Chapter 3

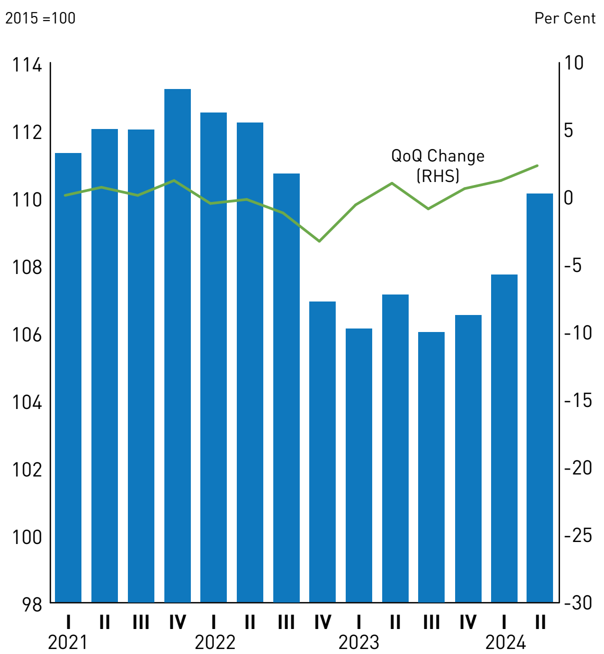
ECONOMIC OUTLOOK

LEADING INDICATORS

On a quarter-on-quarter basis, the composite leading index (CLI) rose by 2.2 per cent in the second quarter of 2024, faster than the 1.1 per cent expansion in the previous quarter (Exhibit 3.1).

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

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



OUTLOOK FOR 2024

Since the Economic Survey of Singapore in May, the GDP growth performances of Singapore's major trading partners have largely been in line with expectations, with the US, Japan and Malaysia being key exceptions. Notably, the US and Malaysian economies performed better than expected in the second quarter on the back of strong domestic demand. By contrast, GDP growth in Japan was weighed down by weak private consumption as real wages continued to decline.

For the rest of 2024, US' GDP growth is expected to ease gradually as consumption growth slows in tandem with weakening labour market conditions, even as investment growth is likely to remain supported by AI-related investments. Meanwhile, GDP growth in the Eurozone is projected to improve gradually. Even though industrial activity and investments are likely to remain subdued for the rest of the year, growth will be supported by a firmer recovery in consumer spending as price pressures ease further and monetary policy turns more accommodative. Similarly, Japan's GDP growth is expected to pick up over the course of the year in tandem with stronger private consumption on the back of broadening wage increases and easing inflationary pressures.

Elsewhere in Asia, China's economy is projected to expand at a slightly slower pace in the second half of the year as investment growth tapers amidst signs of overcapacity in some sectors. Nonetheless, as the property market is likely to stabilise with the rollout of government support measures, consumer sentiments should start to improve and lead to a modest recovery in consumption. Meanwhile, GDP growth in key Southeast Asian economies is projected to pick up slightly in the second half of the year in tandem with improvements in domestic demand, as well as the ongoing recoveries in global electronics and tourism demand.

On balance, Singapore's external demand outlook is expected to be resilient for the rest of the year. However, downside risks in the global economy remain. First, an intensification of geopolitical and trade conflicts could dampen business sentiments and add to production costs, which could weigh on global trade and growth. Second, disruptions to the global disinflation process could lead to tighter financial conditions for longer, and trigger market volatility or latent vulnerabilities in banking and financial systems.

Against this backdrop, Singapore's manufacturing sector is expected to see a gradual recovery in the second half of the year. In particular, the electronics cluster is projected to recover more strongly, supported by robust demand for smartphone, PC and AI-related chips. This will in turn provide a boost to the precision engineering cluster. In addition, the chemicals cluster is expected to continue to expand, supported in part by higher production in the petrochemicals and specialty chemicals segments. By contrast, the biomedical manufacturing cluster is likely to contract, as pharmaceuticals output is projected to stay weak for the rest of the year.

At the same time, the projected recovery of the manufacturing sector, particularly that of the electronics cluster, is expected to benefit trade-related services sectors such as the machinery, equipment & supplies segment of the wholesale trade sector. Meanwhile, the continued recovery in air travel and tourism demand will support growth in the tourism- and aviation-related sectors (e.g., accommodation and air transport). Growth in the finance & insurance sector should also remain robust, as global policy rate cuts continue to be implemented amidst sustained disinflation.

Taking into account the performance of the Singapore economy in the first half of 2024, as well as the latest global and domestic economic situations, MTI has narrowed the GDP growth forecast for 2024 to "**2.0 to 3.0 per cent**", from "1.0 to 3.0 per cent".