1 The International Economy

- The global economy has remained broadly resilient since the April *Review*. Most of Singapore's key trading partners saw an increase in growth momentum in Q2. In the region, despite China's growth slowdown, the ASEAN economies were buoyed by the ongoing tech cycle recovery, as well as firmer domestic demand. Meanwhile, global disinflation has progressed further in recent months, with services inflation finally easing meaningfully alongside a moderation in labour cost pressures.

- Barring major shocks and discontinuities, the last mile of disinflation should remain on track in 2025, alongside steady growth in most economies. Aggregate demand should continue to expand, underpinned by firm household spending and business investment, with additional support coming from the near-synchronised easing of global monetary policy.

- Nonetheless, uncertainties on both growth and inflation are elevated. Geopolitical events arising from potential escalation of the ongoing military conflicts and trade tensions pose heightened risks to growth. On the inflation front, a significant and sustained escalation in the Middle East conflict that disrupts oil production and shipping routes could impart fresh impulses to inflation.

1.1 Global Economic Developments

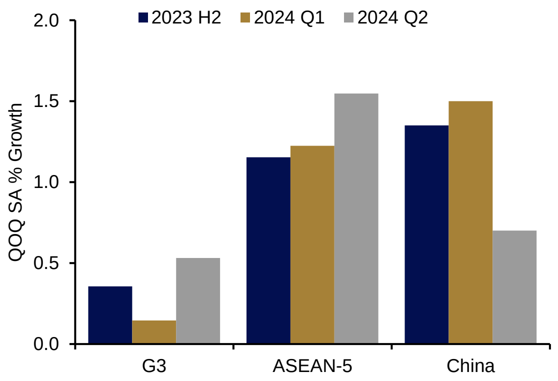
Growth in most of Singapore's key trading partners remained resilient in Q2, underpinned by robust exports and domestic demand

Growth momentum in most of Singapore's key trading partners remained resilient in Q2. Overall, the expansion was more broad-based in H1 2024, compared to the US-led growth profile in H2 last year. Other than the US, Japan and the ASEAN-5 also saw a pick-up in the pace of expansion, underpinned by robust exports and domestic demand. In the Eurozone, growth momentum slowed slightly but was still higher than the sluggish outturns recorded in H2 2023.

However, sequential growth in the Chinese economy decelerated sharply in Q2 from the strong showing in Q1. This was driven by a pullback in domestic demand, which more than offset export growth. Excluding China, global growth momentum rose slightly (**Charts 1.1 and 1.2**).

Chart 1.1 Most of Singapore's key trading partners recorded stronger growth in Q2...

