

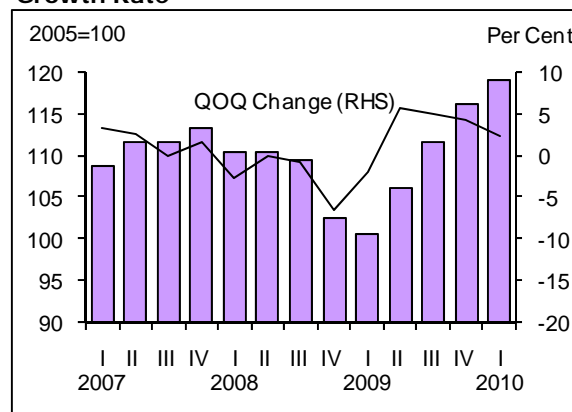
CHAPTER 3

ECONOMIC OUTLOOK

LEADING INDICATORS

- The composite leading index (CLI) increased on a quarter-on-quarter basis for the fourth consecutive quarter, by 2.4 per cent in the first quarter of 2010. This however was a smaller rate of growth compared to the 4.2 per cent increase in the last quarter of 2009.
- Of the nine components within the index, seven components – namely, stock of finished goods, non-oil sea cargo handled, US purchasing managers' index (PMI), new companies formed, stock prices, non-oil retained imports and money supply – increased.
- The indicator that showed a decline was wholesale trade, while the domestic liquidity indicator stayed flat in the first quarter of 2010.

Exhibit 3.1: Composite Leading Index Levels and Growth Rate



CONCLUSION

On the whole, the global economic recovery continues to firm. The US economy, in particular, has seen a broadening of its recovery beyond fiscal stimulus measures and inventory cycle adjustments. Supported by labour market stabilisation and improving business conditions, household consumption and business investment have begun to recover. Growth in key Asian economies, including China, has also remained firm, on account of robust domestic demand, intra-regional trade and fiscal stimulus measures. The global electronics industry has also continued to grow, due to sector-specific factors such as the corporate IT replacement cycle in the US and inventory restocking in Asia.

These factors have supported a broad-based recovery in the Singapore economy in the first quarter of 2010. Going forward, near term indicators of business confidence, especially in the financial services, wholesale & retail trade and electronics industries, indicate that growth prospects for the rest of the year are positive.

However, recent developments suggest that downside risks have intensified. First, there is heightened market anxiety over the possibility of a sovereign debt default in Europe. While policy interventions by European governments have reduced this downside risk in the near term, there remain significant uncertainties as to how events would further develop. Other macroeconomic concerns, such as the risk of a severe monetary tightening and sharp asset price correction in China, also remain. If materialised, these tail end risks could affect the global recovery and impact Singapore negatively.

On balance, the Ministry of Trade and Industry expects the Singapore economy to grow by 7.0 to 9.0 per cent in 2010.