Chapter 3

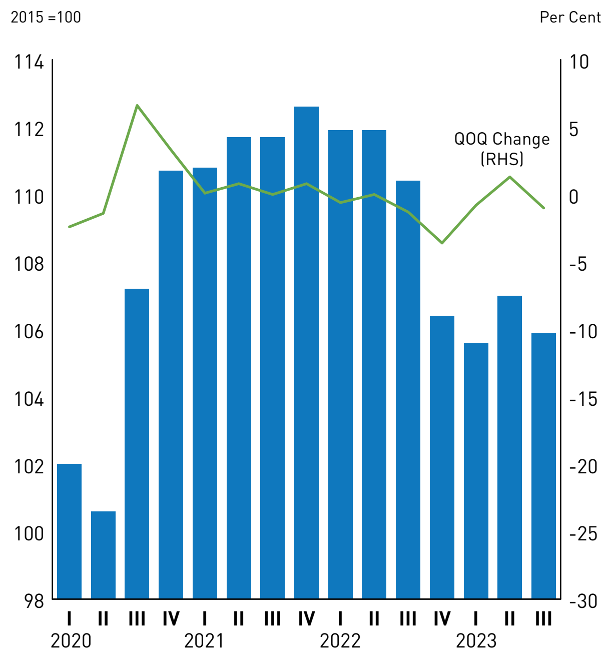
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) fell by 1.0 per cent in the third quarter of 2023, a reversal from the 1.3 per cent expansion in the previous quarter (Exhibit 3.1).

Of the nine components of the CLI, five components fell on a quarter-on-quarter basis, namely new companies formed, stock price, non-oil retained imports, domestic liquidity and the stock of finished goods. By contrast, wholesale trade, money supply and the US Purchasing Managers' Index 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 2023

Since the Economic Survey of Singapore in August, the US economy has performed better than expected, largely due to resilience in its domestic services activity. However, for the rest of the year, growth in the US and Eurozone is projected to moderate due to the cumulative effects of monetary policy tightening. Likewise, China's growth is likely to slow further amidst ongoing weaknesses in its property sector and domestic consumption, as well as subdued external demand. At the same time, global electronics demand remains sluggish given elevated inventory levels, although there are signs that the downturn may be bottoming.

Given subdued external demand, Singapore's manufacturing and trade-related sectors such as precision engineering and water transport are likely to remain weak for the rest of 2023. On the other hand, the ongoing recovery in air travel and inbound tourism is expected to support the growth of aviation- and tourism-related sectors such as air transport and accommodation. Meanwhile, resilient labour market conditions will continue to lend support to consumer-facing sectors like retail trade and food & beverage services.

Taking into account the performance of the Singapore economy in the first three quarters of the year (i.e., 0.7 per cent year-on-year), as well as the latest external and domestic developments, the 2023 GDP growth forecast for Singapore is narrowed to **around 1.0 per cent**, from 0.5 to 1.5 per cent.

OUTLOOK FOR 2024

Looking ahead to 2024, GDP growth rates in major economies such as the US and Eurozone are projected to slow further in the first half of the year due to continued tight financial conditions, before picking up gradually in the second half. At the same time, as the post-pandemic boost in demand for services dissipates, there could be a rebalancing of demand towards goods in the year ahead. This, alongside a normalisation of inventory levels, is likely to support a turnaround in global manufacturing activity over the course of the year. In particular, global electronics demand is projected to recover, which will bolster the growth of most regional economies.

In the US, GDP growth is expected to moderate in the first half of 2024 as economic activity continues to be weighed down by tight financial conditions, before picking up in the second half in line with expectations of an easing of the monetary policy stance. Similarly, GDP growth in the Eurozone is forecast to remain subdued in the first half of 2024 due to restrictive financial conditions and sluggish external demand, before improving in the second half, supported by a pickup in domestic consumption as inflation recedes.

In Asia, China's growth is projected to remain sluggish in 2024 and come in lower than that in 2023, given sustained weakness in its property sector. At the same time, domestic consumption and exports growth are likely to remain lacklustre, in line with weak consumer confidence and sluggish external demand respectively. On the other hand, GDP growth in the Southeast Asian economies of Malaysia and Thailand is expected to pick up, supported by an improvement in external demand for electronics and resilient domestic demand.

Nonetheless, significant downside risks in the global economy remain. First, sticky core inflation in advanced economies could induce central banks to maintain current high interest rates for longer, increasing strains to the global financial system. Second, an escalation or widening of the Israel-Hamas conflict or the war in Ukraine could lead to renewed supply disruptions and commodity price shocks. The confluence of these factors could weigh on both business and consumer sentiments along with demand, leading to a slowdown in global growth and trade.

Against this backdrop, the growth prospects of the manufacturing and trade-related sectors in Singapore are expected to improve in tandem with the turnaround in global electronics demand. In particular, the electronics and precision engineering clusters are expected to benefit from a recovery in demand for semiconductors and semiconductor equipment respectively. Similarly, growth in the wholesale trade sector is projected to strengthen on the back of an improvement in external demand for electronic components and telecommunications & computers. If global interest rates start to moderate in 2024, the finance & insurance sector is also expected to post a modest recovery.

At the same time, the continuing recovery in air travel and tourist arrivals will support the growth of aviation- and tourism-related sectors, including air transport and accommodation, although the pace of growth is likely to moderate. Likewise, consumer-facing sectors such as retail trade and food & beverage services are projected to continue to expand amidst resilient labour market conditions.

Taking these factors into account, and barring the materialisation of downside risks, the Singapore economy is expected to grow by **1.0 to 3.0 per cent** in 2024.