



## Chapter 4

# ECONOMIC OUTLOOK

### LEADING INDICATORS

[Table A14.1 and Chart 4.1]

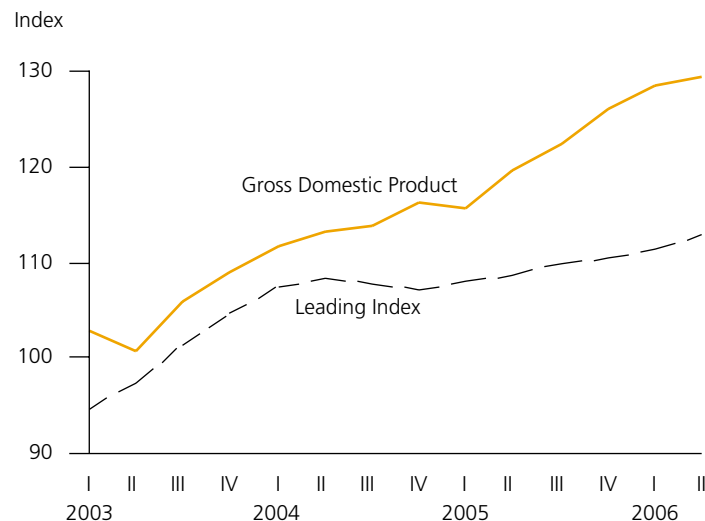
*CLI rose for the sixth consecutive quarter...*

The composite leading index (CLI) rose by 1.5 per cent in the second quarter of 2006, after increasing 0.6 per cent in the quarter earlier. This was the sixth consecutive quarter that the CLI had registered a gain.

Of the nine components within the index, four components – money supply, stock of finished goods, stock price and non-oil retained imports – posted gains from the first quarter of 2006. The other five components – wholesale trade, domestic liquidity, US Purchasing Managers' Index, new companies formed and non-oil sea cargo handled – experienced declines from the previous quarter.

### GROSS DOMESTIC PRODUCT AND COMPOSITE LEADING INDEX (2000=100)

[Chart 4.1]



### BUSINESS EXPECTATIONS

[Chart 4.2]

*Both manufacturing and services sectors have a positive outlook on the business climate...*

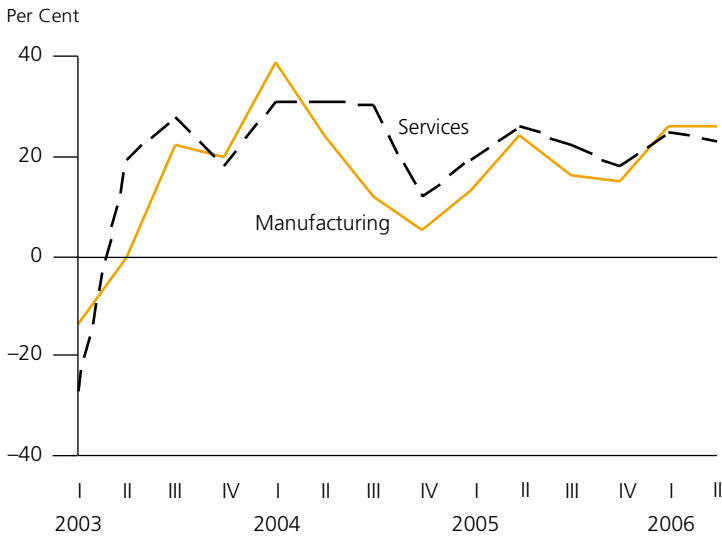
### MANUFACTURING

[Table A14.2]

The manufacturing sector remains positive about the business situation in the next six months, with a net weighted balance of 26 per cent of manufacturers expecting conditions to improve. Generally, manufacturers expect positive conditions in the second quarter of 2006 to be maintained in the second half of the year.

**GENERAL BUSINESS SITUATION  
FOR THE NEXT SIX MONTHS  
(NET WEIGHTED BALANCE OF FIRMS)**

[Chart 4.2]



*...improved business outlook in the electronics cluster...*

The electronics cluster is optimistic, with a net weighted balance of 45 per cent of manufacturers expecting the business outlook to improve in the next six months, with higher orders in anticipation of year-end festive demand. This positive sentiment is reflected in all segments of the cluster. Production in the third quarter of the year is expected to increase over the previous quarter on the back of anticipated rises in exports.

A net weighted balance of 29 per cent of firms in the transport engineering cluster forecasts improving business conditions. The marine & offshore engineering segment continues to anticipate increases in output, with most shipyards having secured more orders for oil-rigs, oilfield equipment, shipbuilding, and offshore conversion. In line with seasonal trends, activities in aircraft repair and servicing in the aerospace segment are expected to increase. Output of the land transport segment is also expected to increase on the back of higher levels of export orders and deliveries.

