

Inflation Monthly

December 2008

Singapore's Consumer Price Index

	2008	
	Nov	Dec
y-o-y (%)	5.5	4.3
m-o-m (%)	-0.2	-0.6
Index	112.0	111.3

- **Global inflation moderated in Q4**

Headline CPI inflation fell across the G3 and Asian economies in Q4, due largely to the sharp correction in global crude oil prices.

- **Singapore's headline CPI inflation fell from 5.5% y-o-y in November to 4.3% in December**

The MAS underlying inflation measure, which excludes the cost of accommodation and private road transport, also moderated from 5.5% in November to 5.2% in December.

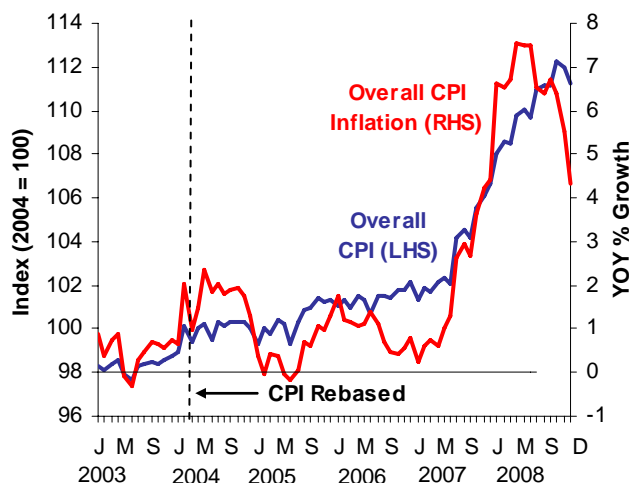
- **On a m-o-m basis, the CPI was lower by 0.6%**

The decline in the costs of transport, housing and clothing & footwear more than offset the increase in the prices of food and recreation goods & services.

- **CPI inflation is expected to come in between 0 and -1% in 2009**

The expected decline in CPI inflation is largely led by oil-related items, and the fall-off in inflation rates going forward is due partly to the high base last year.

Singapore: CPI and CPI Inflation



Recent Developments in Global Inflation

Headline CPI inflation moderated across the G3 and Asian economies in Q4 2008, reflecting mainly the sharp correction in global crude oil prices and the economic downturn.

In the G3, the sharp plunge in energy CPI inflation was the primary contributor to the decline in headline inflation. The US recorded the largest fall in headline inflation, from 5.3% y-o-y in Q3 to 1.6% in Q4, as the big drop in energy cost was compounded by very weak domestic demand, causing price inflation to moderate across a broad range of goods and services. In the Eurozone and Japan, headline CPI inflation also eased, from 3.8% and 2.2% respectively in Q3 to 2.3% and 1.0% in Q4.

Headline inflation in Northeast Asia fell by nearly half, from an average of 5.2% in Q3 to 2.9% in Q4. Except for Korea, food and energy-related items exerted the strongest downward pressure on inflation. Furthermore, price increases also eased across most items in the CPI, reflecting the general weakness in consumer spending. In Korea, the collapse in global crude oil prices did not impact inflation significantly due to the weaker exchange rate.

In Southeast Asia, headline CPI inflation averaged 7.9% in Q4, down from 10.2% a quarter earlier. Except for Indonesia, more modest increases in the cost of transport and communications, reflecting the fall in global oil prices and downward adjustment to administered petrol prices (in Malaysia), was the principal factor behind the weaker headline CPI inflation. Among the regional economies, Thailand saw the sharpest drop in headline inflation, and core inflation turned negative for the first time since Q1 2004 as the already poor consumer sentiment was further exacerbated by political uncertainties.

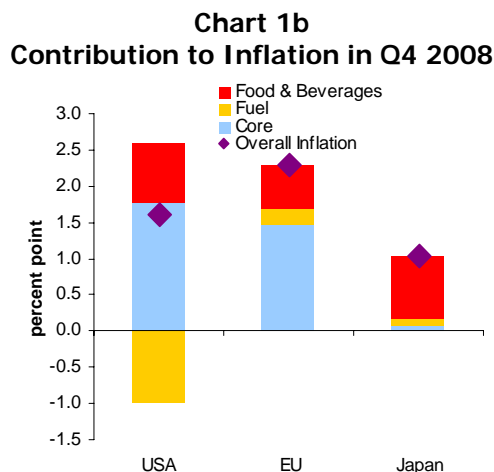
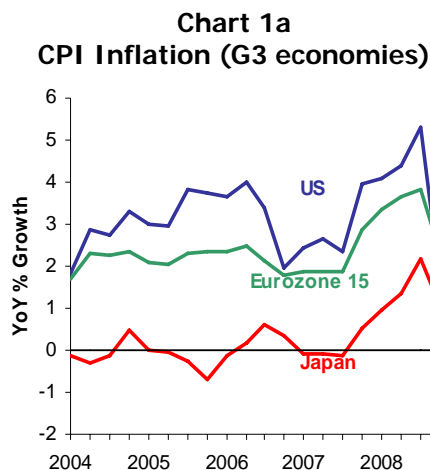


