

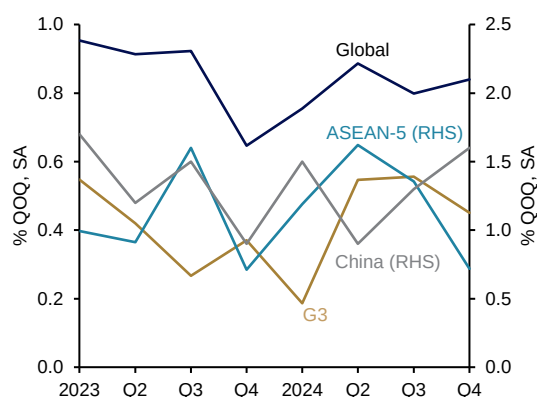
2 The International Economy

2.1 Recent Developments

Global growth momentum expanded at a firm pace in 2024

The global economy expanded at a steady pace in Q4 last year, bringing overall growth for 2024 to a creditable 3.2%¹ (Chart 2.1). The two key growth drivers for the year—robust domestic demand in the US and strong export performance in Asia—had underpinned the Q4 outturn (Chart 2.2). The US economy saw strong consumer spending alongside continued investment in ICT equipment and software. Meanwhile, the strength of US final demand combined with frontloading by US importers in anticipation of tariffs, had lent support to the production and export activities of China and ASEAN.

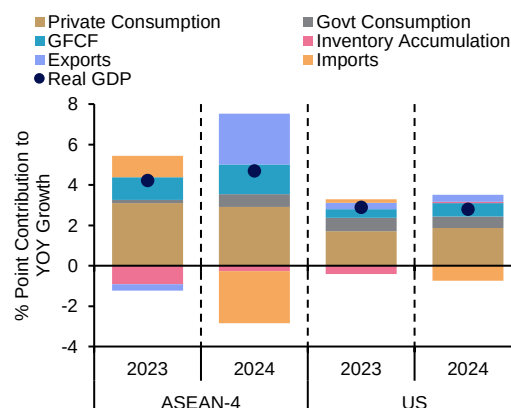
Chart 2.1: GDP Growth



Source: Haver Analytics and EPG, MAS estimates

Note: ASEAN-5 includes Malaysia, Indonesia, Philippines, Thailand, and Vietnam.

Chart 2.2: Decomposition of GDP Growth in the US and ASEAN-4



Source: Haver Analytics and EPG, MAS estimates

Note: ASEAN-4 includes Malaysia, Indonesia, Philippines, and Thailand.

The underlying drivers of global growth have shown nascent signs of plateauing. High frequency data suggest that the momentum in consumer and business activity in the US has weakened from Q4. Consumer sentiment has sharply deteriorated², with survey participants citing increasing policy uncertainty and tariff-induced price increases as primary concerns (Charts 2.3 and 2.4). While consumers frontloaded the purchase of some durables such as automobiles, they cut back on discretionary services spending in March.³ At the same time, US business sentiment has also continued to worsen with small-business confidence falling

¹ Global GDP growth is weighted by Singapore's key trading partners' shares of their value added (VA) in Singapore's exports using the Trade in Value Added (TiVA) approach of the OECD.

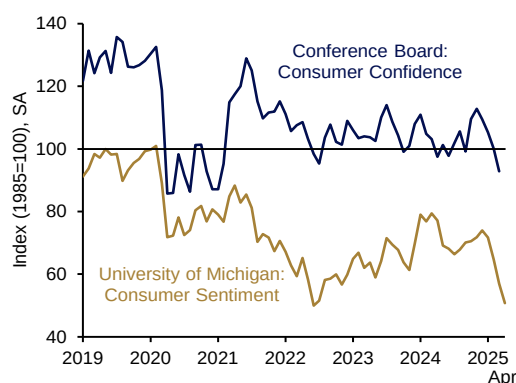
² In March 2025, the Conference Board's consumer confidence index fell to its lowest level since January 2021, while the University of Michigan's consumer sentiment index also declined to a more than 2-year low.

