and aviation-related sectors (e.g., air transport, accommodation and arts, entertainment & recreation) are likely to see further delay in their recovery. International travel restrictions are likely to be lifted much more slowly, even among countries that have contained their domestic COVID-19 situation, amidst rising global infections and uncertainties over the spread of more contagious variants of the virus. The recent reduction in operating capacity limits at attractions will also weigh on the recovery of the arts, entertainment & recreation segment. Taking these factors into account, activity in the tourism- and aviation-related sectors will remain significantly below pre-COVID levels even by the end of the year, and the prospects of a significant recovery remain challenging.

Third, the projected recovery in consumer-facing sectors (e.g., retail trade and food & beverage services), partly due to low base effects, will be affected by the recent tightening of domestic restrictions and a more subdued tourism outlook. These sectors are also expected to end the year below pre-COVID levels.

Fourth, the construction and marine & offshore engineering sectors are projected to see some recovery from the low base last year. However, recent border restrictions on the entry of foreign workers from South Asia will exacerbate ongoing severe labour shortages at construction worksites and shipyards. The manpower crunch, along with the requirement to comply with safe management measures, will significantly impede the recovery of these sectors. Their output is thus projected to be substantially below pre-COVID levels even by year-end.

While it is possible that the Singapore economy will outperform the "4.0 to 6.0 per cent" growth forecast for 2021, there are also significant downside risks. The most important is the trajectory of the COVID-19 pandemic. Countries are experiencing recurring waves of infections, with the emergence of more transmissible strains of the virus, the easing of safe management restrictions, and delays in vaccinating populations. These resurgences, as well as the countries' public health responses to them, will inevitably affect their economic growth. Given the experience of the last 15 months, there is hope that even if outbreaks flare up again, countries will be able to avoid repeated blanket lockdowns and their high economic cost, but this is far from certain. As these countries include some of our major economic partners in our region, the uncertainty in their outlook also affects Singapore.

Domestically, while COVID-19 is generally well under control, and we are making good progress vaccinating the entire population, there remain significant risks and uncertainties in our own COVID-19 situation. These non-economic risks can have a major impact on our GDP growth this year.

Taking into account the above factors, and **considering the larger-than-usual degree of uncertainty over the course of the pandemic globally as well as our domestic situation**, MTI has decided to **maintain the GDP growth forecast for 2021 at "4.0 to 6.0 per cent" for now**. A review of the forecast will be undertaken in August when there is another quarter of data, as well as greater clarity over the global and domestic economic situations.