Chapter 3

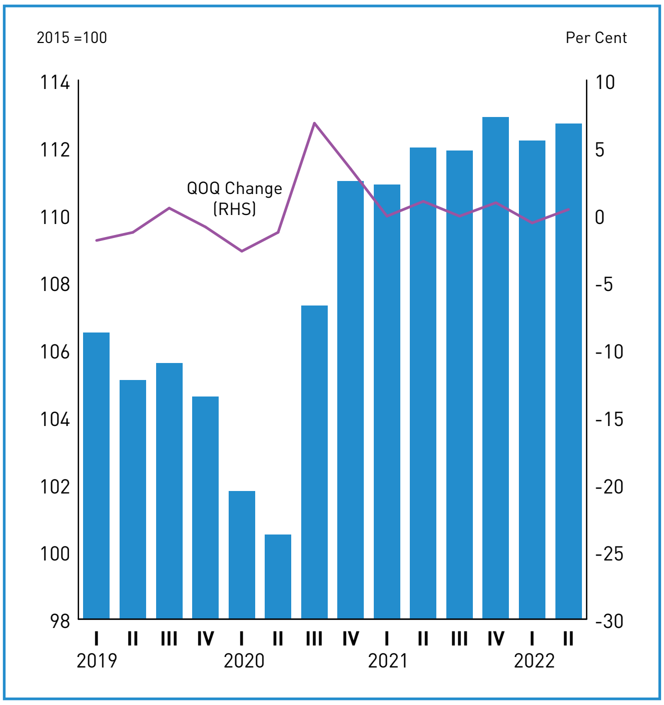
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) increased by 0.4 per cent in the second quarter of 2022, a turnaround from the 0.6 per cent decline in the previous quarter (Exhibit 3.1).

Of the nine components of the CLI, four components rose on a quarter-on-quarter basis, namely stock of finished goods, domestic liquidity, non-oil retained imports and new companies formed. On the other hand, the other five components – money supply, stock price, non-oil sea cargo handled, US Purchasing Managers' Index and wholesale trade – fell compared to the previous quarter.

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2022

Since May, the global economic environment has deteriorated further. Stronger-than-expected inflationary pressures and the more aggressive tightening of monetary policy in response are expected to weigh on growth in major advanced economies such as the US and Eurozone. Meanwhile, China continues to grapple with a deepening property market downturn and recurring domestic COVID-19 outbreaks. Notwithstanding recent signs of a slight easing in global supply disruptions, the disruptions are likely to persist for the rest of the year as underlying factors such as the Russia-Ukraine conflict and China's zero-COVID policy remain.

In the US, the pace of economic growth is expected to slow further in the second half of 2022 as compared to the first half. In particular, private consumption growth is likely to weaken on the back of tighter financial conditions due to aggressive monetary policy tightening and continued supply disruptions, even though resilient labour market conditions and accumulated household savings could provide some support. Similarly, the Eurozone economy is projected to see a slower pace of growth in the second half of 2022. Higher cost pressures arising from protracted supply bottlenecks amidst the ongoing Russia-Ukraine conflict, alongside tighter monetary policy, are likely to dampen consumption and industrial activities. The persistent disruption in natural gas supplies from Russia could also trigger a sharp slowdown in the Eurozone economy towards the end of the year.

In Asia, China's GDP growth is expected to pick up in the second half of 2022, supported by the Government's push for more infrastructure spending. However, its property market downturn and continued adherence to a zero-COVID policy amidst recurring outbreaks are likely to weigh on real estate investment and consumption activity respectively, thereby dampening the pace of its economic recovery. Meanwhile, the key Southeast Asian economies such as Malaysia, Indonesia and Thailand are projected to expand at a slightly faster pace in the second half of 2022 due to a continued recovery in domestic and tourism demand with the easing of COVID-19 restrictions, 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, further escalations in the Russia-Ukraine conflict could worsen global supply disruptions and exacerbate inflationary pressures through higher food and energy prices. More persistent and higher-than-expected inflation would dampen global growth further, including through even more aggressive monetary policy tightening in many advanced economies. Second, financial stability risks could intensify if there are disorderly market adjustments to monetary policy tightening in the advanced economies. In particular, the onset of large capital outflows from regional economies with high dollar-denominated debt levels could lead to tighter financial conditions and affect growth in these economies. Third, there is a risk that geopolitical tensions in the region could escalate and lead to further disruptions in supply chains. Fourth, the trajectory of the COVID-19 pandemic remains a risk, given the potential emergence of more virulent strains of the virus.

Domestically, Singapore has transited to living with COVID-19 with the progressive removal of almost all of its domestic and border restrictions. This has in turn supported the recovery of segments of the Singapore economy that had been badly affected by the pandemic. Notably, the rollout of the Vaccinated Travel Framework in end-March has led to a stronger-than-expected recovery in air passengers handled at Changi Airport and international visitor arrivals to Singapore.

Against this backdrop, the outlook for some outward-oriented sectors in the Singapore economy has weakened. For instance, as China is a key market for petroleum and chemicals products from Singapore, the weakness in its economic outlook has adversely affected the growth prospects of Singapore's chemicals cluster and the fuels & chemicals segment of the wholesale trade sector. At the same time, growth in the water transport and finance & insurance sectors is expected to be dampened by the projected slowdown in major external economies.

On the other hand, the outlook for several sectors in the Singapore economy has improved. In particular, the strong recovery in air passengers and international visitor arrivals is expected to benefit aviation- and tourism-related sectors like air transport and arts, entertainment & recreation, as well as consumer-facing sectors like food & beverage services. In addition, the easing of Singapore's travel restrictions has bolstered the recovery of the professional services sector as firms in the sector (e.g., consultancy and legal firms) can now better engage their overseas clients.

Taking into account the performance of the Singapore economy in the first half of 2022, as well as the latest global and domestic economic developments, **MTI has narrowed the GDP growth forecast for 2022 to "3.0 to 4.0 per cent", from "3.0 to 5.0 per cent"**.

1 *As of June 2022, air passengers and international visitor arrivals have recovered to 50.4 per cent and 35.0 per cent of pre-pandemic (June 2019) levels respectively, as compared to 20.3 per cent and 7.7 per cent of pre-pandemic (March 2019) levels in March 2022.*

2 *In the first half of 2022, Singapore's GDP growth averaged 4.1 per cent on a year-on-year basis.*