³ Based on the Bank of America's report on credit and debit card transactions, spending on durables rose sharply in March, led by vehicle sales. However, spending on discretionary services, such as restaurants, travel and leisure, eased in February and March.

for the third consecutive month in March.⁴ This could foreshadow a pullback in business investment, with capex spending intentions already declining.⁵

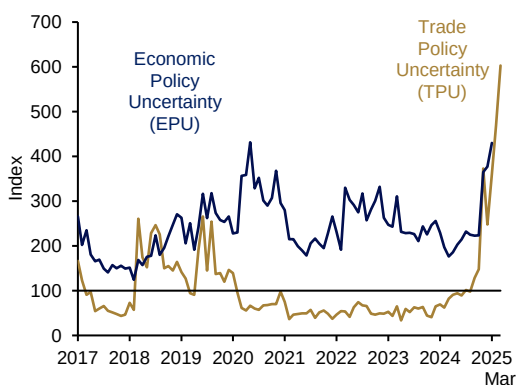
In Asia, the firm export growth in recent months was probably underpinned by tariff-induced front-loading activity. Meanwhile, the global tech cycle is becoming more bifurcated. Chip demand from AI-related developments and data centres remained strong, while traditional segments, like consumer goods and autos, have been experiencing slower growth.

Chart 2.3: US Consumer Confidence



Source: Haver Analytics, Conference Board, and University of Michigan

Chart 2.4: Global Policy Uncertainty



Source: policyuncertainty.com

Note: For the EPU Index, 100 refers to the average over the period 1985–2019, while the 100 in the TPU Index is a 1% share of news articles with mention of both “trade policy” and “uncertainty”.

Disinflation proceeded at a slower-than-expected pace, as the G3 economies saw some uptick in inflation

Global headline inflation was unchanged at 2.0% y-o-y in Jan–Feb from H2 2024. However, there were disparities across regions. Inflation in the G3 economies picked up, underpinned by firmer-than-expected goods inflation in the US, while Japan continued to experience broad-based reflation driven by a surge in food prices.

In contrast, Asia remained in a low-inflation regime, with consumer price increases in most economies within or even below their respective central bank targets. Deflationary pressures in China persisted, reflecting subdued consumer confidence and significant economic slack. Meanwhile, the ASEAN-5 economies saw sustained disinflation into early 2025, on the back of the normalisation of food and energy prices. More broadly, the stable core inflation prints pointed to limited underlying price pressures in the region.

⁴ In March 2025, the National Federation of Independent Business (NFIB) Small Business Optimism Index fell for the third straight month to its lowest level since October 2024. This is below its historical average and amounts to the biggest drop since June 2022.

⁵ Based on surveys conducted by the Federal Reserve Bank of St. Louis, the latest March data showed that US capital expenditure intentions over the next 12 months have fallen for the third consecutive month in Philadelphia and New York. The surveys also indicated similar declines in Chicago and Texas in February (latest data available for these two regions).

2.2 Outlook

The sharp escalation in trade frictions has negatively impacted prospects for global trade and growth

The escalation of trade frictions, involving the increase of import tariffs by the US and retaliatory measures by some of its trade partners, will have serious ramifications for the global economy. The US is deeply plugged into global trade, accounting for almost a quarter of flows in the world's trade corridors (Chart 2.5).

Economies that levy duties on imports will likely experience an increase in costs, which will in turn weigh on business and consumer spending. Meanwhile, exporting countries which have been hit by the US tariffs will experience a negative externally induced shock on export production. Beyond the impact from trade channels, heightened policy uncertainty and the broader tightening in financial conditions will cause businesses and households to defer investment and discretionary spending, exerting further downward pressure on growth.

The uncertainty surrounding the global growth outlook remains elevated. Global growth could slip further if the US broadens and intensifies the tariffs to include other specific products such as semiconductors and pharmaceuticals. Retaliatory actions by its trading partners will exacerbate the impact on growth. Market sentiments also remain fragile, and further shocks could trigger disorderly price adjustments, with the ensuing tightening in financial conditions compounding the downturn.

Global GDP growth is expected to slow significantly to between 2.0–2.5% in 2025, from 3.2% last year. There is significant uncertainty around US trade policy and its impact.

