

Singapore

Singapore's 3Q26 GDP moderates while MAS held S\$NEER policy unchanged

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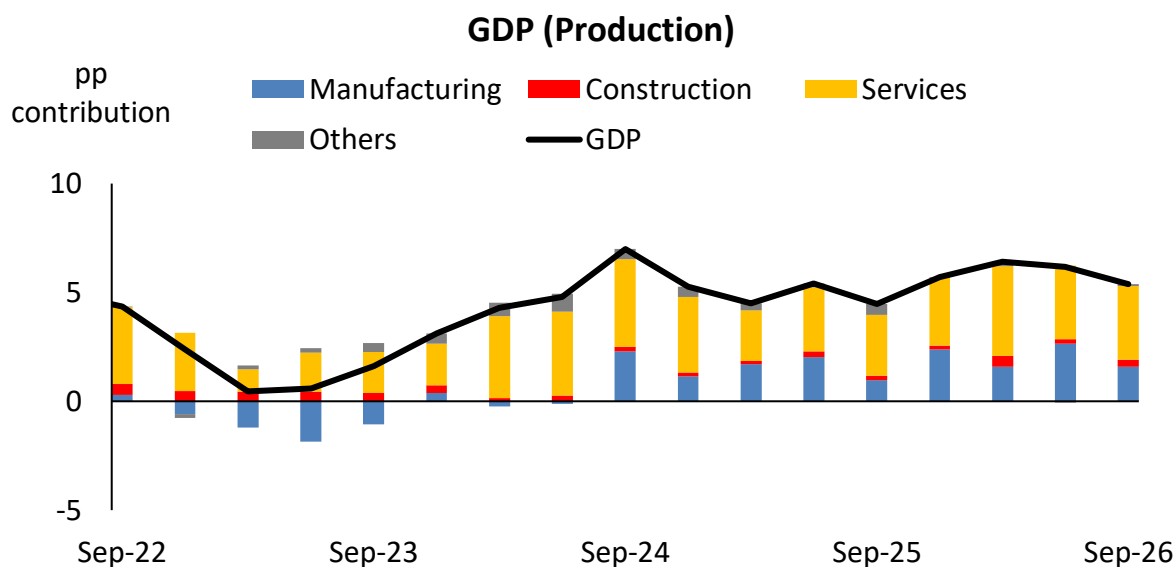
- Singapore's economy moderated to 5.4% YoY from 6.2% in 2Q26, exceeding the 5.1% Bloomberg consensus estimate but disappointing our forecast for 5.7%. The sectoral data nevertheless indicate that growth momentum is being turbo-charged by AI- and electronics-related activity, trade and transportation services, and construction and infrastructure.
- MAS unexpectedly kept the S\$NEER policy stance unchanged, albeit this was likely a close call going into the MPC. MAS stated they are well-positioned to respond effectively to any risk to medium-term price stability and will continue to closely monitor economic developments. MAS narrowed 2026 core inflation forecast to 1.5 – 2% and tips positive output gap this year to narrow in 2027.
- Our 2026 headline and core inflation forecasts stand at 2.0% and 1.8% YoY respectively. With the upward revisions to 1H26 growth which brings 1Q-3Q26 growth to 6.0%, we upgrade our full-year growth forecast from 5.2% to 5.5%. Even if 4Q26 growth moderates to around the 4% handle, 2026 GDP growth is likely to print at least at 5.5% , YoY. Since 5.5% is also the top-end of the current official growth forecast range by METI, a narrowing in November to “around 5.5%” is plausible.

