

Chapter 7

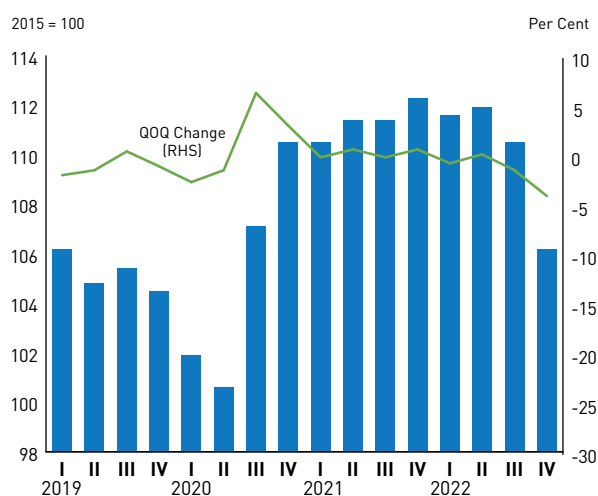
ECONOMIC OUTLOOK

LEADING INDICATORS

The composite leading index (CLI) for Singapore declined by 3.9 per cent on a quarter-on-quarter basis in the fourth quarter of 2022, pointing to a weaker outlook for the Singapore economy in the near term (Exhibit 7.1).

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

Exhibit 7.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2023

Since the Economic Survey of Singapore in November 2022, Singapore's external demand outlook has improved slightly. Growth in China is projected to pick up in tandem with the faster-than-expected easing of its COVID-19 restrictions. This has led to improvements in the growth outlook of regional economies. At the same time, the global supply situation continues to stabilise amidst softening global demand conditions. Accordingly, global commodity prices have eased from 2022 levels, although they remain elevated with the ongoing Russia-Ukraine war.

In the US, growth is projected to decelerate as tight financial conditions on the back of monetary policy tightening are expected to weigh on personal consumption and investment. Similarly, notwithstanding improvements in its energy situation, GDP growth in the Eurozone is forecast to slow as tighter monetary policy on account of elevated core inflation is likely to dampen domestic demand.

In Asia, China's growth is expected to pick up following the lifting of its COVID-19 restrictions, although continued stresses in its property market and weakening global demand are likely to weigh on its recovery. Meanwhile, despite weaker external demand for their merchandise goods and commodities, GDP growth in key Southeast Asian economies such as Malaysia, Indonesia and Thailand is likely to be supported by a continued recovery in domestic and tourism demand.

At the same time, uncertainties in the global economy remain. First, tighter financial conditions across many advanced economies that have been raising interest rates could have a larger-than-expected impact on global growth. With major central banks still raising interest rates, disorderly market adjustments and the exposure of latent vulnerabilities among highly-indebted corporates and households could increase financial stability risks. Second, further escalations in the war in Ukraine and geopolitical tensions among major global powers could worsen supply disruptions, dampen consumer and business confidence, as well as weigh on global trade.

Against this backdrop, the growth outlook for aviation- and tourism-related sectors of the Singapore economy has improved, as the recovery in international air travel and inbound tourism is expected to accelerate following the faster-than-expected relaxation of China's border restrictions. These sectors include air transport, accommodation and arts, entertainment & recreation. The output of the aerospace segment within the transport engineering cluster is also expected to be bolstered by the improved outlook for air travel.

On the other hand, the growth outlook for other outward-oriented sectors remains weak given the broader slowdown in the global economy. For instance, the semiconductors segment of the electronics cluster is expected to be negatively affected by weaker global semiconductor demand, while the precision engineering cluster is projected to be weighed down by a cutback in capital spending by semiconductor manufacturers. At the same time, growth in the wholesale trade, water transport and finance & insurance sectors will be dampened by the slowdown in major external economies.

Taking into account the global and domestic economic environment, the GDP growth forecast for 2023 is maintained at **"0.5 to 2.5 per cent"**.