Singapore: Lowering our GDP forecast for 2025

Considering the effects of higher tariffs on exports, the weaker-than-expected growth in the manufacturing sector during 1Q—which is likely to persist throughout the year—and the potential spillover of the manufacturing slowdown into the services sector, we are adjusting our GDP forecast for 2025 down by 100 basis points to 1.6% year-on-year

Source: Shutterstock

Singapore indeed managed to avoid the worst of the US tariffs, receiving the lowest retaliatory tariff rate of 10%. However, its heavy reliance on global trade and growth means that the likely slowdown in these areas makes Singapore's external and domestic growth particularly vulnerable. Meanwhile, domestic activity indicators have already started to weaken, prompting us to revisit our GDP growth estimates.

Both direct and indirect impact on export growth from higher tariffs

Singapore's exports will be hit by tariffs not just via its direct exports to the US but also via its indirect exports to the US via China and other countries. We estimate that 5% of its exports to the US are through China and hence will incur a higher tariff rate of 125%, while the remaining 95% (ex-semis and Pharmaceuticals) will be taxed at 10%.

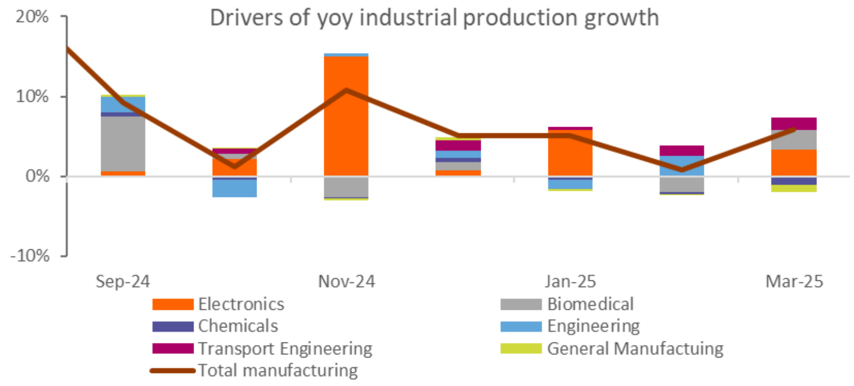
Assuming price elasticity of 1 from higher tariffs, we expect demand to come off equivalently. Hence, in the current scheme of things with reciprocal tariffs on hold, we expect US tariffs to reduce exports by 0.7% of GDP. The impact on GDP growth would be larger as the second round effects impact the other parts of the economy, especially manufacturing and employment.

Manufacturing sector has disappointed for two straight months

Industrial production is showing signs of correction as growth fell below expectations in both February and March 2025, resulting in a slowdown in overall growth to 3.9% year-on-year in 1Q, down from 5.7% in 4Q24. This weakness was widespread across sectors, especially hitting various electronics manufacturing sub-sectors like semiconductors, infocomms, and consumer electronics, as well as pharmaceuticals.

Given that the electronics and biomedicals sector together make up over 50% of Singapore's industrial production index and over 10% of Singapore's GDP, the rising uncertainty around supply chain configurations is adding to the sector's challenges and investment decisions. Business confidence in Singapore's manufacturing sector fell to -6 in 1Q 2025 from +16 in the previous quarter, reflecting renewed pessimism among manufacturers, the first since 4Q 2022. So far, both the electronics and manufacturing sectors have managed to avoid the tariffs. However, any new announcements could spell trouble and further weaken the manufacturing sector.

Industrial production has disappointed in recent months



Source: CEIC

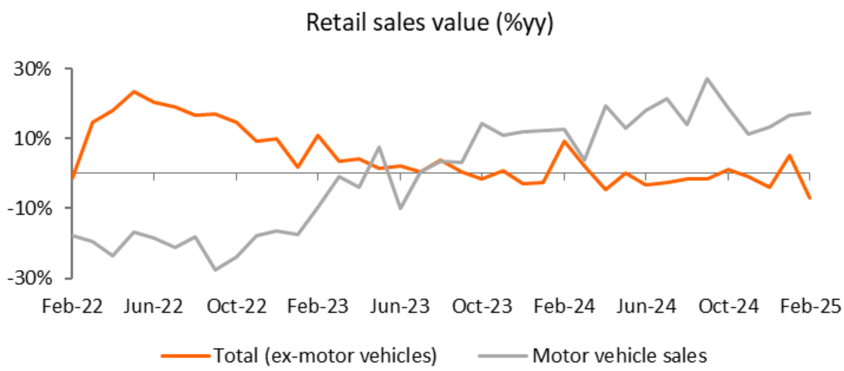
Slowing external demand likely to impact services sectors as well

The interconnected nature of Singapore's economy with global supply chains amplifies these risks, not only in sectors like electronics and manufacturing but also in the outward-oriented services sectors such as finance & insurance in tandem with slowing external demand. While real estate occupancy rates across residential and retail remained strong in 1Q, there was a slight moderation seen in occupancy rates for office. The resilience in transportation and storage sectors on the back of strong growth in air and sea cargo volumes so far is also likely to be tested in 2Q as the impact of tariffs on goods shipped and imported becomes clearer.

Slowing retail sales despite relatively resilient labour market

The labour market has remained relatively resilient with a high job vacancy to unemployment ratio of 1.6 in 4Q24, despite a slight pickup in the unemployment rate to 2.1% in 1Q25. The government anticipates that the labour market may soften soon due to increasing uncertainties in external growth prospects. Despite healthy employment trends, retail consumption is showing signs of slowing down across most sectors, except for motor vehicles, which continued to see robust double-digit growth in February 2025. Sales in departmental stores, supermarkets, apparel, and F&B have significantly slowed, even slipping into contraction mode compared to 2024, highlighting the hit to consumer confidence given the rising uncertainties on global growth.

Weak retail sales except for motor vehicles



Source: CEIC

Fiscal and monetary policy should remain supportive

More fiscal and monetary support is likely on its way. The Monetary Authority of Singapore (MAS) has eased monetary policy twice in a row via a reduction in the S$NEER slope, and we expect another move in 3Q. A large fiscal surplus, primarily driven by large corporate revenue taxes, in FY24 suggests the government does have large fiscal space available (around 0.5% of GDP) to accelerate government spending if the downside risks were to escalate. Government budget estimates for the year starting April 2025 focused on higher government spending on support measures to alleviate the cost of living pressures.

Lowering GDP forecast for 2025 by 100bp to 1.6%

Considering the effects of higher tariffs on exports, the weaker-than-expected growth in the manufacturing sector during 1Q—which is likely to persist throughout the year—and the potential spillover of the manufacturing slowdown into the services sector, we are adjusting our GDP forecast for 2025 down by 100 basis points to 1.6% year-over-year. Accommodative fiscal and monetary policy is expected to partially offset these impacts.

Author

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

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