



Chapter 4

ECONOMIC OUTLOOK

LEADING INDICATORS

[Table A14.1 and Chart 4.1]

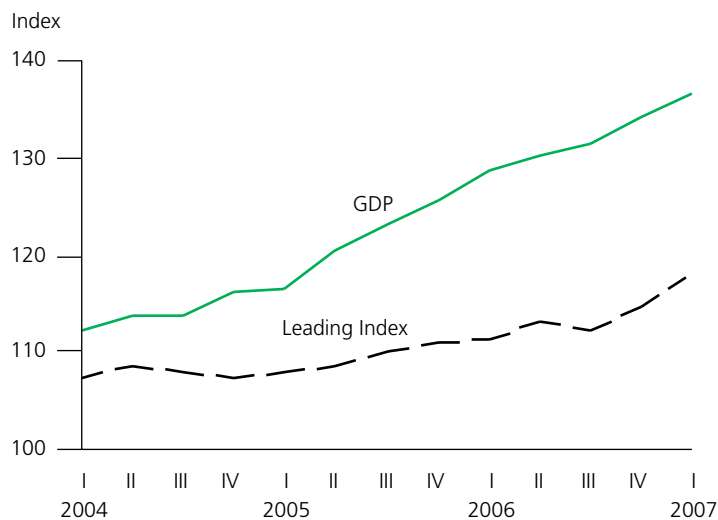
CLI continued to increase...

The composite leading index (CLI) increased 2.9 per cent in the first quarter of 2007, continuing the 2.1 per cent increase a quarter earlier.

Of the nine components within the index, three components experienced declines from the last quarter (viz US Purchasing Managers' Index, domestic liquidity and non-oil retained imports). The other six components posted gains (viz stock of finished goods, money supply, stock price, new companies formed, wholesale trade and non-oil sea cargo handled).

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

[Chart 4.1]



BUSINESS EXPECTATIONS

[Chart 4.2]

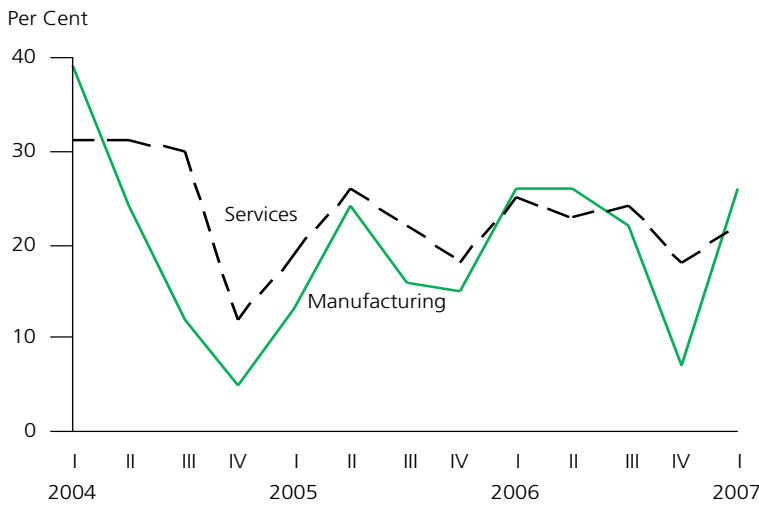
Optimism in business conditions in both manufacturing and services sectors...

MANUFACTURING

[Table A14.2]

Firms in the manufacturing sector are more optimistic about business conditions in the next six months ending September 2007 compared to the first quarter of 2007. A net weighted balance of 26 per cent of manufacturers expects business conditions to improve, compared to 7 per cent registered a quarter ago and 26 per cent in the same period last year. The positive business sentiment is led by the electronics cluster.

**GENERAL BUSINESS SITUATION
FOR THE NEXT SIX MONTHS
(NET WEIGHTED BALANCE OF FIRMS)**
[Chart 4.2]



The electronics cluster is significantly more optimistic with a net weighted balance of 38 per cent of manufacturers expecting business conditions to improve in the next six months, compared with the –1 per cent recorded a quarter ago. In particular, manufacturers in the computer peripherals, and infocomms and consumer electronics segments are more bullish due to new product introductions and an expected pickup in market demand following the first quarter seasonal lull. Chip makers also predict sustained global demand as evidenced by an expected increase in export orders and sales. Production in all segments of the cluster is expected to rise in the second quarter of 2007 over the first quarter.

