Chapter 3

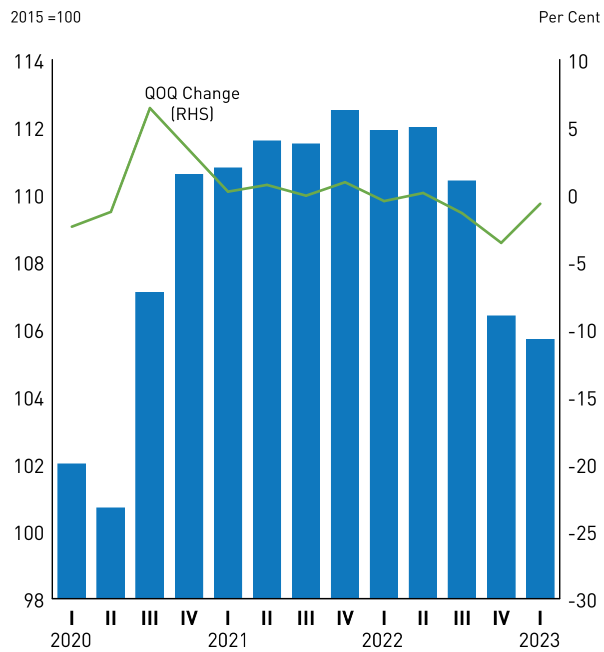
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) declined by 0.7 per cent in the first quarter of 2023, less than the 3.6 per cent decrease in the previous quarter (Exhibit 3.1).

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

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2023

Since the Economic Survey of Singapore released in February, the performance of advanced economies such as the US and Eurozone has been more resilient than expected, supported by domestic services demand. Nonetheless, their growth outlook for the rest of the year remains weak.

In particular, US' GDP growth is projected to decelerate more significantly in the second half of the year as personal consumption and investment growth slows due to the lagged effects of monetary policy tightening, including on the labour market. Similarly, GDP growth in the Eurozone is forecast to slow significantly as elevated inflation amidst tight labour market conditions is likely to lead to further monetary policy tightening, which will weigh on domestic demand.

In Asia, China's economic recovery is likely to be stronger than earlier expected, driven by a pickup in domestic services consumption following the lifting of its COVID-19 restrictions. However, continued stresses in its property market, as well as weakness in its industrial sector amidst subdued external demand conditions, will continue to weigh on its recovery. Meanwhile, despite weaker external demand for their merchandise goods and commodities, the growth prospects of key Southeast Asian economies such as Malaysia, Indonesia and Thailand remain positive, supported by resilient domestic demand as well as the continued recovery in tourism demand.

Against this backdrop, MTI's assessment is that Singapore's external demand outlook for the rest of the year has weakened. Apart from the expected slowdown in the advanced economies, the electronics downcycle is likely to be deeper and more prolonged than earlier projected. Spillovers from China's services-led recovery are also expected to remain weak given that services activities are less import-intensive than industrial activities.

At the same time, downside risks in the global economy have risen. First, recent banking sector stresses abroad have increased the risk of a sharper-than-expected tightening in global financial conditions, which could weigh more heavily on consumption and business investments and lead to a broader retraction in global growth beyond the manufacturing downturn. Second, escalations in the war in Ukraine and geopolitical tensions among major global powers could lead to renewed supply disruptions, dampen consumer and business confidence, as well as weigh on global trade.

Domestically, the growth outlook for the aviation- and tourism-related sectors of the Singapore economy remains positive given the ongoing recovery in international air travel and inbound tourism. These include the air transport, accommodation and arts, entertainment & recreation sectors, as well as the aerospace segment of the transport engineering cluster.

On the other hand, the outlook for the manufacturing and other trade-related sectors of the economy has weakened. In particular, the manufacturing sector is projected to see a deeper downturn, led by output contractions in the electronics and precision engineering clusters in tandem with weaker global semiconductor demand, as well as the chemicals cluster due to sluggish demand from China. Meanwhile, growth in the water transport and finance & insurance sectors is likely to be dampened by the broader slowdown in the global economy.

Taking into account the performance of the Singapore economy in the first quarter, as well as the latest global and domestic economic developments, MTI expects the economy to expand by **"0.5 to 2.5 per cent"** in 2023, **with growth likely to come in at around the mid-point of the range**.