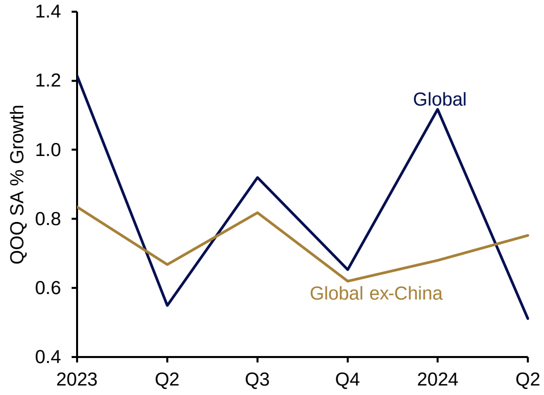
GDP growth of key regions and economies



Source: National Sources and EPG, MAS estimates

Chart 1.2 ...except China, which experienced a sharp deceleration

Global GDP growth

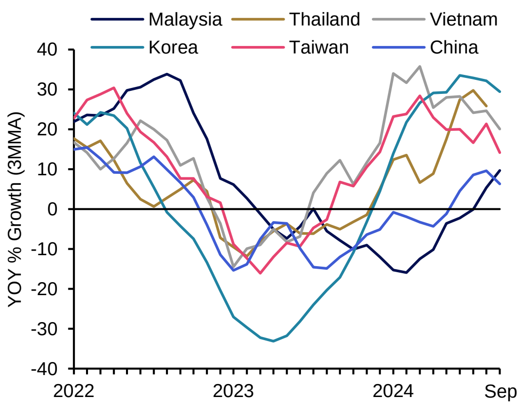


Source: Haver Analytics and EPG, MAS estimates

Notwithstanding significant economic linkages with China, activity in most ASEAN countries was relatively resilient to the latter's slowdown. A key reason was the ongoing global tech cycle recovery, which provided strong support to Asia's electronics exports **(Chart 1.3)**. This, in turn, reflected firm investment demand in the US, particularly for ICT equipment, as well as robust consumer spending globally. The drivers of growth in ASEAN have also broadened, as seen in the rising contribution of private consumption and investment **(Chart 1.4)**. Strong domestic demand can be traced to a combination of favourable labour market conditions, policy support, as well as higher business investment in specific sectors.

Chart 1.3 Asian economies' electronics export growth remained strong

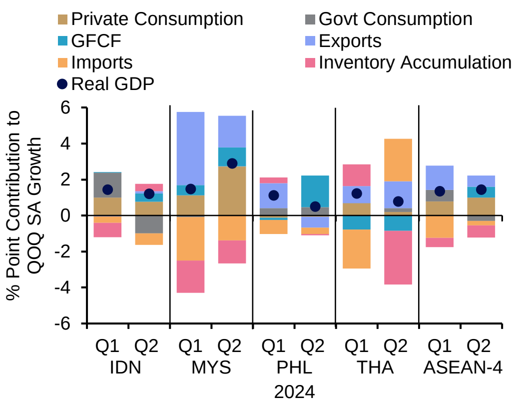
Asia's electronics exports



Source: Haver Analytics and EPG, MAS estimates

Chart 1.4 ASEAN growth drivers broadened amid improving domestic demand

ASEAN-4 GDP decomposition



Source: Haver Analytics and EPG, MAS estimates

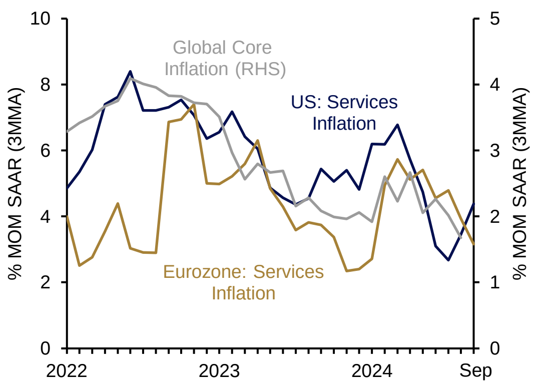
Global disinflation has progressed as services inflation finally showed signs of easing

Global disinflation made further progress since the April *Review*. Both headline and core inflation edged down to 2.1% in Jul–Aug, from 2.3% and 2.2% in Q2, respectively. This easing was supported by several factors. First, the price of Brent crude oil fell to US$80 per barrel (/b) in August, from US$90/b in April. Second, shipping and logistical costs have fallen from their peaks earlier in the year when geopolitical tensions in the Middle East initially escalated.

Third, and more importantly, services inflation in the advanced economies (AEs) finally showed signs of slowing. An earlier key impediment to the disinflation process had been sticky services inflation amid the tight labour market **(Chart 1.5)**. With the recent moderation in wage growth in the US and Eurozone, labour cost pressures have eased accordingly and helped facilitate the broader cooling of services inflation **(Chart 1.6)**.