Positive business sentiment in the manufacturing sector...

In the transport engineering cluster, a net weighted balance of 26 per cent of firms anticipates favourable business conditions to continue in the next six months ending September 2007. The marine and offshore engineering segment remains robust, with most shipyards anticipating higher levels of repairing and conversion activities in the second quarter. Stronger performance is also anticipated in the aerospace segment as aircraft repair and servicing activities increase in line with more overseas orders and exports. Output in the land transport segment is also expected to rise with the fulfilment of contractual orders.

A net weighted balance of 24 per cent of the precision engineering cluster expects an improvement in the operating environment in the next two quarters. On the production front, a turnaround from the seasonally weak first quarter is expected. In view of higher anticipated orders and deliveries, the machinery and systems segment forecasts an increase in the output of industrial process control equipment, and semiconductor assembly and testing equipment. Manufacturers in the precision modules and components segment expect an increase in production due to the introduction of new product lines and higher orders.

In the chemicals cluster, a net weighted balance of 10 per cent of manufacturers expects the business environment to improve in the next six months. Firms in the specialties and other chemicals segments are more optimistic as sales during the April to September period is expected to rise, following seasonal weakness in the first quarter. Other than the petroleum refinery segment which scheduled some planned maintenance downtime, output in all segments of the cluster is projected to increase in the second quarter.

Business outlook in the biomedical manufacturing cluster remains relatively stable for the next six months. In both the pharmaceutical and medical technology segments, output forecast is anticipated to be higher, in preparation for orders and deliveries to be made in the second quarter.

SERVICES

[Table A14.3]

A net weighted balance of 22 per cent of firms in the services sector projects better business conditions for the next six months. This magnitude is larger than the 18 per cent in the last quarter but smaller than the 25 per cent in the same period last year.

In tandem with the positive sentiments in the tourism market, a net weighted balance of 63 per cent of hoteliers projects a favourable business outlook.

A net weighted balance of 61 per cent of firms in the real estate industry, especially real estate developers and agents, continues to foresee brisk business activities ahead.

Within the financial services industry, a net weighted balance of 29 per cent of firms, including banks and finance companies, fund management firms and insurance companies, expects an improvement in the business climate.

In the business services industry, a net weighted balance of 24 per cent of firms expresses positive sentiments. These include firms engaged in renting of construction and industrial machinery, architectural and engineering, specialised design and labour recruitment services.

Within the transport and storage industry, a net weighted balance of 18 per cent of firms, particularly in the water transport and supporting services, forecasts better business prospects ahead.

A net weighted balance of 17 per cent of wholesalers is optimistic about the business outlook ahead. These include dealers of food and beverages, tropical produce, textiles and leather goods, and household electrical appliances and equipment.

Firms in the information and communications industry anticipate a higher level of business activity, with a positive net weighted balance of 12 per cent.

For the catering trade industry, business outlook in the coming months remains the same.

On the other hand, firms in retail trade foresee business to be less brisk compared to the previous six months which coincided with the year-end festive shopping. In particular, department stores, supermarkets and retailers of motor vehicles expect slower business in the coming months.

CONCLUSION

Growth expected to be 5.0–7.0 per cent...

The global economic environment is generally healthy. In the US, growth prospects have diminished somewhat over the last few months on account of continuing weakness in the housing market which in turn impacted investment growth. However, the outlook for the EU and Japan remains firm. In the EU, growth is supported by strong domestic demand, while Japan's prospects are underpinned by healthy corporate performance. Economic growth in China and India is expected to be robust. The overhang in inventories in the global semiconductor industry is also expected to dissipate in the second half of the year, although the pace of recovery of the industry is less certain.

On the domestic front, the Singapore economy started on a strong note, growing 6.1 per cent in the first quarter of 2007. Forward-looking indicators point to continued growth in the next few quarters. The composite leading index rose faster this quarter while the latest business expectations surveys showed that firms in both manufacturing and services are optimistic about business conditions over the next six months.

The economic outlook is generally positive but some downside risks remain. These include a sharp slowdown in the US economy, vulnerability of oil prices to supply shocks and a disorderly unwinding of global unbalances. Barring these uncertainties, economic growth is expected to remain healthy in 2007.

Taking into account the above factors, the Ministry of Trade and Industry has raised the 2007 GDP growth forecast from 4.5–6.5 per cent to 5.0–7.0 per cent.

*Economic outlook
is generally positive...*