

CHAPTER 9

ECONOMIC OUTLOOK

LEADING INDICATORS

The composite leading index (CLI) fell further by 6.9 per cent in the fourth quarter of 2008 over the previous quarter, furthering the contraction of 0.3 per cent in the third quarter ([Exhibit 9.1](#)). Of the nine components within the index, eight components experienced declines, namely stock prices, the US Purchasing Manager's Index, non-oil sea cargo handled, new companies formed, wholesale trade, domestic liquidity, non-oil retained imports and the stock of finished goods. The only indicator that improved was the money supply.

CONCLUSION

Singapore's GDP growth prospects appear weak in 2009 on account of the pessimistic global economic outlook. In January 2009, the International Monetary Fund (IMF) downgraded its 2009 growth forecast for the world economy to 0.5 per cent in 2009, its lowest rate since World War II ([Exhibit 9.2](#)). The IMF also estimated that the declines in global output and trade since end-2008 are likely to continue through early-2009. In particular, the volume of trade is projected to contract by 2.8 per cent in 2009, a sharp decline compared to the estimated 4.1 per cent growth in 2008. This continued fall in external demand will have an impact on Singapore's exports and the externally-oriented sectors.

The declines in most of the CLI components suggest that the Singapore economy will experience continued deterioration in the near term. The spillover effects of the global crisis will have an impact on many sectors. The manufacturing sector will likely be weighed down by declines in global demand for electronics products, pharmaceuticals and chemicals. Externally-oriented sectors such as wholesale and retail trade, and transport and storage will be negatively affected by worsening external demand. The financial services sector, which provided support to the economy in early 2008, experienced a sharp contraction in the fourth quarter, and is likely to continue to slow down in the midst of heightened uncertainty and risk aversion.

Exhibit 9.1: Composite Leading Index Levels & Growth Rate

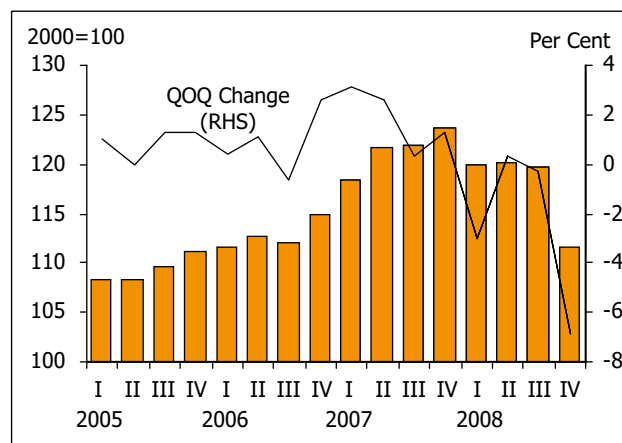


Exhibit 9.2: GDP and World Trade Forecasts

	2008	2009 (Forecast)
World Trade	4.1	-2.8
World GDP	3.4	0.5
United States	1.3	-1.6
EU	0.9	-1.8
Japan	-0.7	-2.6
China	9.0	6.7
Hong Kong SAR	2.5	-3 - -2
South Korea	2.5	-4.0
Taiwan	0.1	-2.97
Indonesia	6.1	3.5
Malaysia	4.6	1.0
Thailand	2.6	0.0 - 2.0
Singapore	1.1	-5.0 - -2.0

Source: Various Official Sources, IMF and Consensus Economics Inc.

On account of these factors, the Ministry of Trade and Industry has projected that the economy will contract by 2.0 per cent to 5.0 per cent in 2009. The economy is likely to continue to perform weakly in the first half of 2009. Although economic growth may bottom out in the latter part of 2009, the speed and strength of the recovery is predicated on the performance of the G3 and regional economies. While there is a possibility that a strong and sharp recovery might take place, a more gradual recovery trajectory is expected due to the extensive nature of the current downturn.