Chapter 7

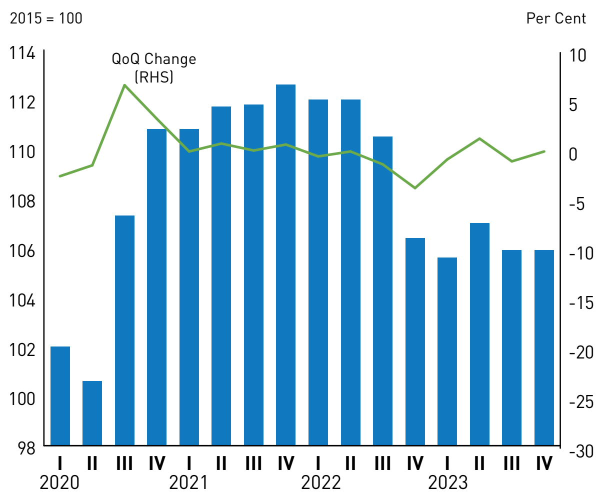
ECONOMIC OUTLOOK

LEADING INDICATORS

The composite leading index (CLI) for Singapore remained flat on a quarter-on-quarter basis in the fourth quarter of 2023, compared to the 1.0 per cent decline in the previous quarter (Exhibit 7.1).

Of the nine components of the CLI, five components decreased on a quarter-on-quarter basis in the fourth quarter, namely the US Purchasing Managers' Index, money supply, non-oil retained imports, stock price and new companies formed. By contrast, domestic liquidity remained flat, and the other three components – wholesale trade, the stock of finished goods and non-oil sea cargo handled – rose compared to a quarter ago.

Exhibit 7.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2024

Since the Economic Survey of Singapore in November 2023, Singapore's external demand outlook for 2024 has remained largely unchanged. Growth in the advanced economies is expected to moderate in the first half of the year, mainly due to continued tight financial conditions, before recovering gradually in line with an expected easing of monetary policy as inflationary pressures recede. Meanwhile, regional economies are expected to see a pickup in growth in the year ahead, supported in part by the turnaround in global electronics demand.

In the US, GDP growth is expected to continue to ease in the coming quarters amidst continued tight financial conditions, before picking up later in the year alongside a loosening of monetary policy, which will support a recovery in investment growth. Similarly, GDP growth in the Eurozone is forecast to remain subdued in the first half of the year. However, growth should improve in the latter part of the year as a further easing of inflationary pressures and anticipated policy rate cuts are likely to support a firmer recovery in private consumption expenditure.

In Asia, China's GDP growth is projected to remain lacklustre in the first half of the year due to sluggish domestic consumption and exports growth alongside weak property market conditions. Growth is likely to recover gradually in the second half in line with improvements in consumer sentiments and global demand. Meanwhile, GDP growth in the Southeast Asian economies of Malaysia and Thailand is likely to be supported by the continued recovery in tourist arrivals, as well as an anticipated pickup in global electronics demand.

At the same time, downside risks in the global economy remain significant. First, an escalation or widening of the Israel-Hamas conflict or war in Ukraine could disrupt global supply chains and commodity markets. This would weigh on global trade and growth. Second, the lagged effects of monetary tightening could trigger latent vulnerabilities in banking and financial systems, leading to stresses on regional economies with external financing needs. Third, should idiosyncratic cost shocks such as adverse weather events disrupt the global disinflation process, financial conditions could stay tight for longer, thereby weakening the economic recovery momentum.

Against this backdrop, Singapore's manufacturing and trade-related sectors are expected to see a gradual pickup in growth in tandem with the turnaround in global electronics demand. In particular, the electronics and precision engineering clusters within the manufacturing sector are projected to rebound, especially given that the recovery in semiconductor sales globally and domestically has been stronger than expected. At the same time, the machinery, equipment & supplies segment of the wholesale trade sector will benefit from higher external demand for electronic components and telecommunications & computers.

Meanwhile, the continued recovery in air travel and tourism demand will support growth in Singapore's tourism- and aviation-related sectors, including aerospace, air transport and accommodation, as well as consumer-facing sectors such as retail trade and food & beverage services. Nonetheless, the pace of growth for most of these sectors is expected to moderate from that in 2023.

Taking into account the global and domestic economic environment, the GDP growth forecast for 2024 is maintained at **"1.0 to 3.0 per cent"**.