

2 The International Economy

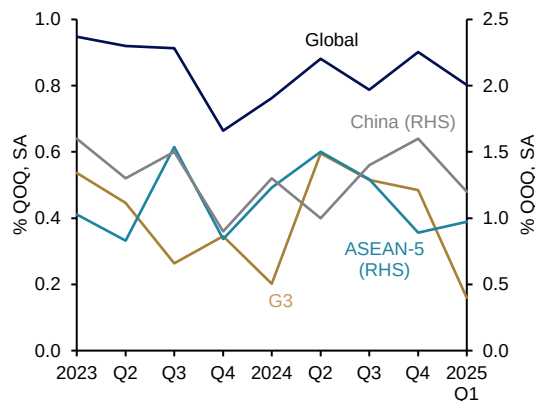
2.1 Global Growth

Global growth was firmer than expected in H1 2025, amid tariff-induced shifts in trade and production

Global GDP expanded by a creditable 0.8% q-o-q SA in Q1, a pace similar to that in preceding quarters. While the G3 economies experienced a significant sequential slowdown, growth momentum in most Asia ex-Japan economies remained steady (Chart 2.1).

This aggregate outturn reflected temporary factors which provided an uplift to production and exports. Notably, the impact from front-loading of shipments to avoid impending tariff hikes has been sizeable, imparting a high noise-to-signal ratio to the recent incoming economic data.

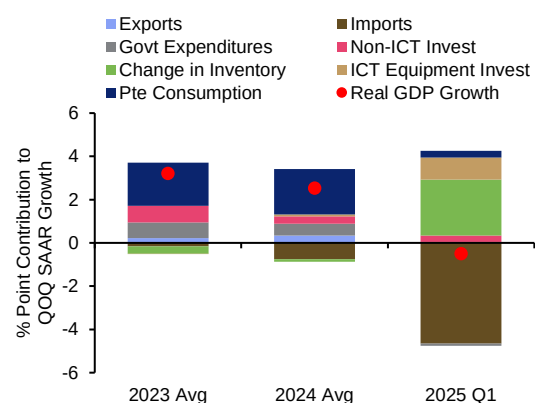
Chart 2.1: GDP Growth



Source: Haver Analytics and EPG, MAS estimates

Note: ASEAN-5 includes Malaysia, Indonesia, Philippines, Thailand, and Vietnam. All aggregates are weighted based on Singapore's value added by destination of final demand (using TiVA data).

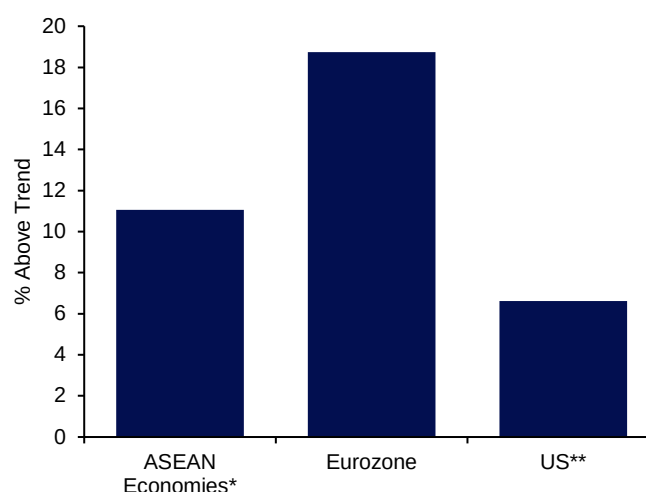
Chart 2.2: Decomposition of US GDP Growth



Source: Haver Analytics and EPG, MAS estimates

Note: From a national accounting perspective, a surge in imports should be broadly offset by a corresponding increase in consumption, investment and exports. However, this was not the case in the Q1 data, which could be due to a discrepancy in the data compilation from different sources.

In the US, GDP contracted in Q1 due to the synchronised surge in imports from various source countries, as US firms front-loaded in anticipation of wide-ranging country and product-specific tariff announcements in April (Chart 2.2). Mirroring this, the exports of many US trading partners rose significantly relative to recent trends. (Chart 2.3).