A net weighted balance of 27 per cent of firms in the precision engineering cluster expects optimistic sentiments in the second quarter to be sustained in the second half of the year. The machinery & systems segment foresees higher levels of manufacture and repair of lifts and escalators, and greater output of industrial process control equipment in the third quarter. Higher output of industrial rubber products, bearings, plastic precision engineering parts and metal stamping is also expected in the third quarter, as compared to the previous quarter, for the precision modules & components segment.

Business expectations in the biomedical manufacturing cluster remain largely the same for the next six months. The majority of manufacturers in the pharmaceuticals segment expect production in the third quarter to fall from second quarter levels in line with lower sales. Meanwhile, the medical technology segment is positive with higher forecasts of output, orders and deliveries.

In the chemicals cluster, the outlook is optimistic for the second half of 2006 with the exception of the petroleum refining segment, which expects some pressure on refining margins as higher oil prices are likely to continue. The refineries and petrochemicals segment forecasts output to dip due to several planned maintenance shutdowns. Output and orders in the specialties and other chemicals segments are expected to rise to fulfill anticipated increases in both domestic and export sales.

## **SERVICES**

[Table A14.3]

Business expectations in the services sector remain favourable, with an overall net weighted balance of 23 per cent of firms optimistic about the business climate. This is slightly smaller than the net weighted balance of 26 per cent recorded in the same period of the previous year and the net weighted balance of 25 per cent registered for the previous 6 months.

Firms in the real estate industry continue to be bullish, with a net weighted balance of 66 per cent of firms expecting to do well for the period July to December 2006.

Hoteliers are also optimistic, with a net weighted balance of 68 per cent of firms expecting improved business. This is in anticipation of higher occupancy rates and banquet sales in hotels due to upcoming major events such as the International Monetary Fund and World Bank Meetings in September. Within the catering trade, a net weighted balance of 37 per cent of firms, in particular restaurants and fast food outlets, looks forward to better businesses in the coming months.

In the financial services industry, a net weighted balance of 27 per cent of firms anticipates an increase in the level of business activity. Companies engaged in banking & finance, fund management and insurance activities project business to improve in the second half of 2006.

In retail trade, a net weighted balance of 22 per cent of firms expects business to improve in the six months ahead. Department store owners and retailers of wearing apparel and furniture & furnishings expect higher sales from year-end festive shopping.

Similarly, a net weighted balance of 17 per cent of wholesalers foresees a higher level of business activity for the next six months. Dealers of electronic components, scientific & precision equipment, jewellery & watches, cosmetics & toiletries, furniture & furnishings and household electrical appliances & equipment are among those who express positive sentiments.

In the business services industry, a net weighted balance of 14 per cent of firms is optimistic about business conditions for the period of July – December 2006. Firms providing architectural & engineering services, renting of construction & industrial machinery and advertising services are among those that predict higher demand for services in the second half of 2006.

A net weighted balance of 11 per cent of firms in the transport & communications industry anticipates an increase in business activities in the second half of the year. These include shipping lines and firms in the ship & boat leasing businesses.

## CONCLUSION

*MTI has revised the 2006 growth forecast to between 6.5 per cent and 7.5 per cent...*

The Singapore economy grew strongly by 9.4 per cent in the first half of 2006. This came on the back of robust external demand as the global economy remained resilient in the face of rising interest rates and higher oil prices.

Going forward, the outlook for the global economy is generally positive although there are some signs that the growth momentum is slowing. The US economy has moderated from its strong pace earlier this year, reflecting a cooling off of consumer spending and a cutback in business investment as the effects of increases in interest rates and oil prices filtered through the economy.

In Japan, the outlook is encouraging, on the back of stronger corporate profitability. Prospects for the EU are still healthy, underpinned by domestic demand in the major EU economies. In Asia, China and India continue to grow strongly but the momentum is expected to moderate in the second half of the year. The regional economies are likely to remain resilient although growth in some segments has eased in the face of higher oil prices.

The global electronics industry is expected to remain robust. Research house Gartner has raised its 2006 forecast for worldwide semiconductor sales further, from 9.5 per cent to 10.6 per cent.

On the domestic front, forward-looking indicators, such as the composite leading index, point to healthy growth prospects in the few quarters ahead. This is also reflected in the latest business expectations surveys, with firms in both the manufacturing and services sectors expressing positive sentiments for the six months ahead. Some moderation in growth momentum is, however, expected in the second half of the year in line with slower growth in the global economy.

*...global economy  
remained resilient...*

There are also some downside risks. The trend of oil prices remains the key uncertainty. The potential supply problems in Nigeria, Iran and Iraq and an escalation of the conflict in the Middle-East could lead to disruptions in production and spikes in oil prices, given the limited surplus capacity. This would hurt growth, especially if central banks raise interest rates to curb inflationary pressures. Other downside risks include the unwinding of global imbalances and an avian flu pandemic.

Given the strong growth in the first half of 2006 and barring any economic shock, the Ministry of Trade and Industry has revised the 2006 GDP growth forecast from between 5 per cent and 7 per cent to between 6.5 per cent and 7.5 per cent.