Highlights

- **Singapore's economy moderated to 5.4% YoY from 6.2% in 2Q26, exceeding the 5.1% Bloomberg consensus estimate but disappointing our forecast for 5.7%.** On a seasonally adjusted quarter-on-quarter basis, 3Q26 growth eased to 1.1% (our forecast: 1.7% QoQ SA) from 1.5% in 2Q26. The growth moderation reflects a normalization in manufacturing expansion from 12.9% YoY in 2Q26 to 7.5% in 3Q26, although electronics-related activity remained resilient, and this trend is likely to extend to 4Q26 manufacturing and GDP growth readings as well. That said, GDP growth already averaged 6.0% YoY during the first three quarters of 2026, leaving the risks to growth firmly skewed to the upside. As such, we are upgrading our 2026 GDP growth forecast to 5.5% from 5.2%, bringing it in line with the upper end of the official 4.5%-5.5% forecast range.
- **The sectoral data nevertheless indicate that growth momentum is being turbo-charged by AI- and electronics-related activity, trade and transportation services, and construction and infrastructure.** Chemicals and biomedical manufacturing were weaker, even though the construction and services sectors growth remained resilient at 8.8% YoY and 5.2% respectively. In particular, construction growth momentum accelerated sharply in 3Q26, supported by both public- and private-sector activity. Trade and transportation services also strengthened, consistent with robust regional trade and continued demand for AI-related electronics. Finance, information and communications, and professional services also continued to expand at a solid pace, while consumer-facing and other domestic services lagged. This divergence creates a dual-speed expansion where businesses linked to construction, trade and advanced electronics may continue to benefit from strong demand, while consumer-oriented sectors face a more challenging environment, especially on the domestic cost front and tightening financial conditions. Notably, MAS expects financial services activity to continue expanding, while recognising that tighter global financial conditions will eventually weigh on final demand.
- **Forward indicators remain constructive. The September manufacturing and electronics PMIs improved, and the broader private-sector PMI remained elevated.** Notably, the September S&P Global Singapore PMI eased from August's record 59.4 to 58.1, but private-sector business conditions remained healthy as new orders rose markedly, business activity accelerated, and the real estate and business-services segment recorded the strongest increases in orders and activity, whilst firms also continued to expand employment and purchasing, even though rising input costs, longer delivery times and the eventual moderation of the AI-driven cycle warrant caution. Nonetheless, given the global AI boom became entrenched in 2H25, the base effects are likely to weigh on the headline GDP growth momentum in 2H26 as well.
- **Against this macroeconomic backdrop, MAS unexpectedly kept the S\$NEER policy stance unchanged, albeit this was likely a close call going into the MPC.** Today's decision not to tighten for the third consecutive meeting should be seen as a policy pause since the earlier policy tightening delivered in April and July is viewed as sufficient, particularly because domestic cost pressures remain contained and the positive output gap is expected to narrow through 2027. MAS noted that domestic services inflation has been lower than anticipated and productivity gains are containing unit labour cost increases. An extended hold at the current appreciating S\$NEER slope for at least out to the January 2027 policy

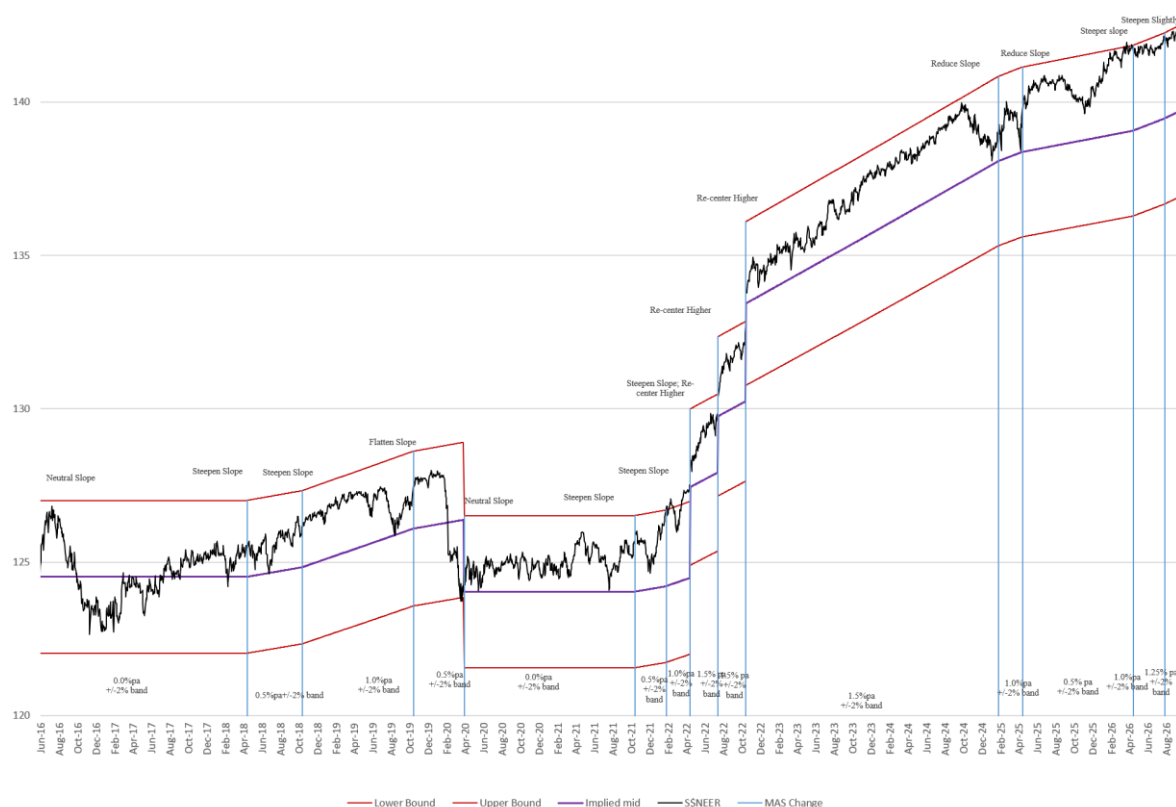
meetings is likely on the assumption that the positive output gap narrows and core inflation eases from mid-2027 as projected by MAS.

