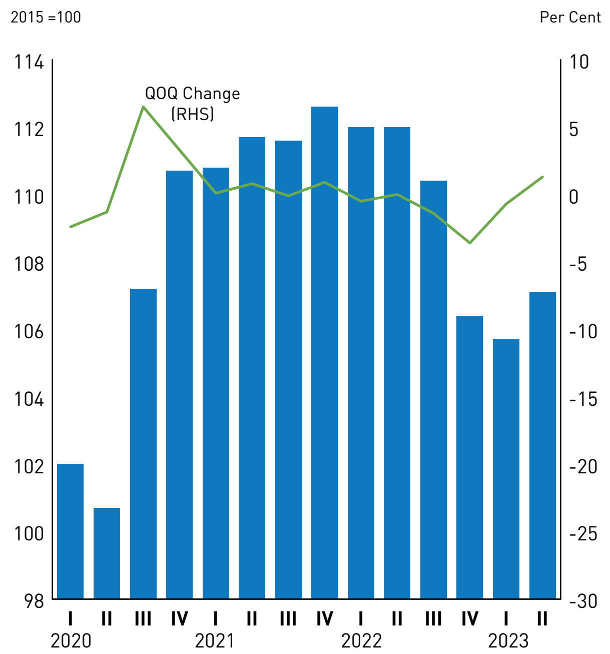
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) rose by 1.3 per cent in the second quarter of 2023, a reversal from the 0.7 per cent decline in the previous quarter (Exhibit 3.1).

Of the nine components of the CLI, four components fell on a quarter-on-quarter basis, namely the US Purchasing Managers' Index, stock price, wholesale trade and domestic liquidity. By contrast, the stock of finished goods, non-oil retained imports, non-oil sea cargo handled and money supply increased, while new companies formed 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 May, the performance of advanced economies such as the US and Eurozone has continued to be resilient, although their growth is expected to weaken in the second half of the year. In particular, US' GDP growth is projected to slow more significantly in the remaining quarters of the year as elevated interest rates and a cooling labour market weigh on personal consumption growth. Similarly, GDP growth in the Eurozone is forecast to remain subdued for the rest of the year due to sluggish external demand and the effects of tight financial conditions on domestic demand.

In Asia, China's GDP growth is expected to moderate in the second half of the year as the post-pandemic recovery in its services activity slows in tandem with deteriorating consumer confidence. Sustained weakness in its property sector, alongside subdued external demand, will also continue to weigh on its growth. Meanwhile, Southeast Asian economies such as Malaysia, Indonesia and Thailand are projected to remain resilient in the second half of the year on account of the continued recovery in domestic and tourism demand.

Overall, MTI's assessment is that Singapore's external demand outlook for the rest of the year remains weak. Apart from the expected slowdown in Singapore's key external demand markets, the global electronics downturn is also likely to be protracted, with a gradual recovery expected towards the end of the year at the earliest.

At the same time, downside risks in the global economy remain. First, more persistent-than-expected inflation in the advanced economies could induce tighter global financial conditions, which could then lead to a sharper retraction in global spending and exacerbate the ongoing 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.

Against this backdrop, the growth outlook for the manufacturing sector in Singapore remains weak for the rest of the year. In particular, manufacturing output is expected to be weighed down largely by output contractions in the electronics and precision engineering clusters amidst the global electronics downturn. Similarly, growth in the finance & insurance sector is likely to be subdued as a result of continued weakness in the external economic environment and restrictive financial conditions.

On the other hand, the growth outlook for aviation- and tourism-related sectors such as air transport and accommodation remains positive given the ongoing recovery in international air travel and inbound tourism. Meanwhile, consumer-facing sectors such as retail trade and food & beverage services are expected to continue to expand, supported by resilient labour market conditions and the recovery in inbound tourism.

Taking into account the performance of the Singapore economy in the first half of 2023,[1] as well as the latest global and domestic economic developments, MTI has narrowed the GDP growth forecast for 2023 to "**0.5 to 1.5 per cent**", from "0.5 to 2.5 per cent".

1 *In the first half of 2023, Singapore's GDP growth averaged 0.4 per cent on a year-on-year basis.*