Chart 1.5 Services inflation momentum in AEs showed signs of easing…

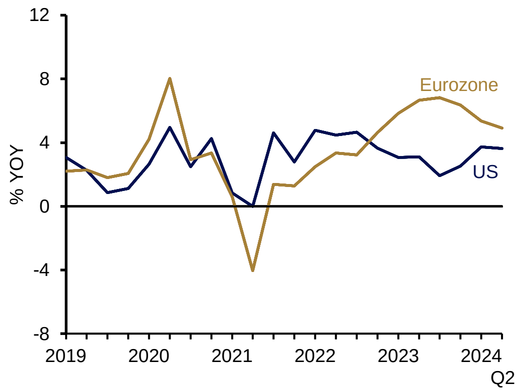
Inflation momentum



Source: Haver Analytics and EPG, MAS estimates

Chart 1.6 …supported by moderating labour cost pressures

Unit labour cost growth



Source: Haver Analytics and EPG, MAS estimates

1.2 Global Outlook

The global economy should continue to expand at a steady pace in 2025

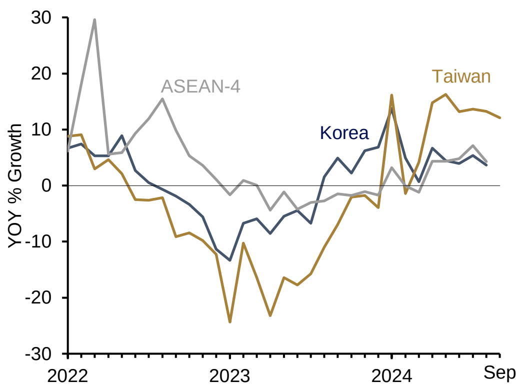
In the quarters ahead, growth in the AEs will continue to be driven by domestic demand, particularly in the US. Private consumption will be supported by improving real wage growth as inflation falls back to central banks' targets. In the US, business investment should remain strong, undergirded by the IT refresh cycle as firms seek to adopt AI-related technologies. In Japan, the June Tankan survey also signalled strong investment intentions by manufacturing firms for the rest of the year, after having been postponed due to the pandemic as well as high import prices of capital goods. Most AE central banks have commenced policy easing in recent months, which will help to support the economic expansion over 2025.

Among ASEAN economies, growth should improve next year. Industrial production in these economies has maintained a steady pace of expansion in recent months **(Chart 1.7)**. The broadening of the tech cycle upturn from AI-related applications to consumer electronics and PCs should continue to benefit Asian economies into 2025. (Refer to Section 2.2 for more details on the global tech cycle outlook.) In addition, favourable labour market conditions, administrative wage increases, and policy support will buoy household spending. Investment activity will also be boosted by multi-year infrastructure projects and higher private investment commitments **(Chart 1.8)**.[1] Further, the start of the US Federal Reserve's monetary policy easing cycle has for now resulted in broad-based USD weakness and alleviated pressures on regional currencies. Regional central banks will be able to shift the focus of monetary policy from safeguarding external stability to supporting economic activity through lower policy rates, if needed.

China's GDP growth is projected to moderate further in 2025, with domestic spending remaining subdued as the downturn in the housing market continues to weigh on confidence and credit demand. The latest monetary and fiscal policy support packages should help limit growth downsides.

Chart 1.7 NEA-2 and ASEAN-4 industrial production remained steady

Industrial production index

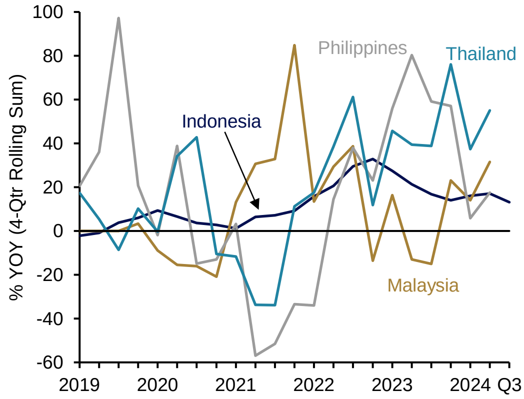


Source: Haver Analytics and EPG, MAS estimates

Note: ASEAN-4 includes Malaysia, Thailand, Philippines, Vietnam.

Chart 1.8 Investment commitments in ASEAN-4 economies ticked up in Q2

Investment commitments



Source: CEIC and EPG, MAS estimates

Note: Indonesia refers to overall investment realisation, while the rest refer to total approved investments

The last mile of disinflation is expected to remain on track, as the global economy comes into balance

Services inflation in the AEs should moderate further in 2025 following initial signs of easing in recent months. In the US, labour demand and supply are now roughly in balance while strong productivity growth will continue to support non-inflationary wage increases. Meanwhile, the gradual alleviation of housing supply shortages should ensure that shelter inflation does not reaccelerate, notwithstanding some monthly volatility. In the Eurozone, wage growth is expected to ease further alongside a modest growth profile, while businesses could also partially absorb the higher wage costs.

