Chapter 3

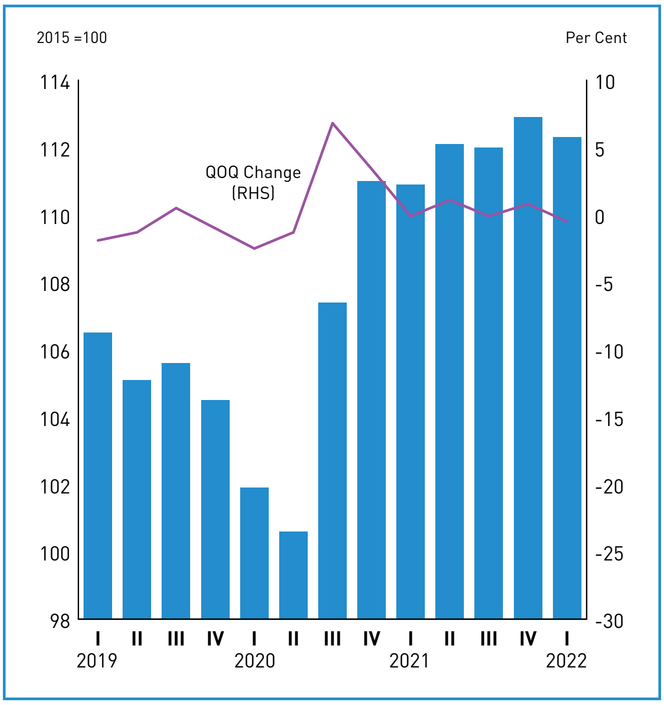
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) declined by 0.5 per cent in the first quarter of 2022, a reversal from the 0.8 per cent increase in the previous quarter (Exhibit 3.1).

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

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2022

Since February, the external economic environment has deteriorated, due in part to the onset of the Russia-Ukraine conflict. In particular, the conflict has disrupted the global supply of energy, food and other commodities, which has in turn exacerbated global inflationary pressures and adversely affected the growth of many economies. Meanwhile, stringent measures implemented in China to contain its domestic COVID-19 outbreaks are likely to weigh on its economy and contribute to global supply bottlenecks. Consequently, global supply disruptions are projected to be more severe and prolonged than earlier expected, potentially persisting throughout 2022. This, in turn, is likely to constrain production and dampen GDP growth in some external economies by more than previously projected.

In the US, GDP growth is projected to moderate in 2022. While its strong labour market recovery is likely to support consumption, continued supply disruptions and more aggressive monetary policy tightening amidst elevated inflationary pressures may limit the extent of its increase this year. Meanwhile, the growth outlook of the Eurozone economy has weakened due to the Russia-Ukraine conflict as the latter has led to higher inflation and more severe supply bottlenecks, which are likely to dampen the recovery in both consumption and industrial activities. Heightened economic uncertainty arising from the conflict has also dented economic sentiments, which could in turn weigh on domestic demand in the Eurozone.

In Asia, China's GDP growth in 2022 is expected to be slower than earlier projected, as consumption is likely to remain weak due to the imposition of stringent COVID-19 measures to contain its domestic outbreaks. Economic uncertainty arising from its COVID-19 situation, as well as continued stresses in its property market, are also likely to pose a drag on investment growth in the near term. Meanwhile, the growth of Southeast Asian economies such as Malaysia, Indonesia and Thailand is projected to improve in 2022, supported by a pickup in domestic demand with the easing of public health measures in these economies, as well as sustained demand for their merchandise exports.

On balance, MTI's assessment is that the external demand outlook for the Singapore economy has weakened compared to three months ago. At the same time, downside risks in the global economy remain significant. First, the Russia-Ukraine conflict has led to a surge in energy and food commodity prices, as well as significant global economic uncertainty. If the conflict is prolonged or escalates, it could further exacerbate inflationary pressures and weigh on global economic growth. Second, if global supply disruptions are more severe than expected due to renewed COVID-19 outbreaks or further escalations in the Russia-Ukraine conflict, global industrial production may be constrained more substantially than currently projected. Third, if monetary policy tightening in the advanced economies is faster than anticipated, market adjustments could be disorderly and risks to financial stability could intensify. In particular, the onset of large capital outflows from regional economies with high dollar-denominated debt levels could lead to tighter financial conditions and derail growth in these economies. Fourth, 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 economy.

Domestically, the COVID-19 situation has stabilised following the cresting of the Omicron wave. This, along with our high vaccination rate and strong booster take-up, has allowed for a faster-than-expected lifting of our domestic and border restrictions since end-March.

Against this backdrop, the growth outlook for some outward-oriented sectors in the Singapore economy has weakened this year. For instance, as China is a key market for petroleum and chemicals products from Singapore, its economic slowdown is likely to adversely affect the growth prospects of Singapore's chemicals cluster and the fuel & chemicals segment of the wholesale trade sector. Meanwhile, growth in the water transport segment is expected to be weighed down by prolonged supply disruptions and port congestions worldwide.

Nonetheless, there are also sectors in the Singapore economy which have seen a strengthening of their growth outlook. First, the electronics cluster is expected to expand more strongly than earlier projected, bolstered by robust global demand for semiconductors from the 5G and automotive markets, as well as cloud services and data centres. Second, the rollout of the Vaccinated Travel Framework, alongside the easing of border restrictions in regional economies, is likely to boost the growth of the professional services sector as firms in segments like consultancy and legal can now better engage their overseas clients. Similarly, air travel and visitor arrivals are expected to pick up more quickly than earlier projected, thereby accelerating the recovery of aviation- and tourism-related sectors like air transport and arts, entertainment & recreation. Third, the relaxation of domestic and border restrictions since end-March will support a faster pace of recovery in consumer-facing sectors such as retail trade and food & beverage services, as well as further alleviate labour shortages in sectors that are reliant on migrant workers such as construction.

Taking into account the performance of the Singapore economy in the first quarter, as well as the latest global and domestic economic developments, MTI continues to expect the Singapore economy to grow by **"3.0 to 5.0 per cent"** in 2022, **although growth is now more likely to come in at the lower half of the forecast range**.

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