

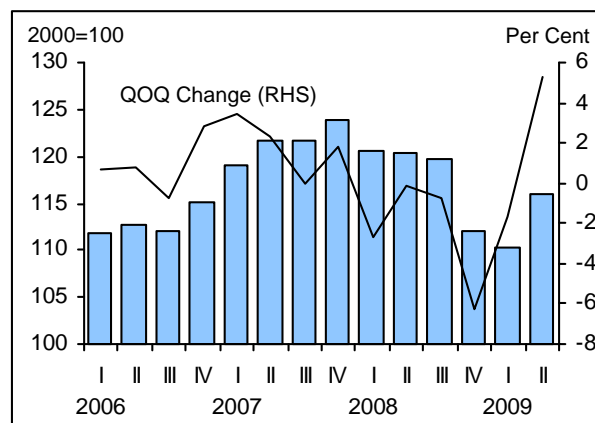
CHAPTER 3

ECONOMIC OUTLOOK

LEADING INDICATORS

- The composite leading index (CLI) increased by 5.3 per cent on a quarter-on-quarter basis in the second quarter, compared to the 1.7 per cent decline in the previous quarter.
- Of the nine components within the index, seven components improved compared to the first quarter, one component remained unchanged, while one component registered a decline.
- Fewer new companies were formed in the second quarter compared to the first quarter, while non-oil retained imports remained unchanged. The other seven indicators improved compared to the first quarter.

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



CONCLUSION

In July 2009, the Ministry of Trade and Industry revised its 2009 GDP growth forecast from -9.0 to -6.0 per cent to -6.0 to -4.0 per cent, together with the release of the second quarter advance estimates. This revision mainly reflected the impact of the strong performance of the manufacturing sector in the second quarter, as well as the upward revision in the first quarter's economic performance.

The overall performance in the second quarter is in line with the advance estimates. On a year-on-year basis, GDP contracted by a much smaller 3.5 per cent in the second quarter, compared to the 9.5 per cent contraction in the first quarter. Nevertheless, this improvement may not be sustained as the key reason for the improved economic performance in the second quarter was a spike in output in the biomedical manufacturing cluster, and inventory restocking in the electronics segments. Although forward-looking indicators such as the composite leading index and purchasing managers' index point to economic expansion in the near-term, there have been no signs of decisive improvement in final demand in Singapore's key export markets. Singapore's exports continued to register double digit declines. In particular, non-oil domestic exports decreased by 14 per cent on year in the second quarter, while re-exports decreased by 24 per cent.

For the external economies, forward looking indicators and sentiment-sensitive segments, such as the equity markets worldwide, have rebounded in the past few months. The OECD Composite Leading Indicator has increased for four consecutive months between March and June, pointing to possible signs of recovery in most OECD economies. China continued to provide positive signs in terms of economic growth, expanding by a faster pace of 7.9 per cent in the second quarter.

While there have been preliminary indications of an uptick in production, recovery is expected to be sluggish as suggested by real indicators relating to final demand. The labour market in the US remains weak, with the US unemployment rate hitting 9.5 per cent in June 2009, before falling marginally to 9.4 per cent in July. Disposable income for the US consumers has continued to fall, with rising unemployment and shorter working hours. In the Euro area, recovery may be hampered by unresolved stresses in the financial systems, structural rigidities and rising unemployment. Given that consumption demand by the advanced economies has yet to show signs of recovery, export growth by Asian economies is likely to remain weak. On balance, the outlook for the second half of 2009 remains subdued.

In view of these uncertain economic conditions and the absence of clear signs of a strong, demand-led recovery, the Ministry of Trade and Industry maintains the 2009 GDP growth forecast at -6.0 to -4.0 per cent.