Chart 2.3: Q1 Exports to the US and US Imports, Relative to Trend

Source: CEIC, Haver Analytics and EPG, MAS estimates

* Average of selected ASEAN economies.

** US imports excluding gold.

Note: Calculated by comparing the actual export/import against a counterfactual of recent historical trends. This is similar to the methodology adopted by several private sector research analysts.

Tariff-related developments continued to drive growth of tradable sectors in Q2. Following the announcement of reciprocal tariffs on 2 April, the US reversed course on 9 April and implemented a 90-day pause for all trade partners except China, which supported further bouts of front-loading in many economies. The subsequent US-China trade truce¹ also bolstered activity in regional economies which are plugged into China's supply chain. More broadly, global economic activity was supported by the easing in financial conditions following the de-escalation of trade tensions.

Abstracting from front-loading effects, underlying final demand in key economies has started to soften

Setting aside front-loading distortions, final demand has been slowing, most discernibly in the US. US household consumption growth fell to its slowest sequential pace since 2011 (excluding H1 2020) in Q1 2025, alongside subdued real disposable income growth and an increase in savings by households. While overall business investments remained firm in Q1, this was largely supported by the ICT sector as non-ICT business investments were restrained. Private consumption momentum in Japan and Eurozone stayed subdued—purchasing power continued to be eroded by rising inflation in Japan, while household sentiment has weakened over labour market concerns in the Eurozone.

Meanwhile, domestic demand softened across most ASEAN-5 economies, led by slower momentum in household consumption in Indonesia and Thailand amid manufacturing layoffs and declining purchasing power. While private consumption in Malaysia has been more resilient, supported by income-enhancing policies, investment growth has moderated amid the heightened uncertainty in the global trade environment. Domestic demand in China

¹ Following the Geneva agreement on 12 May, US tariffs on China were reduced from 145% to 30%, while China's tariffs on the US were lowered from 125% to 10%.

remained anaemic, characterised by the persistent sluggishness of private consumption and a slowdown in fixed assets investment growth.

With the significant boost from front-loading offsetting the slowdown in final demand, global growth held up in recent quarters. Advance estimates for some economies—namely, China, Korea, Malaysia and Vietnam—came in better than expected in Q2.

Global growth is expected to slow in H2 2025 and over 2026, as front-loading fades and final demand remains subdued amid trade headwinds

The outlook remains muted, with the US alluding to plans to impose tariffs on most trading partners that are higher than the current 10% base rate. These higher rates are set to come into effect on 1 August, including where trade agreements have been reached. Moreover, the front-loading that underpinned growth in H1, particularly in Asia, will likely fade in the quarters ahead as corporates run down inventories.

Beyond external headwinds, domestic spending will be dampened in many economies by the expected rise in tariff rates and the associated high level of uncertainty. In the US, its growth momentum is expected to soften. Consumer spending data is partly showing a reversal of front-loading as well, with purchases of motor vehicles falling sharply in May and remaining muted in June, after surging in end-2024 and March this year. Although the labour market remains largely supported, relatively low hiring rates coupled with elevated uncertainty may prompt households to increase their precautionary savings further. The expected pickup in consumer prices following recent tariff increases will occur with a lag, and erode real income and consumption. The fiscal impulse from the One Big Beautiful Bill Act in 2025–26 is anticipated to be modest—the boost imparted by tax cuts will largely be cancelled out by higher tariffs as well as planned spending cuts that disproportionately weigh on low-income households that have a greater marginal propensity to consume.

Domestic demand in China is also expected to stay lacklustre, with only a modest pickup in private consumption amid the languishing property sector. In the ASEAN-5, still-weak purchasing power and negative employment spillovers from tariff-hit sectors will weigh on consumer spending. Firms in Asia and the Eurozone will also likely hold back on capacity expansion or large investments amid ongoing uncertainty.

All in, incorporating the stronger H1 outturn, EPG expects the full-year 2025 global growth to come in at around 2.8%. While this is firmer than the 2.0–2.5% projected in the April *Review*, it is still a sharp step-down from the 3.3% global growth recorded in 2024. Growth in 2026 will continue to be weighed down by uncertainties as the second-round effects of trade frictions work through the global economy, potentially bringing global output even further below trend. Consequently, the output gaps for most economies would remain slightly negative even by end-2026.