- **The contrast with the earlier decisions is clear – the April policy tightening was prompted by the abrupt energy and imported-cost shock while the July tightening was justified by persistent pass-through alongside stronger growth and a widening positive output gap,** whereas the October hold reflects confidence that the cumulative policy tightening is sufficient despite firm current economic activity, mainly because the forward output gap and domestic inflation outlook have become less threatening overall. MAS opined that while growth should continue to expand at a firm pace in the immediate quarters ahead and moderate thereafter as the AI cycle eases from its exceptional pace and global financial conditions tighten, the positive output gap from this year is forecast to narrow through next year. METI will only announce the revised 2026 growth forecast and the 2027 growth forecast in November.
- **More importantly, MAS sounded more confident that core inflation is stabilizing, thus narrowing the 2026 core inflation forecast from 1.5-2.5% to 1.5-2.0% and signalled comfort with the current S\$NEER policy stance,** of which the cumulative effects of the earlier April and July 2026 policy tightening are still working their way through the system. More importantly, inflationary expectations do not appear at risk of de-anchoring and costs of essential services such as healthcare and education are relatively stable due to enhanced government subsidies. Imported inflation is tipped to ebb and domestic price pressures stay subdued, whilst unit labour costs in the services sector are expected to be contained due to continued productivity gains. The ongoing tightening of global financial conditions may also do some of the work in tempering demand conditions and price pressures in the coming months. MAS reiterated that inflation risks remain tilted to the upside, whether through a sharp and sustained surge in energy or food prices or elevated domestic inflation due to spillovers from the AI-related boom into the unit labour costs. On the downside risks to inflation, a sharper than expected rise in interest rates or sharper pullback in AI-related investments could drag growth and inflation, or a quicker resumption of energy production and Middle East shipments could prompt a faster decline in global energy prices.
- **MAS stated they are well-positioned to respond effectively to any risk to medium-term price stability and will continue to closely monitor economic developments.** While we cannot fully discount the possibility of further upside surprises in energy, food, wages or broader AI-related demand spillovers which could still necessitate renewed policy tightening, there appears to be greater comfort in looking through the currently elevated energy prices and allowing global developments, on both geopolitical and monetary policy fronts, to run their course out into early 2027. The upcoming events to watch include the US mid-term elections, US Federal Reserve rate hike intentions (tonight's US CPI print for instance, but our base case is for the Fed to hike 25bps in December rather than in October FOMC), and the geopolitical risks in the Middle East and Ukraine etc. Our 2026 headline and core inflation forecasts stand at 2.0% and 1.8% YoY respectively. However, with the upward revisions of 1H26 growth which brings 1Q-3Q26 growth to 6.0%, we upgrade our full-year growth forecast from 5.2% to 5.5%. Even if 4Q26 growth moderates to around 4% handle, 2026 GDP growth is likely to print at least at 5.5% YoY. Since 5.5% is also the top-end of the current official growth forecast range by METI, a narrowing in November to "around 5.5%" is plausible.



Note: 3Q26 is based on advance estimates.

Source: METI, Singstat, CEIC, OCBC Group Research.



Source: OCBC Group Research.

Gross Domestic Product in Chained (2015) Dollars

	3Q25	4Q25	2025	1Q26	2Q26	3Q26*
Percentage change over corresponding period of previous year						
Overall GDP	4.5	5.7	5.0	6.4	6.2	5.4
Goods Producing Industries	4.5	9.6	7.6	8.3	10.9	7.3
Manufacturing	4.6	11.4	8.7	7.7	12.9	7.5
Construction	5.6	4.6	5.2	13.5	6.1	8.8
Services Producing Industries	4.3	4.8	4.3	6.3	5.2	5.2
Wholesale & Retail Trade and Transportation & Storage	4.4	6.8	5.0	9.5	6.9	8.0
Information & Communications, Finance & Insurance and Professional Services	4.6	3.7	4.2	4.7	5.1	4.3
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services Industries	3.6	2.9	3.1	3.3	2.4	2.1

	3Q25	4Q25	2025	1Q26	2Q26	3Q26*
Quarter-on-quarter growth rate, seasonally adjusted						
Overall GDP	1.9	1.3	5.0	1.4	1.5	1.1
Goods Producing Industries	3.6	3.3	7.6	-0.4	4.2	0.0
Manufacturing	4.5	4.5	8.7	-2.5	6.3	-0.9
Construction	0.6	0.2	5.2	8.0	-2.7	3.4
Services Producing Industries	1.2	1.0	4.3	2.1	0.7	1.2
Wholesale & Retail Trade and Transportation & Storage	1.1	1.8	5.0	3.7	0.0	2.2
Information & Communications, Finance & Insurance and Professional Services	1.2	4.6	4.2	-3.4	2.8	0.4
Accommodation & Food Services, Real Estate, Administrative & Support Services and Other Services Industries	0.9	-0.4	3.1	1.0	0.8	0.6

*Advance estimates

Source: METI.

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