

Inflation Monthly August 2008

Singapore's Consumer Price Index

	2008	
	July	Aug
y-o-y (%)	6.5	6.4
m-o-m (%)	1.2	0.2
Index	110.0	110.2

- **Singapore's headline CPI inflation eased from 6.5% in July to 6.4% in August**

The MAS underlying inflation measure, which excludes accommodation and private road transport costs, rose slightly from 5.6% in July to 5.8% in August.

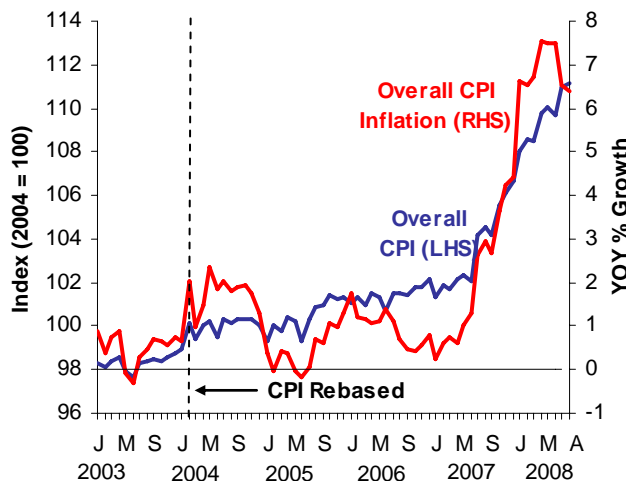
- **On a m-o-m basis, the CPI was higher by 0.2%**

Aside from private road transport, prices of most major categories in the CPI continued to rise in August. Nonetheless, compared to July, most of these increases were of a smaller magnitude.

- **Outlook: Electricity tariff in Q4 was raised by 21%**

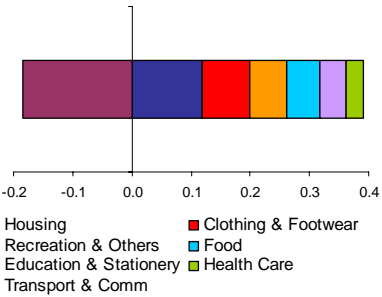
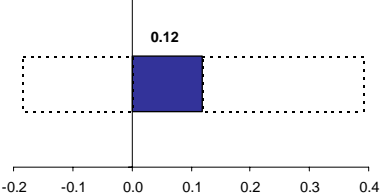
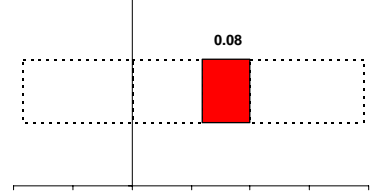
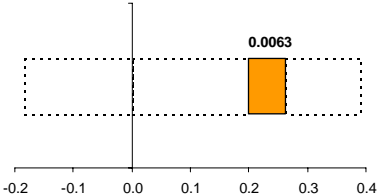
Reflecting global crude oil price movements with a lag, cost of electricity for households in Singapore continued to rise in Q4. The latest adjustment brought average electricity tariffs in 2008 about 27% higher compared to a year ago.

Singapore: CPI and CPI Inflation



Recent Developments in Domestic CPI Inflation

Domestic CPI inflation came in at 6.4% y-o-y in Aug 2008, slightly lower than the 6.5% recorded in July. For the first eight months of 2008, it averaged 6.9%. The MAS underlying inflation measure, which excludes accommodation and private road transport costs, rose slightly from 5.6% in July to 5.8% y-o-y in August. This is because petrol pump prices, excluded from the MAS underlying inflation measure, corrected significantly in August from July. For the first eight months of 2008, the MAS underlying inflation averaged 5.8%.

% Point Contribution (m-o-m), August 2008	Group	
	Overall (m-o-m)	The CPI rose by 0.2% on a month-on-month (m-o-m) basis in August, significantly lower than 1.2% m-o-m increase in July ¹ . Furthermore, a sharp decline in transport and communication costs helped to mitigate the rise in prices of most other goods and services in the CPI. On a three-month moving average basis, m-o-m CPI inflation was unchanged at 0.35% in August from the July reading.
	Housing	Cost of housing was up by 0.5% in August from July, affected by higher rented and owner-occupied accommodation costs and a 5.3% hike in piped gas prices.
	Clothing & Footwear	Retail prices of clothing and footwear continued to rise sharply by 2.4% m-o-m in August. This followed a 3% increase in July. However, comparing prices in August to that of April - just before the Great Singapore Sale - prices are only higher by 0.2%.
	Recreation & Others	Costs of recreation and others rose by 0.4% in August over July, due to costlier household services, personal effects (e.g. leather and travel goods) and non-packaged holiday travel (e.g. booking of hotels overseas).

¹ About half of the m-o-m increase in July was due to the absence of S&CC and HDB rental rebates in July, which were administered in June.

