HongLeong Bank

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Global Markets Research

Research Alert

Singapore upped its 2025 GDP growth forecast to 1.5-2.5%

Revision driven by stronger than expected 1H growth at 4.3% (1Q: 4.1%, 2Q: 4.4%)

Acceleration from manufacturing to services and construction sectors

MTI flags downside risks in 2H; bright spots for transport, precision engineering clusters

Summary

Matching expectations, the final 2Q GDP was revised 0.1ppts higher to 4.4% y/y in 2Q (1Q: 4.1% y/y), bringing 1H growth to 4.3% y/y. Amid the stronger than expected growth in 1H, the government also upgraded its GDP forecast for 2025 to 1.5%-2.5% from 0-2.0% previously, but warned that the economic outlook for the rest of the year remains clouded by uncertainty, with the risks tilted to the downside.

The better growth during the quarter was driven by pick-ups in the manufacturing (+5.2% y/y vs +4.7% y/y), services (+4.3% y/y vs +3.8% y/y) as well as construction (+6.0% y/y vs +4.9% y/y) sectors. Within services, only the F&B sub-sector contracted, while growth was primarily underpinned by wholesale trade, finance & insurance as well as transportation & storage sectors. Within manufacturing, all clusters expanded save for chemicals and general manufacturing, while within construction, growth was supported by both public and private activities.

Outlook

Just a recap, MTI had lowered its 2025 GDP growth projection by a full ppts back in April (from 1-3% to 0-2%) in view of the potential impact of the sweeping tariffs on major economies. Since then, the performance of most advanced, regional economies as well as Singapore have been more resilient than expected, thus explaining MTI's upgraded assessment on the overall external outlook for Singapore as well as its GDP forecast.

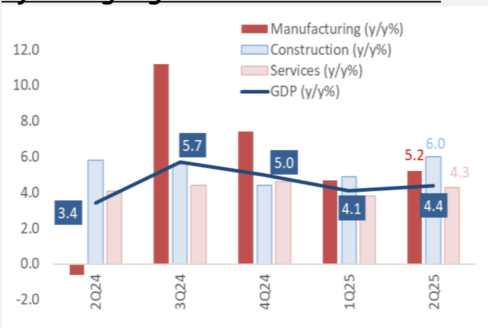
Despite the upgrade and Singapore's relatively lower 10% reciprocal tariff as compared to its peers, outlook for 2H remains unchanged from its previous assessment with Singapore's manufacturing sector likely to grow at a softer pace as US tariffs dampen global consumer demand and as the earlier boost from the front-loaded activities likely to dissipate. Singapore is also facing sizeable risk from Trump's threat of sectoral levies on Singapore's key exports, namely semiconductors and pharmaceutical products.

For 2H, the government also raised downside risks from: 1) Re-escalation in tariff tension that could lead to economic uncertainty, businesses and households pulling back sharply on spending and hiring. 2) Shocks to financial markets resulting from a sharper-than-expected tightening of global financial condition. 3) Escalations in geopolitical tensions leading to supply disruptions in energy commodities and higher prices.

On a positive note, the Government did raise some bright spots within the economy, namely: 1) ***Transport engineering cluster which could benefit from the shift towards higher value-added aircraft maintenance, repair & overhaul works. 2) Precision engineering cluster due to ramp-up in capex by semiconductor manufacturers producing AI-related semiconductors.***

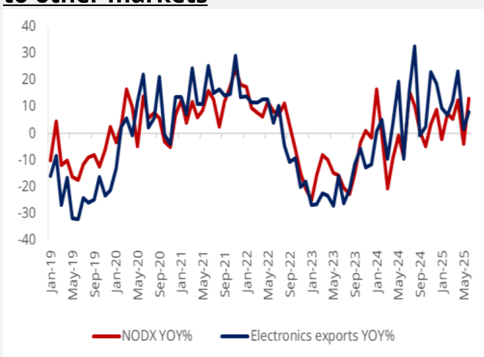
Monetary policy wise, the outperformance in 1H has allowed the central bank to stay pat in July after two consecutive quarters of back-to-back easing. While the central bank will remain ever ready to react to risks to inflation and growth, the more balanced outlook in its latest policy statement and MAS' view that the S$NEER band is in an appropriate position to respond to risks to medium-term price stability suggest that MAS will likely maintain status quo in the October meeting as well.

Figure 1: Upward revision in 2Q driven by stronger growth across the board



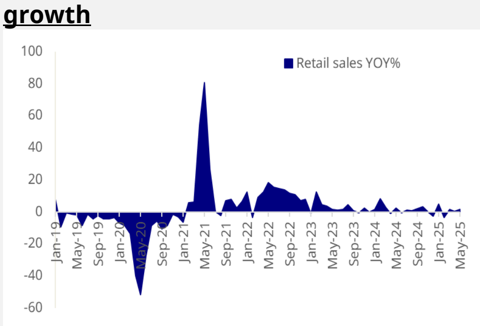
Source: Bloomberg

Figure 2: NODX has held up well - softer export growth to US offset by exports to other markets



Source: Bloomberg

Figure 3: Consumer spending registered four consecutive months of growth



Source: Bloomberg

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