Chart 2a
CPI Inflation (Northeast Asia)

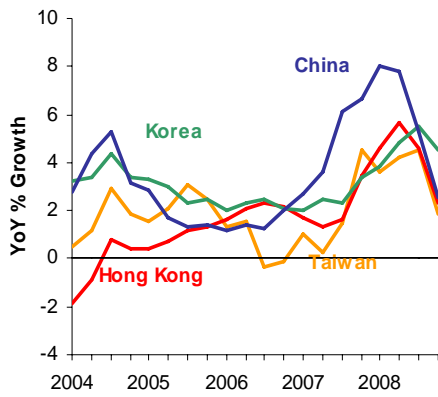
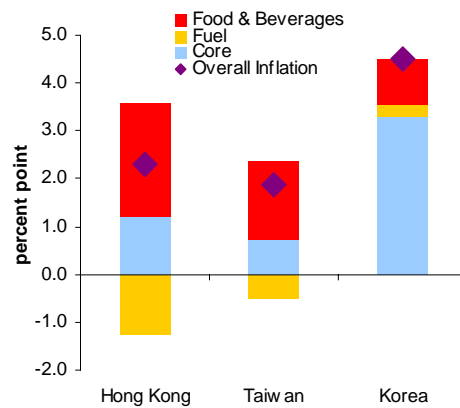


Chart 2b
Contribution to Inflation in Q4 2008



Note: Fuel and core inflation rates are unavailable for China.

Chart 3a
CPI Inflation (Southeast Asia)

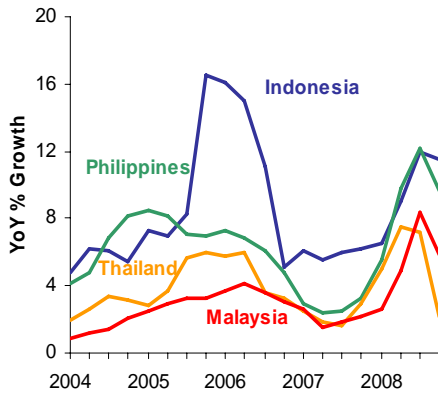


Chart 3b
Contribution to Inflation in Q4 2008

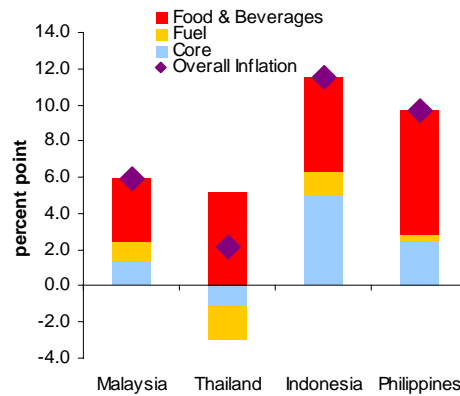


Table 1
External Inflation Indicator

	Overall Inflation	Food & Beverages	Clothing	Transport & Communication	Housing	Medical Care	Recreation	Education	Miscellaneous
USA									
EU									
Japan									
China									
Hong Kong									
Taiwan									
Korea									
Malaysia									
Thailand									
Indonesia									
Philippines									

Interpretation of Colour Codes:

The indicator is based on the change in inflation compared to the preceding quarter in y-o-y terms.

Inflation accelerating	No change in inflation	Inflation decelerating
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Recent Developments in Domestic CPI Inflation

Headline CPI inflation moderated from 5.5% y-o-y in November to 4.3% in December. It averaged 6.5% in 2008, which was within the official forecast range of 6-7%. Excluding accommodation, CPI inflation in December was 3%, the lowest since July 2007. Excluding both accommodation and private road transport, the MAS underlying inflation came in at 5.2%, compared to 5.5% in November. It averaged 5.8% for the whole of 2008.

MONTH-ON-MONTH CHANGES IN KEY CPI CATEGORIES		
Per Cent Point Contribution	Category	
<p>Legend:</p> <ul style="list-style-type: none"> Recreation & Others Food Education & Stationery Health Care Clothing & Footwear Housing Transport & Comm 	Overall	The CPI was lower by 0.6% in December compared to the preceding month. The decline was led by lower costs of private and public transport. S&CC rebates and year-end discounts offered by retailers also lowered the cost of housing and clothing & footwear respectively. These declines mitigated the increase in the costs of food, holiday travel, personal effects and non-durable household goods. Meanwhile, the education & stationery and healthcare indices remained unchanged from November.
	Transport & Communication	Transport & communication costs fell for the seventh consecutive month, and by the largest magnitude thus far of 2.6%. In line with the collapse in COE premiums, prices of cars plunged by 6.3%. Meanwhile, petrol pump prices continued to fall, by 7.6%.
	Housing	The overall cost of housing declined by 1.1% due largely to the rebates for HDB service & conservancy charges (S&CC). ¹ Household durables (e.g. furniture, furnishings and appliances) were also cheaper as a result of year-end discounts offered by retailers.
	Clothing & Footwear	Prices of clothing & footwear were lower by 0.8% due to the year-end sales.