On the goods front, global price pressures are expected to remain subdued. Global food prices should stay relatively benign amid favourable weather conditions. The La Niña weather phenomenon is forecast to improve rainfall and thus rice output in Asia, helping keep food

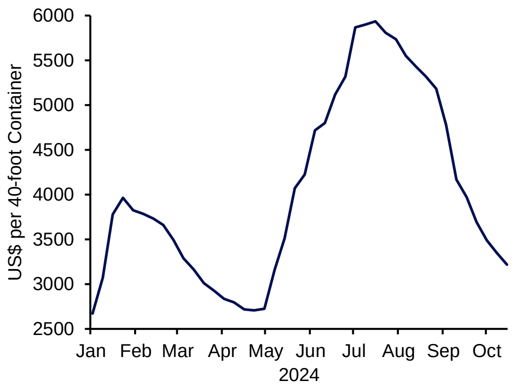
[1] Based on the Southeast Asia's Green Economy 2024 Report by Bain & Company, private sector green investments in the region were estimated to have risen by 20% in 2023. More intensive green investments would help to mitigate potential near-term output effects of carbon pricing policies, which several Asian economies have implemented or are currently assessing. See Box A for an analysis of carbon pricing policies in Asia.

inflation in ASEAN in check. Shipping freight costs have also fallen from their recent spike in July and should remain contained, as firms adapt their shipping strategies to cope with episodic disruptions due to geopolitical shocks **(Chart 1.9)**. More broadly, the Federal Reserve Bank of New York's Global Supply Chain Pressure Index, a leading indicator for producer prices, continues to fluctuate close to its historical average despite a recent uptick **(Chart 1.10)**. Further, producer prices remain muted in the US and are still in deflation territory for the Eurozone and China. This will help to keep a lid on imported price pressures, particularly for China's trading partners.

Overall, conditions in the global economy are largely equilibrating, with the post-pandemic supply-demand imbalances having been mostly resolved in key economies. For both this year and 2025, GDP growth is forecast close to its trend at 3.2% while global inflation is expected to come in at 2.2% **(Table 1.1)**.

Chart 1.9 Shipping freight costs have fallen from the recent spike

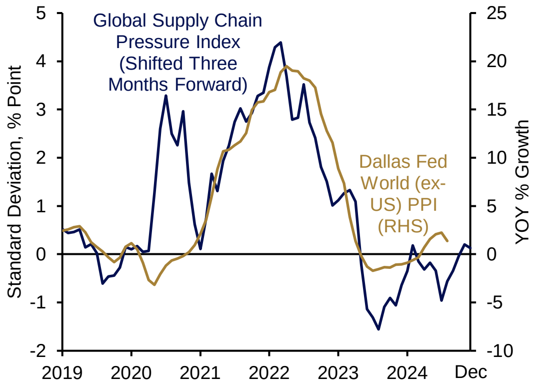
Drewry world container index



Source: Bloomberg and EPG, MAS estimates

Chart 1.10 Global supply chain pressures remain close to historical average

Global supply chain pressure index and producer price index



Source: Federal Reserve Bank of New York, Federal Reserve Bank of Dallas, Haver Analytics and EPG, MAS estimates

Table 1.1 Global GDP growth and inflation

	QOQ SA (%)				Annual (%)		
	2024 Q1	2024 Q2	2024 Q3*	2024 Q4*	2023	2024*	2025*
Global GDP	1.1	0.5	0.8	0.7	3.3	3.2	3.2
Global CPI	0.6	0.6	0.5	0.6	3.2	2.2	2.2

Source: EPG, MAS estimates

* EPG, MAS forecasts

Note: GDP is aggregated using weights based on Singapore's value added by destination of final demand (using TiVA data). CPI is aggregated using weights based on import sources of goods and services in Singapore's CPI basket.

