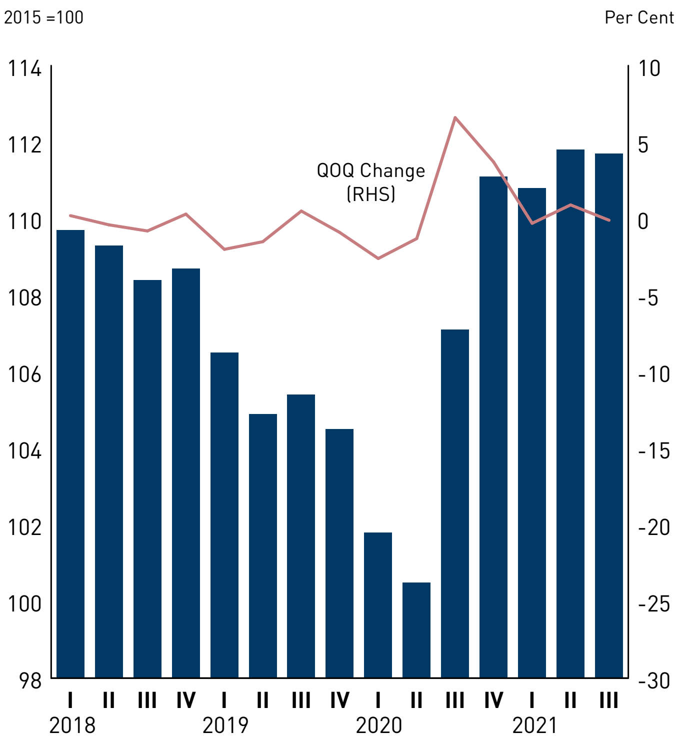
CHAPTER 3
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) declined marginally by 0.1 per cent in the third quarter of 2021, a reversal from the 0.9 per cent increase in the previous quarter (Exhibit 3.1).

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

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2021

Since the Economic Survey of Singapore in August, the global economy has performed broadly in line with expectations. Advanced economies which have achieved high vaccination rates and also started booster shots, such as the US and key Eurozone economies, have largely removed restriction measures even amidst the spread of the highly-infectious Delta variant. This has helped to sustain their economic recoveries. By contrast, COVID-19 outbreaks and the re-imposition of restrictions had disrupted the recoveries of key Southeast Asian economies, although some of these restrictions are being gradually lifted as their respective domestic health situations stabilise. In China, economic growth is expected to come in slower than earlier anticipated due to its property market downturn, energy crunch, as well as sluggish consumption growth amidst periodic local outbreaks that have led to the imposition of restrictions to contain the outbreaks.

Domestically, travel and domestic restrictions have continued to weigh on the recovery of aviation- and tourism-related sectors such as air transport and arts, entertainment & recreation, as well as consumer-facing sectors such as food & beverage services and retail trade. However, growth in outward-oriented sectors such as electronics and finance & insurance has been stronger than expected, bolstered by robust demand for semiconductors, and insurance products and fund management services, respectively. The recent easing of border restrictions on the entry of migrant workers from South Asia and Myanmar will also alleviate some of the ongoing labour shortages in the construction and marine & offshore engineering sectors, and support their recovery.

Taking into account the performance of the Singapore economy in the first three quarters of the year (i.e., 7.7 per cent year-on-year), as well as the latest external and domestic developments, the 2021 GDP growth forecast for Singapore is narrowed to **"around 7.0 per cent"**, from "6.0 to 7.0 per cent".

OUTLOOK FOR 2022

For 2022, GDP growth in most advanced economies is expected to moderate as compared to 2021 but remain above pre-COVID trend rates.[1] By contrast, key Southeast Asian economies are projected to see faster growth in 2022 as they progressively resume more economic activities. Meanwhile, supply bottlenecks and disruptions could continue to weigh on industrial production in some external economies in the near term.

In the US, economic growth is projected to moderate in 2022, although remaining above its pre-COVID trend rate. Stronger labour market conditions, along with elevated savings from previous fiscal stimulus packages, are expected to bolster consumer spending. Nonetheless, a reduction in the amount of fiscal stimulus likely to be disbursed in 2022 as compared to 2021, as well as lingering supply disruptions could pose a drag on growth. Similarly, GDP growth is expected to moderate but remain above trend in the Eurozone in 2022. Sustained improvements in labour market conditions and firm consumer confidence will continue to support domestic demand, even though industrial production is likely to be weighed down by supply bottlenecks in early 2022.

In Asia, China's growth is projected to slow due to its property market downturn, constraints imposed on energy use, and adherence to a zero-COVID policy, which could dampen consumption growth. Meanwhile, GDP growth in the key Southeast Asian economies of Malaysia, Thailand and Indonesia is expected to pick up alongside improvements in domestic demand, following the decline in COVID-19 infections in recent months and further progress in vaccine deployment, as well as sustained external demand.

At the same time, downside risks in the global economy remain. First, the trajectory of the COVID-19 pandemic remains a risk. While vaccination rates have picked up in many economies, there are concerns over waning vaccine efficacy and potential mutations of the virus. Hence, even in economies with high vaccination rates and booster rollouts, infections could still rise and weaken their recovery. Second, if global supply disruptions are more protracted than expected due to further COVID 19 outbreaks, logistical or production constraints, global industrial production may be constrained for longer. Third, protracted supply disruptions alongside a stronger pickup in demand, as well as rising energy commodity prices, could lead to more persistent inflation. This could in turn result in an earlier or larger increase in interest rates than anticipated, thereby triggering a tightening of global financial conditions. Fourth, continued geopolitical uncertainty involving the major economies could weigh on trade and the global economic recovery.

Domestically, our high vaccination rate and steady rollout of booster shots will continue to facilitate the progressive easing of domestic and border restrictions, which will support the recovery of 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 loosening of travel restrictions and expansion of Vaccinated Travel Lanes.

Against this backdrop, the recovery of the various sectors of the economy in 2022 is expected to remain uneven. First, the growth prospects for outward-oriented sectors (e.g., manufacturing and wholesale trade) remain strong given robust external demand. The manufacturing sector is projected to continue to expand, with growth in the electronics and precision engineering clusters supported by sustained global demand for semiconductor and semiconductor equipment respectively. At the same time, growth in the information & communications and finance & insurance sectors is expected to be driven by healthy 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 likely to be gradual as global travel demand will take time to recover and travel restrictions could persist in key visitor source markets. The accommodation sector will also be weighed down by a projected decline in domestic demand due to the tapering of government demand, as well as lower staycation demand with the relaxation of travel restrictions. Overall, activity in these sectors is expected to remain below pre-COVID levels throughout 2022.

Third, consumer-facing sectors (e.g., retail trade and food & beverage services) are projected to recover as domestic restrictions are progressively eased, and consumer sentiments improve amidst a gradual turnaround in labour market conditions. Nonetheless, the VA of the food & beverage services sector is not likely to return to pre-COVID levels by end-2022 as some dine-in and event restrictions could remain in place, while the recovery in visitor arrivals is expected to be slow. Similarly, even though the VA of the retail trade sector is projected to return to pre-pandemic levels by end-2022, some segments such as department stores are likely to remain lacklustre, in part due to weak visitor arrivals.

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

Taking these factors into account, and barring the materialisation of downside risks, the Singapore economy is expected to grow by **"3.0 to 5.0 per cent"** in 2022.

1 *Pre-COVID trend rate is measured as the average annual GDP growth rate from 2015 to 2019.*