	<p>Food</p>	<p>Prices of food increased by 0.2% in August over July. This is the smallest increase since March this year². Though food import prices picked up in recent months (Chart 1), m-o-m <i>non-cooked food</i> price inflation moderated significantly from 1.2% in July to 0.3% in August. Prices of most raw food items that recorded sharp increases last month (such as meat, poultry, seafood, vegetables and fruits), rose only slightly in August. Meanwhile, m-o-m <i>cooked food</i> price inflation eased further from 0.3% in July to 0.2% in August, the lowest monthly adjustment since June 2007.</p>
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Chart 1a
Food Import Prices

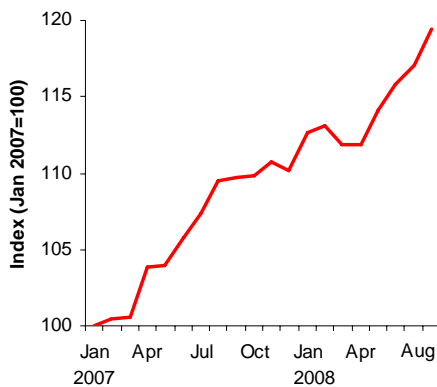
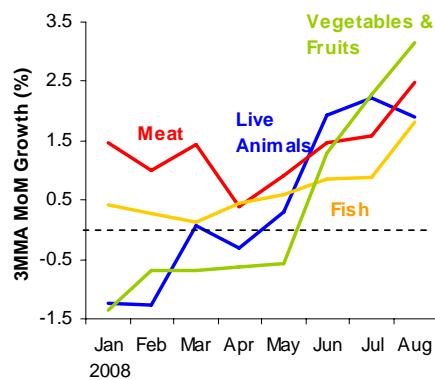


Chart 1b
Selected Food Import Price Inflation



	<p>Education & Stationary</p>	<p>Costs of education and stationary were higher by 0.6% in August compared to July. Cheaper computers and accessories were offset by the upward adjustments in university tuition fees³.</p>
	<p>Health Care</p>	<p>Healthcare costs rose by 0.5% m-o-m as medical treatment bills (e.g. hospitalisation fees) went up.</p>

² Food CPI declined by 0.2% m-o-m in March, a “seasonal” adjustment as *non-cooked food* prices corrected after the Chinese New Year holiday period in February.

³ The three local universities – NUS, NTU and SMU – raised tuition fees by 4-20% for the August 2008 intake.

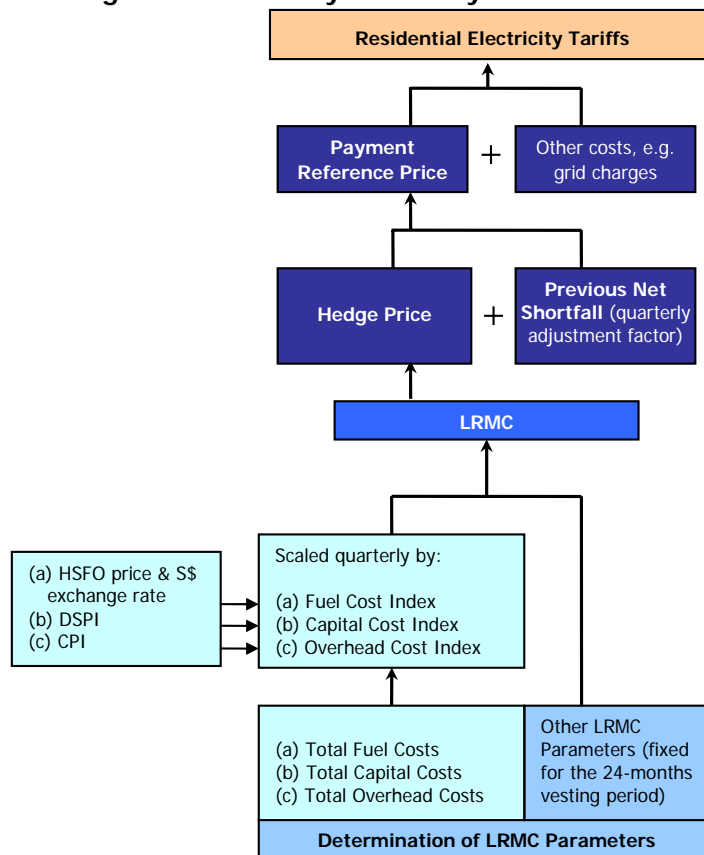
<p>A bar chart with a horizontal axis ranging from -0.2 to 0.4. A single purple bar extends to the left from the 0.0 mark to -0.18. The value -0.18 is printed above the bar.</p>	<p>Transport & Communication</p> <p>Costs of transport and communication slid by 0.9% m-o-m in August, the third consecutive month that the index declined. The sharp retreat in global oil prices in late July and early August led to several rounds of cuts in domestic petrol pump prices. As a result, costs of private road transport fell by 2.2% m-o-m in August. This more than offset higher costs of public road transport⁴ and international sea and air fares.</p>
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Outlook

ELECTRICITY TARIFF IN Q4 WAS RAISED BY 21%

Despite the recent correction in crude oil prices, household electricity tariff in Q4 2008 was raised by 21% (or an increase of 5.38 cents to 30.45 cents per kWh). Cost of electricity in Singapore generally lags global crude oil prices because tariffs for the quarter are pegged to the 3-month forward prices of fuel oil (HSFO 180-cst) quoted in the first month of the preceding quarter. The stylized flow diagram below summarises the tariff determination process.