Despite the benign outlook, uncertainties on both growth and inflation remain elevated

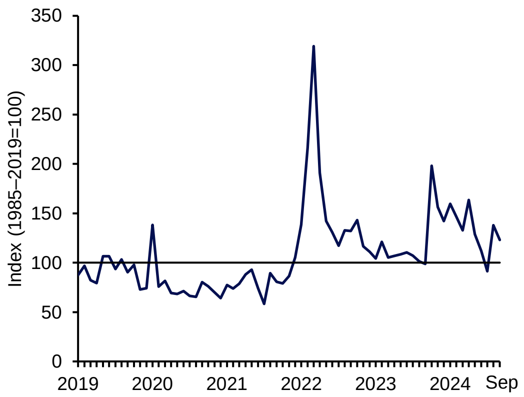
The global economy is confronting heightened geopolitical conflicts and trade tensions that could induce fresh shocks to growth and inflation.

Ongoing geopolitical conflicts pose downside risks to the global growth outlook. The Geopolitical Risk Index[2], which provides a measure of the frequency of adverse geopolitical events and associated risks based on news articles, remains elevated relative to pre-pandemic levels **(Chart 1.11)**. Further escalation of the Middle East conflict or the Russia-Ukraine war could weigh on household and business confidence. At the same time, disruptions to oil production and shipping routes through the Middle East, arising from a significant and sustained escalation in the conflict, could impart pressures on global producer prices and inflation.

Likewise, trade tensions are on the rise and could derail the disinflation process. The Trade Policy Uncertainty Index[3], which compiles the frequency of trade policy and uncertainty terms across major newspapers, has been rising since late 2023, and is currently at its highest level since early-2020 **(Chart 1.12)**. An intensification of tensions could lead to further trade frictions and potential retaliatory actions that weigh on global trade and output, while raising prices. Central banks may have to slow the pace of monetary policy easing amid renewed near-term inflationary pressures.

Chart 1.11 Geopolitical risk remains elevated relative to pre-pandemic levels

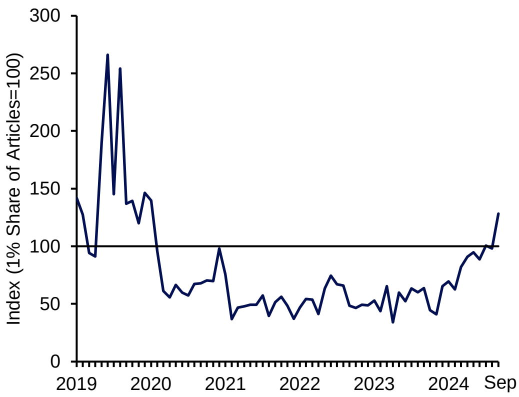
Geopolitical risk index



Source: Policyuncertainty.com

Chart 1.12 Trade tensions are at their highest level since early-2020

Trade policy uncertainty index



Source: Policyuncertainty.com

Export-oriented economies whose trade is relatively more dependent on countries directly involved in the trade conflicts could be more heavily impacted if these shocks materialise. Within Asia, the resilience to China's slowdown could also be tested if recent support measures fail to stabilise the deterioration in China's property sector. While contained

---

2 See Caldara, D. and Iacoviello, M. (2022), "Measuring Geopolitical Risk," *American Economic Review*, Vol. 112(4), pp. 1194–1225.

3 See Caldara, D., *et al.* (2020), "The Economic Effects of Trade Policy Uncertainty", *Journal of Monetary Economics*, Vol. 109, pp. 38–59.

at the moment, negative spillovers could become more pronounced if China experiences a prolonged period of weakness.[4] There also remains some near-term upside risks to inflation in ASEAN economies, particularly Malaysia, Indonesia, and Thailand, where policymakers could embark on further fuel subsidy rationalisation. However, the timing and extent of such policy changes remain uncertain.

[4] In its October East Asia and Pacific Economic Update, the World Bank estimated that a 1%-point slowdown in China's growth could potentially reduce growth in other developing economies by 0.14–0.21% point.