Chapter 3

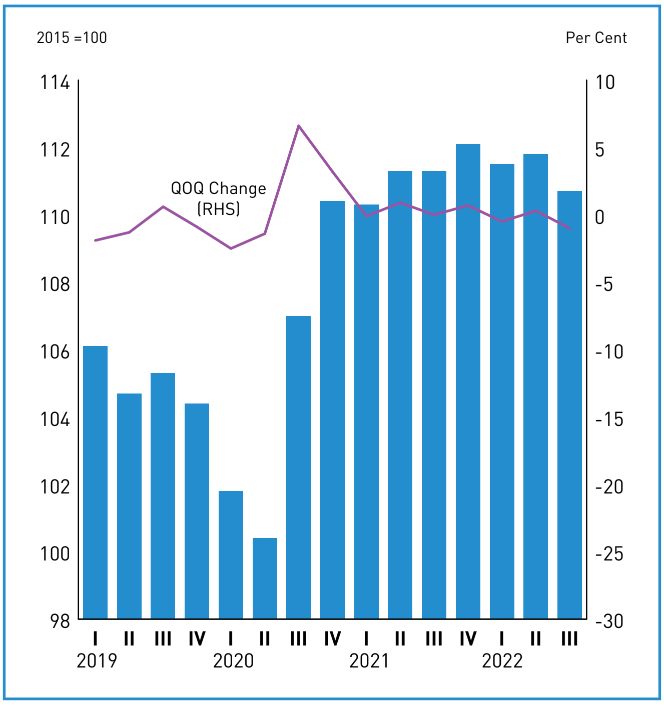
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) declined by 1.0 per cent in the third quarter of 2022, a reversal from the 0.3 per cent increase in the previous quarter (Exhibit 3.1).

Of the nine components of the CLI, six components fell on a quarter-on-quarter basis, namely new companies formed, stock price, money supply, stock of finished goods, US Purchasing Managers' Index and wholesale trade. By contrast, domestic liquidity and non-oil retained imports increased, while non-oil sea cargo handled remained unchanged from the previous quarter.

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2022

Since the Economic Survey of Singapore in August, Singapore's external demand outlook has softened further due to the weaker outlook for the Eurozone economy amidst an energy crunch, as well as for China as it continues to grapple with recurring COVID-19 outbreaks and a property market downturn.

For the rest of the year, the weaker external economic outlook will weigh on the growth of outward-oriented sectors in Singapore, including the electronics and chemicals clusters. On the other hand, the strong recovery in air travel and international visitor arrivals is expected to continue to benefit aviation- and tourism-related sectors such as air transport and arts, entertainment & recreation, as well as consumer-facing sectors like food & beverage services. The lifting of travel restrictions in Singapore and the region has also boosted the recovery of the professional services sector.

Taking into account the performance of the Singapore economy in the first three quarters of the year (i.e., 4.2 per cent year-on-year), as well as the latest external and domestic developments, the 2022 GDP growth forecast for Singapore is narrowed to **"around 3.5 per cent"**, from "3.0 to 4.0 per cent".

OUTLOOK FOR 2023

Looking ahead to 2023, GDP growth rates in most major economies are expected to moderate further from 2022 levels, with sharp slowdowns projected in the US and Eurozone. Meanwhile, global supply disruptions are likely to continue into 2023 as the war in Ukraine drags on, even though the extent and frequency of disruptions is expected to ease.

In the US, GDP growth is projected to slow significantly, as tighter financial conditions, a reduction in household savings, and negative household wealth effects arising from asset market corrections are expected to weigh on private consumption. Similarly, GDP growth in the Eurozone is forecast to slow sharply. In particular, higher cost pressures arising from significant energy disruptions due to the Russia-Ukraine war, alongside tighter financial conditions, are likely to dampen consumption and industrial production.

In Asia, China's growth is projected to pick up from a low base but remain sluggish as its zero-COVID policy is likely to continue to constrain household consumption. Furthermore, while the financing measures introduced recently will help to alleviate the liquidity crunch faced by developers, the property sector is likely to remain weak in the near term. Meanwhile, GDP growth in the Southeast Asian economies of Malaysia and Indonesia is expected to moderate amidst weaker demand for their merchandise exports, although the ongoing recovery in domestic and tourism demand will provide some support.

At the same time, significant uncertainties and downside risks in the global economy remain. First, with many advanced economies raising interest rates simultaneously to combat high inflation, the impact of tightening financial conditions on global growth could be larger than expected. Second, financial stability risks could intensify if there are disorderly market adjustments to monetary policy tightening in the advanced economies. A sharp re-pricing of assets could trigger capital outflows from the region and increase debt servicing burdens, thereby dampening regional economies' growth outlook. Third, 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 of outward-oriented sectors in Singapore is expected to weaken in tandem with the deterioration in external demand conditions. For instance, the semiconductors segment of the electronics cluster is expected to be negatively affected by the fall in global demand for semiconductors, while the machinery & systems segment of the precision engineering cluster is projected to be weighed down by a cutback in capital spending by semiconductor manufacturers amidst weak demand. At the same time, growth in the wholesale trade, water transport and finance & insurance sectors is expected to be dampened by the slowdown in major external economies.

On the other hand, the growth prospects of several sectors remain positive. In particular, the continued recovery in air travel and international visitor arrivals will support the expansion of aviation- and tourism-related sectors like air transport, accommodation and arts, entertainment & recreation, as well as other related activities. The latter include the rental & leasing of air transport equipment within the administrative & support services sector, and aircraft engine maintenance and repair work for the aerospace segment within the transport engineering cluster.

Taking these factors into account, and barring the materialisation of downside risks, the Singapore economy is expected to grow by **"0.5 to 2.5 per cent"** in 2023.