

**Singapore's Consumer Price Index**

	2008	
	May	June
<b>y-o-y (%)</b>	7.5	7.5
<b>m-o-m (%)</b>	0.2	-0.3
<b>Index</b>	110.0	109.7

- Global inflation picked up in Q2 2008**

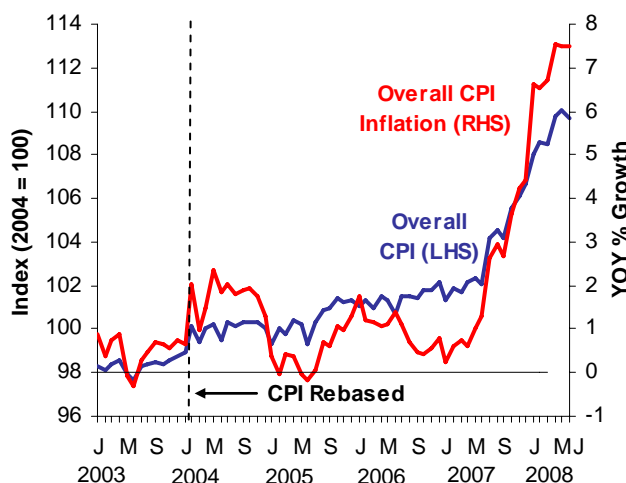
The step-up in headline CPI inflation was larger in most Asian economies as compared to the G3, due to significantly higher food and energy content in the CPI.
- Singapore's headline CPI inflation held steady at 7.5% y-o-y in June, bringing average inflation to 7.1% in H1 2008**

Similarly, the MAS underlying inflation measure, which excludes accommodation and private road transport costs, remained steady at 6.5% in June. It averaged 5.9% in H1 2008.
- On a m-o-m basis, the CPI slid by 0.3%**

Despite a continued increase in food prices, the CPI was lower in June due to cheaper clothing and footwear, and government rebates for housing maintenance fees.
- Outlook: CPI inflation expected to moderate in H2 2008 and come in at 6-7% for the whole year**

Barring further significant shocks in global commodity markets, domestic CPI inflation in y-o-y terms is likely to moderate slightly in Q3 and further into Q4.

**Singapore: CPI and CPI Inflation**



## Recent Developments in Global Inflation

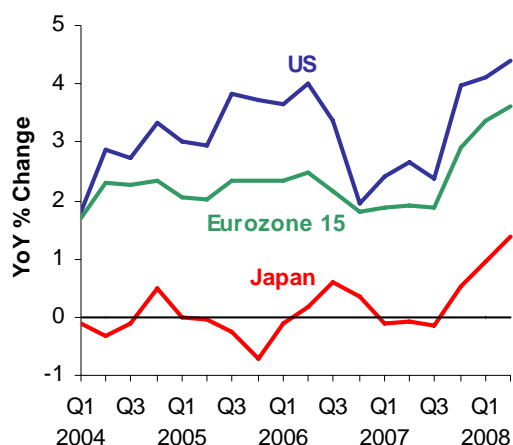
Headline CPI inflation continued to rise year-on-year (y-o-y) across the major economies in Q2 2008, with the exception of China. Escalating food and energy prices were the primary drivers of inflation for most of these economies. Core inflation remained relatively benign in the developed economies, but picked up slightly in most parts of Asia.

In the US and Eurozone, headline inflation crept up to 4.4% y-o-y and 3.6% y-o-y respectively in Q2 2008, underpinned by the increase in prices of non-core items. (Chart 1a) However, the weakness in the economy helped to contain core inflation at around half the headline rates. Similarly, rising fuel and food prices lifted headline CPI inflation in Japan to more than 1% for the first time in a decade, though core inflation remained extremely muted at -0.1% in Q2 2008.