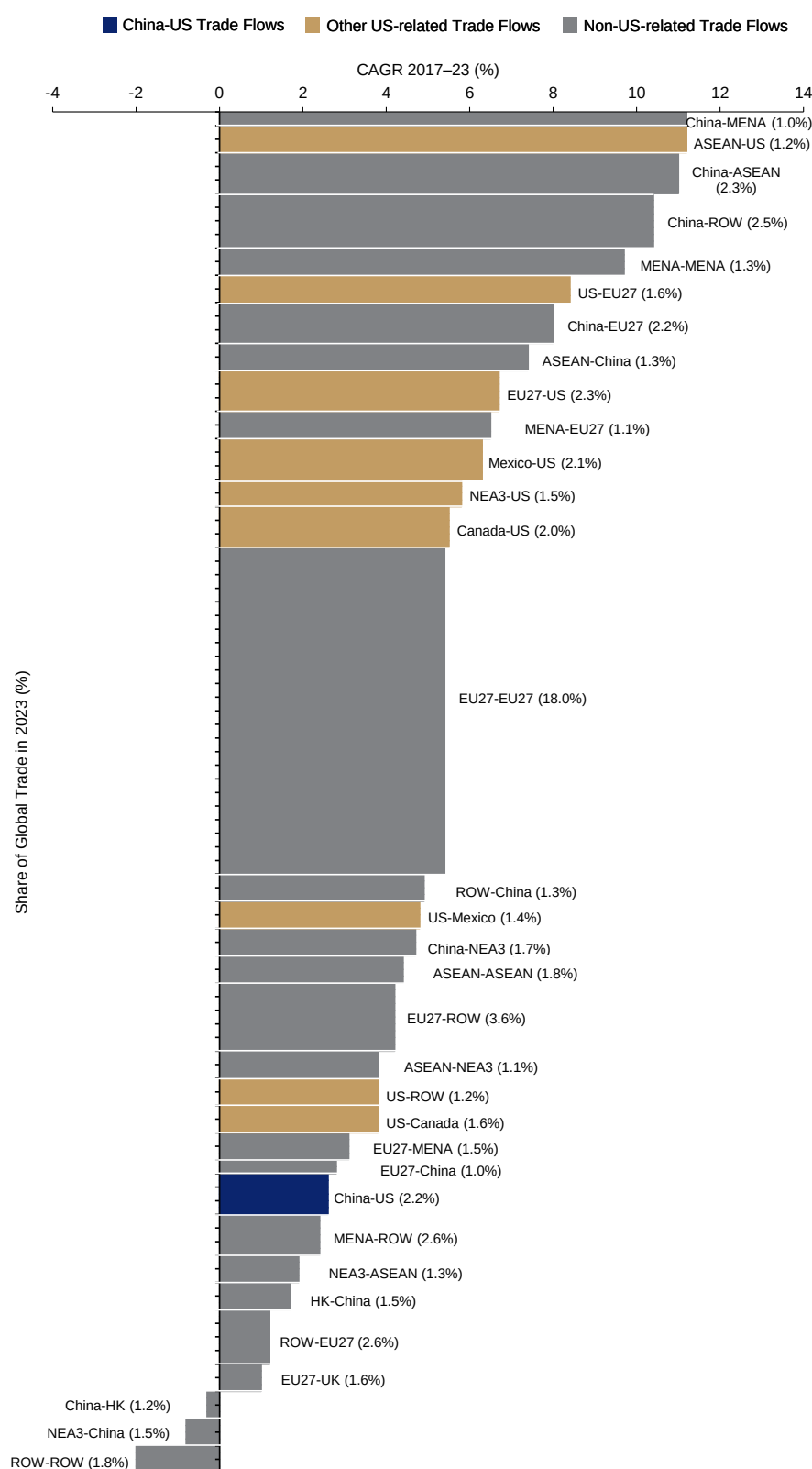
Price pressures should remain contained notwithstanding tariff-induced price increases in the US

Global headline inflation is projected to average 2.3% in 2025, slightly higher than the 2.1% seen last year. In the US, the tariffs will impart a fresh and significant shock to prices, even as its growth moderates and wage growth eases amid elevated concerns about the negative demand impact.

However, the impact on price pressures should remain contained as the rest of the world faces downward price pressures amid the tariff-induced negative demand shock. Commodity prices are expected to ease due to softer global demand and positive supply-side factors, such as the planned oil supply increases by OPEC countries for crude oil and favourable weather conditions for food production.

Within the region, China's disinflationary pressures could persist. This reflects subdued consumer confidence and significant economic slack. Domestic price pressures in ASEAN will also remain modest in view of below-trend growth.

Chart 2.5: Major Trade Corridors in the World



Source: UN Comtrade and EPG, MAS estimates

Note: i) The figures in parentheses represent the share of global trade in 2023, while the length of each bar represents CAGR over 2017-23; ii) For each corridor label, "economy A-economy B" refers to goods flow from A to B; iii) The major trade corridors above account for around 73% of global trade in 2023.