Chart 2
Flow Diagram of Quarterly Electricity Tariffs Determination



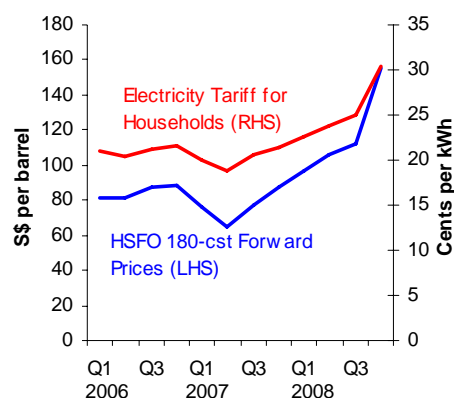
Source: Energy Market Authority

⁴ Taxi operators implemented fuel surcharges and private bus operators hiked fares in late July.

The latest revision largely reflects the strong upsurge in both spot and forward prices of fuel oil in July⁵. (Chart 3) Intensified business cost pressures (represented by the Capital Cost Index and Overhead Cost Index) in recent months further raised the marginal cost of production.

The latest hike followed accumulated increases of some 16% in the first nine months of this year. On average in 2008, households will pay 27% more for electricity, compared to a year ago. However, for one-to-three room HDB flat dwellers, the increase in government utilities rebates (U-SAVE) announced during the National Day rally would more than offset the higher bills.

Chart 3
Fuel Oil Prices and Electricity Tariffs



Source: Singapore Power

Note: HSFO forward prices refer to those quoted in the first month of the preceding quarter.

CPI INFLATION EXPECTED TO MODERATE IN H2 2008 AND FURTHER IN 2009

Domestic CPI inflation in y-o-y terms is expected to moderate in H2 and come in at 6-7% for the whole of 2008. It is likely to slow further in 2009. While global food and oil prices are volatile, the pace of increases going forward should be far more moderate than that seen in the earlier part of the year, due to improving global demand-supply conditions in the short-term. Indeed, the FAO Food price index peaked in June 2008 and has since fallen to a seven-month low. Crude oil prices have also corrected significantly from record highs. Further, domestic business cost pressures, notably from labour, rentals, utility and transport-related costs are also expected to ease on the back of a slowdown in economic growth.

(Please see the upcoming Oct 2008 Macroeconomic Review for more details on the inflation outlook for Singapore.)

⁵ Fluctuations in fuel prices not only affect electricity tariffs directly through the Fuel Cost Index, but also indirectly through raising overall producer and consumer prices, as direct-fuel related components constitute more than 20% and 5% of the DSPI and CPI basket respectively.

Table A.1
Consumer Price Index

	All Items	Food	Clothing & Footwear	Housing	Tpt & Comm	Educational & Stationery	Health Care	Recreation & Others
Weights	10000	2338	357	2126	2176	819	525	1659
	INDEX (2004 = 100)							
2007 Sep	104.2	106.9	101.6	103.9	98.7	106.3	107.4	106.3
Oct	105.5	107.5	101.1	106.6	101.0	106.3	107.8	107.2
Nov	106.1	108.6	102.9	107.3	101.1	106.3	108.0	107.8
Dec	106.6	109.3	102.3	107.3	102.3	106.2	108.1	108.3
2008 Jan	108.0	110.5	103.0	111.7	102.2	108.9	109.5	107.7
Feb	108.6	111.9	102.5	112.3	102.2	108.9	110.1	108.1
Mar	108.5	111.7	104.0	111.6	101.9	108.8	110.1	108.9
Apr	109.8	112.6	103.7	114.8	103.0	109.0	110.7	109.9
May	110.0	113.5	102.0	115.3	103.6	108.9	110.7	108.9
Jun	109.7	114.2	98.8	113.3	103.5	108.7	110.9	109.2
Jul	111.0	115.1	101.8	117.9	102.9	109.5	112.0	109.2
Aug	111.2	115.3	104.2	117.9	101.9	110.1	112.0	109.7

Source: Singapore Department of Statistics

Table A.2
Selected Inflation Indicators

	CPI	MAS Underlying Index	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH				
2007 Sep	2.7	3.0	-0.2	12.8	24.3
Oct	3.6	3.2	1.0	11.5	43.6
Nov	4.2	3.5	3.8	9.5	60.6
Dec	4.4	3.7	4.0	7.9	50.4
2008 Jan	6.6	5.0	5.4	15.4	74.8
Feb	6.5	5.3	4.5	20.4	66.6
Mar	6.7	5.6	4.3	22.8	69.4
Apr	7.5	6.4	4.1	17.4	65.8
May	7.5	6.5	6.3	15.1	85.0
Jun	7.5	6.5	8.3	17.4	92.3
Jul	6.5	5.6	9.7	17.4	83.1
Aug	6.4	5.8	6.4	14.9	63.7

Source: Singapore Department of Statistics, IMF and Bloomberg