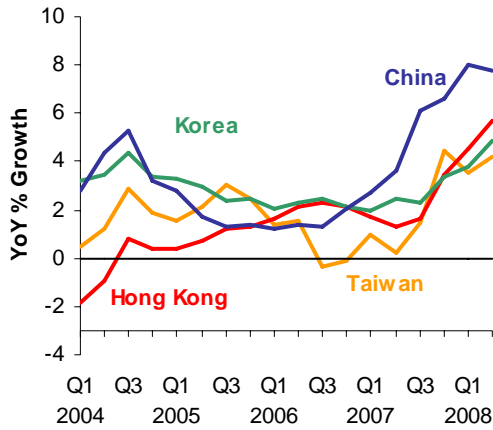
With the exception of China, all the Asian economies experienced significantly higher inflation in Q2 2008. Inflation in Thailand, Philippines and Indonesia surged to 7.5%, 9.7% and 9.6% respectively, recording some of the largest increases in recent years. (Chart 1c) In Malaysia, inflation almost doubled to 4.9% in Q2 as the headline rate hit a 27-year high of 7.7% in June. This was largely caused by the 41% hike in petrol prices and 63% hike in diesel prices in June after the government scaled back subsidies to ease the fiscal burden. Inflation in Korea, Hong Kong and Taiwan also rose in Q2 2008, though by a lesser extent compared to countries in Southeast Asia, due in part to lower weights of food and oil-related items in the CPI basket.

In contrast, China's headline inflation fell slightly from 8.0% in Q1 to 7.8% in Q2. (Chart 1b) This can be mostly attributed to a smaller increase in the prices of food and beverage, as the government imposed price controls on several food products. Other government initiatives such as increased subsidies to farmers and hiked duties on fertilizer exports have also helped to boost food production, further easing the increase in food prices.

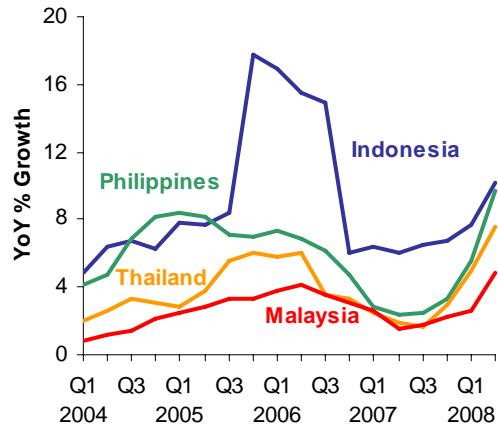
**Chart 1a**  
CPI Inflation (G3 economies)



**Chart 1b**  
CPI Inflation (Northeast Asia)



**Chart 1c**  
CPI Inflation (Southeast Asia)



**Table 1**  
External Inflation Indicator

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

**Interpretation of Colour Codes:**

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

Red	Inflation accelerating
Yellow	No change in inflation
Green	Inflation decelerating



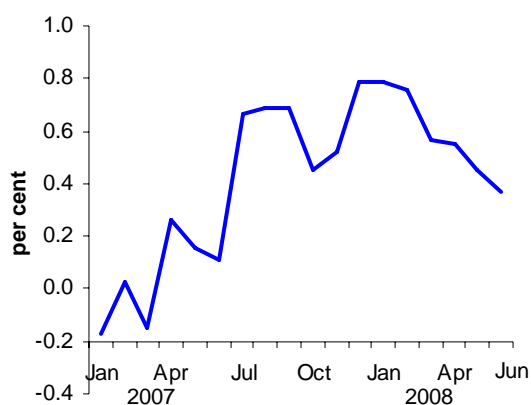
	<p><b>Food</b></p>	<p>Prices of food rose by 0.6% in June over May, slightly less than the 0.8% increase in April and May. Non-cooked food price inflation eased from 1.5% in May to 0.7% in June. In particular, the rate of increase in the prices of rice and cooking oil moderated significantly. However, cooked food price inflation escalated in June after a brief respite in May, with hawker food prices higher by 0.7% over the previous month.</p>
	<p><b>Re-creation &amp; Others</b></p>	<p>Despite a fall in the prices of personal effects, such as leather products, watches and jewelry, as a result of the Great Singapore Sale, the CPI for recreation &amp; others inched up by 0.3% in June over May. This was due to costlier holiday travel, which was driven up by higher fuel prices.</p>
	<p><b>Health Care</b></p>	<p>Higher specialised treatment fees raised the overall health care cost by 0.2% in June over May.</p>
	<p><b>Transport &amp; Communication</b></p>	<p>Costs of transport and communication were down 0.2% m-o-m as lower car prices mitigated the hikes in petrol prices and airfares. Car prices fell significantly during the month, reflecting the drop in COE prices of between 10-18% m-o-m in the bidding exercises conducted in May.</p>
	<p><b>Clothing and Footwear</b></p>	<p>Retail prices of clothing and footwear dropped by 3.2% in June due to the Great Singapore Sale. This follows a fall of 1.6% in the preceding month, which marked the start of the Sale.</p>
	<p><b>Housing</b></p>	<p>Housing costs were lower by 1.7% in June compared to May. Significant rebates for service and conservancy charges and HDB rentals more than offset the impact from the upward revision on the Annual Values of owner-occupied accommodation and costlier rented accommodation. The Great Singapore Sales also led to cheaper household durable goods in June.</p>