2.2 Global Inflation

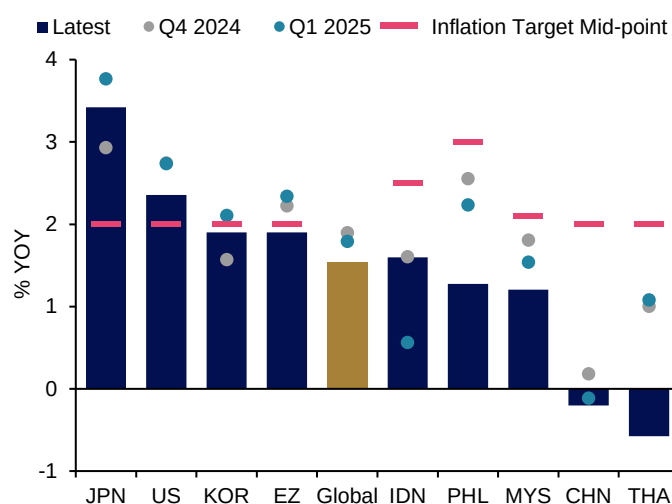
Global inflation edged lower alongside subdued final demand...

Global headline inflation eased to 1.8% y-o-y in Q1 and further to 1.6% in Apr–May. This downtrend is primarily attributed to the moderate price pressures observed in Asia ex-Japan and the Eurozone. Notably, China experienced deflation between February and May, while inflation outturns in the ASEAN-5 economies have been persistently below their respective central bank target ranges (**Chart 2.4**).

When compared against historical episodes, recent inflation prints in most ASEAN-5 economies were markedly weaker than that implied by their prevailing domestic output gaps, which are broadly hovering around zero. In particular, Thailand has slipped into deflation since April. Overall weaker-than-usual inflation in the region has been driven in part by administrative measures, which have remained in place to cushion food and energy prices even as inflationary pressures in these items are relatively contained. Japan is the sole outlier among the major Asian economies where inflation is rising, driven by substantial increases in food and energy prices due to domestic supply-side constraints.

In the US, the impact of import tariffs on inflation has been modest thus far. This is partly because only an estimated 10% of its personal consumption expenditure basket is imported². Moreover, most countries have thus far remained at the baseline 10% tariff rate³, which is likely to be more easily absorbed either by US firms or foreign exporters. Amid tariff uncertainty, US retailers have also been stockpiling goods, allowing them to avoid adjusting prices immediately.

Chart 2.4: Headline Inflation



Source: Haver Analytics and EPG, MAS estimates

Note: As Malaysia's central bank does not have an inflation target, its 2010–19 average of 2.1% was used. Global CPI is aggregated using weights based on import sources of goods and services in Singapore's CPI basket.

² Stein, Hillary, and Omar Barbiero. "The Contribution of Imports to Consumer Prices." Federal Reserve Bank of Boston, June 27, 2025. SSRN. <https://ssrn.com/abstract=5262458>.

³ Many products were also exempted from the reciprocal tariffs, such as autos, steel, aluminium, copper, lumber, semiconductors, pharmaceuticals, energy, and certain minerals not available in the US.

... and is expected to remain in line with trend

Global inflation is forecast to average 2.0% in 2025. This is a slight downward adjustment compared to the April *Review*, largely reflecting the lower effective tariff rate on US imports compared to the immediate aftermath of “Liberation Day”.

Nevertheless, there are variations across countries. Headline inflation in the US will remain elevated as the pass-through of rising import costs to consumer prices is expected to strengthen in the months ahead, after firms run down stockpiles that were accumulated at lower prices in earlier months. In comparison, inflation dynamics in the Eurozone and most of Asia will remain relatively benign. This is partly because global oil prices are forecast to remain contained for the rest of the year on the back of planned supply increases by OPEC+ countries and some de-escalation of geopolitical tensions in the Middle East. In Asia, softer domestic demand will also help to cap core inflationary pressures, while food prices are expected to remain stable. Deflationary pressures are likely to persist in China, especially at the producer level. In Japan, price pressures are expected to ease in H2, supported by lower import prices as the central bank’s gradual tightening stance underpins a firmer yen.