

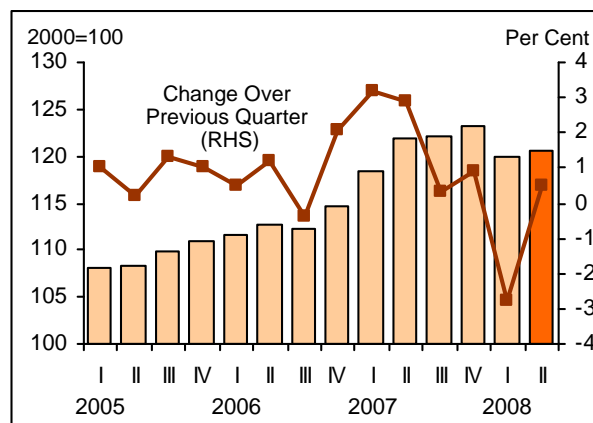
CHAPTER 3

ECONOMIC OUTLOOK

LEADING INDICATORS

- The composite leading index (CLI) rose marginally by 0.5 per cent in the second quarter, following the 2.8 per cent contraction in the previous quarter.
- Of the nine components within the index, three components experienced declines while the remaining six components rose marginally.
- The six indicators that have improved are the money supply, non-oil sea cargo handled, stock price, US Purchasing Manager's Index, stock of finished goods and domestic liquidity.

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



CONCLUSION

Overall, the Singapore economy remained resilient in the first half of 2008, despite the slowdowns in major external economies and global concerns with inflation. The economy expanded by 4.5 per cent in the first half of 2008.

Looking ahead, the global economic environment is likely to remain weak for the rest of the year and well into 2009. The developed economies are experiencing a broad slowdown in economic activity. Sluggish growth is expected over the next six to twelve months, as the effects of the US financial and housing slumps ripple throughout the rest of the world. These will have an adverse impact on employment, business confidence, consumer spending and overall demand. Emerging economies, particularly those in Asia, have continued to grow, providing some support to global demand and growth. However, the slowdowns in the US and Europe will have a downside impact on the Asian economies. At the same time, inflation continues to persist and poses challenges for policy makers in key economies such as China, India, Indonesia and Vietnam.

The pace of growth of Singapore's economy has slowed down, largely reflecting weaknesses in domestic as well as external demand. While the composite leading indicator points towards a slight pickup, business expectations of performance across the sectors are mixed. The electronics industry is expected to remain soft in the second half of 2008, reflecting weak demand for semiconductors. The short-term outlook for the biomedical manufacturing cluster will be weighed down by global trends such as strong competition from generic drugs and delays in approval for new pharmaceuticals. The outlook for the other sectors in the economy remains largely unchanged. Wholesale trade, financial services, and business services in particular, are likely to remain resilient and will provide some support for overall economic growth.

In view of the outlook for these major sectors and a slowdown in the global external environment, the Ministry of Trade and Industry has narrowed the full year 2008 GDP growth forecast to 4.0-5.0 per cent, from the 4.0-6.0 per cent forecast range in the last quarter.