## Outlook

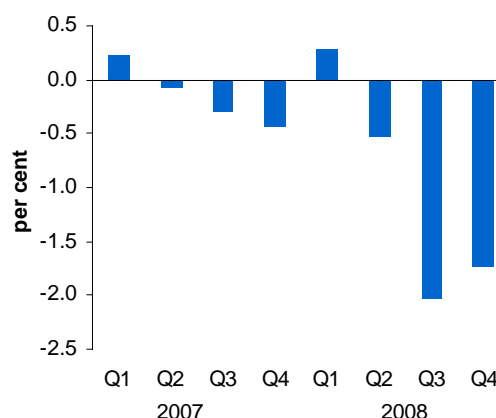
### CPI INFLATION EXPECTED TO COME IN BETWEEN 6-7% IN 2008

Domestic CPI inflation in y-o-y terms is likely to moderate slightly in Q3 and further in Q4, and come in between 6-7% for the whole year. Slowing inflation momentum is evident in Chart 3a below which plots the sequential growth of the CPI on a three-month moving average (3MMA) basis. Year-on-year inflation is expected to continue easing due to the following factors. First, the one-off impact of the GST hike will cease to affect headline inflation from July onwards. Second, domestic business costs, notably rentals and wages, are expected to moderate in tandem with the slowing economy. Indeed, the rate of increase in commercial rentals appeared to have peaked. Recent employment surveys have also shown that employers are more cautious about hiring in the second half of the year, suggesting that pressures on the labour market could moderate<sup>1</sup>. Third, as we move into Q4 this year, the higher base in Q4 last year – reflecting the sharp run-up in both global oil and food prices – would help to cap the y-o-y inflation rate. (Chart 3b)

**Chart 3a**  
3MMA m-o-m Growth Rate of Overall CPI



**Chart 3b**  
Base Effects in Overall CPI y-o-y Inflation



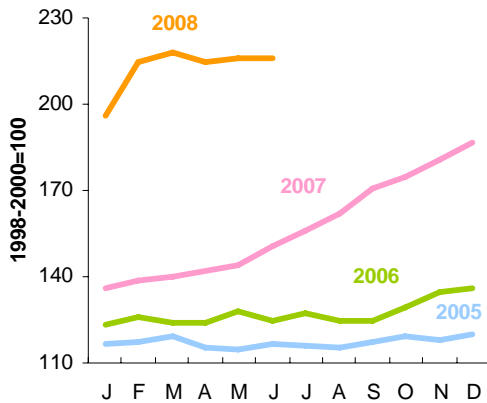
Nevertheless, global food and oil prices remain the major swing factors in the inflation outlook for the rest of the year.

For global food prices, the pace of increase is likely to be more modest going forward. Indeed, the FAO Food Price Index has stabilised since March 2008. (Chart 4a) Furthermore, the FAO forecasts that the global output of food crops - wheat, corn, soybeans, sugar, maize, etc. - would increase to a record of over 2.1 billion tonnes in 2008, which, if realised, would help to stabilise global agriculture commodity prices. Nevertheless, domestic food prices may continue to rise as retailers pass on previous increases in global food prices to consumers. Domestic food prices may also go up due to recent fuel price hikes in Malaysia<sup>2</sup>, one of our largest sources of food imports, given that such food stuffs are mostly trucked by road into Singapore. Indeed, prices of food imports such as live animals, meat, poultry, seafood, eggs, vegetables and fruits showed some signs of tick-up in June. (Chart 4b)

<sup>1</sup> In the most recent Hudson survey of 768 executives in key business sectors, 43% expect headcount growth in Q3. This compares with 49% last quarter and 54% a year ago. Similarly, according to Manpower Singapore, the net employment outlook in the third quarter for a sample of 713 employers in Singapore plummeted 25 percentage points from the previous quarter to 37%.