¹ As S&CC rebates are administered only in certain months of the year, they can cause variations in the monthly accommodation cost component of the CPI. For 2008, the rebates were given out in March, June, September and December.

	<p>Recreation & Others</p>	<p>The cost of recreation & others increased by 0.6% as a result of costlier holiday travels, personal effects (e.g. watches, leather and travel goods) and non-durable household goods. More expensive holiday packages, especially holiday travel by sea, is typical in the month of December.</p>
	<p>Food</p>	<p>Food prices rose by 0.3%. Since August, consumer food price inflation has stabilized at around 0.2-0.3%, although this was still above the historical average of 0.1%.</p>

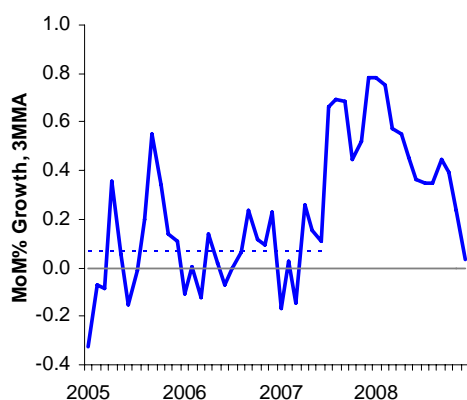
Outlook

DOMESTIC CPI INFLATION EXPECTED TO COME IN BETWEEN 0% AND -1% IN 2009

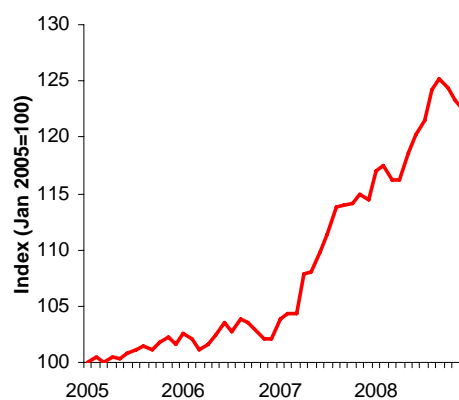
Domestic CPI inflation is expected to moderate further after peaking in July last year. Slowing inflation momentum is evident in Chart 4, which plots the sequential growth of the CPI on a three-month moving average (3MMA) basis.

Global commodity prices have retreated on the back of weaker demand and heightened growth concerns over the past six months. The brunt of the impact from easing external price pressures is expected to be felt this year as domestic retail prices adjust to global prices with a lag due to contractual agreements and the use of hedging contracts. For example, domestic consumer food prices could moderate in the coming months, reflecting falling prices of food imports since October 2008. (Chart 5)

**Chart 4
CPI Inflation**

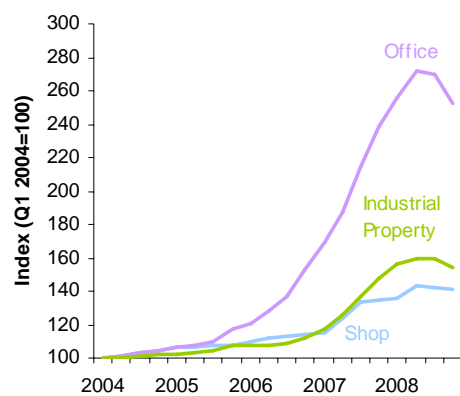


**Chart 5
Domestic Food Import Price Index**



On the domestic front, prices of consumer sentiment-sensitive items in the CPI basket are likely to moderate going forward, given the economic downturn. Business cost pressures, notably commercial rentals and wages, have also started to wane as resource utilisation declines. (Chart 6) However, some firms may be unable to reap the benefits of falling rentals, as leases are typically contracted for one to two years and they could remain locked in with high rates in the near term.

Chart 6
Commercial Space Rentals



Notwithstanding these downside risks, the overall CPI level is expected to remain relatively high compared to 2006 due to the steep run-up in prices between July 2007 and June 2008. For 2009, CPI inflation is expected to come in between 0% and -1%.

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)							
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	118.5	101.9	110.1	112.6	109.7
Sep	111.2	115.7	104.3	119.0	101.5	107.6	112.6	110.3
Oct	112.3	115.9	102.3	124.1	100.8	108.7	112.7	110.8
Nov	112.0	116.2	104.0	124.2	99.1	108.6	112.8	110.5
Dec	111.3	116.5	103.1	122.8	96.5	108.6	112.8	111.2

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				
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	17.2	92.3
Jul	6.5	5.6	9.8	17.7	83.1
Aug	6.4	5.8	8.1	14.2	63.7
Sep	6.7	5.6	4.6	5.5	30.6
Oct	6.4	6.1	-0.2	-11.8	-12.4
Nov	5.5	5.5	-7.3	-18.3	-44.1
Dec	4.3	5.2	-10.7	-24.3	-56.3

Source: Singapore Department of Statistics, IMF and Bloomberg