<sup>2</sup> The Malaysian government hiked petrol prices by 41% and diesel prices by 63% on 5<sup>th</sup> June 2008.

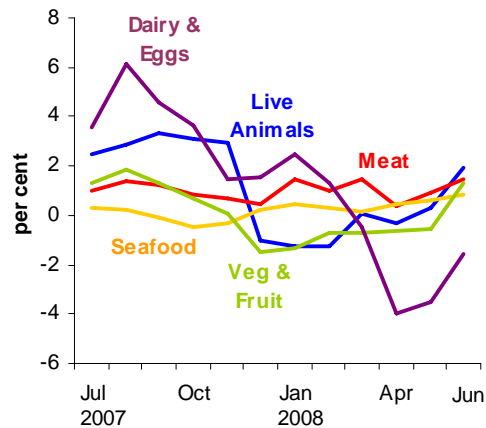
**Chart 4a**  
FAO Food Price Index



Source: FAO

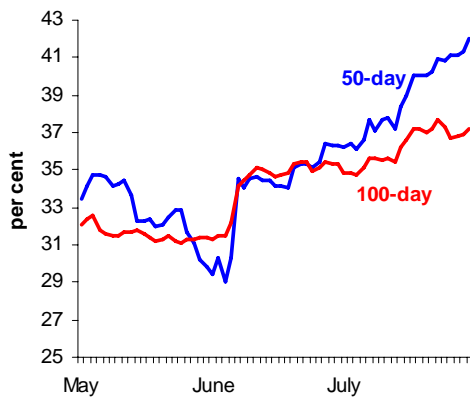
The FAO Food Price Index in June was below its peak in March, but still 44% above the June 2007 level.

**Chart 4b**  
3MMA m-o-m Growth Rates of Import Prices for Selected Food Items

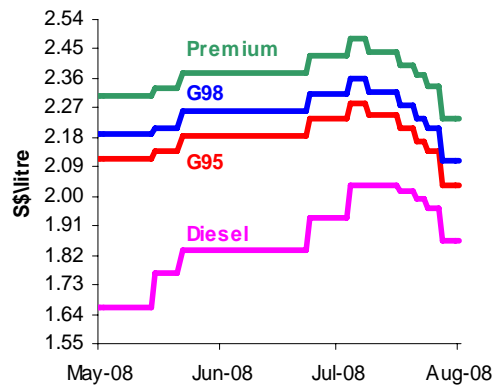


Meanwhile, global oil prices have been very volatile in the last two months and uncertainty surrounding future prices has heightened considerably. (Chart 5a) West-Texas Intermediate (WTI) crude oil prices surged towards the end of May to a record high of US\$147 in mid-July, before pulling back sharply to around US\$120, largely on concerns over lower demand due to the slowing global economy. However, the market is still watchful for another price rally as global oil supplies remain tight due to limited spare production capacity and continuing geopolitical tensions in some major oil producing countries. It is pre-mature to conclude if the recent sell-off represents a temporary blip in an upward trend or a turning point for commodity markets. Nonetheless, even if crude oil prices were to continue sliding in H2 2008, we can expect continued pass-through of the previous surge in oil prices to domestic prices. While the retreat in oil prices has led to several rounds of cuts in domestic pump prices (Chart 5b), other items in the CPI basket react to developments in oil prices with a lag. For example, electricity tariffs for the quarter are pegged to futures prices of fuel oil quoted in the first month of the preceding quarter. Thus, we are likely to see another upward revision in electricity tariffs in Q4 this year. For prices of other items which oil prices feed indirectly into through higher transport and utility costs, the impact of any reversal in the trend of oil prices will be felt later.

**Chart 5a**  
WTI Oil Price Volatility\*



**Chart 5b**  
Singapore Petrol Pump Prices



Source: Bloomberg

\*Volatility is a measure of how far the price of oil deviates from average closing prices over a prior period, such as 50 or 100 days.

**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 Jul	104.1	106.0	101.1	104.8	99.4	106.0	107.2	105.6
Aug	104.5	106.4	102.5	105.1	99.9	105.9	107.4	105.9
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

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 Jul	2.6	2.7	-3.5	12.3	4.0
Aug	2.9	2.8	-3.1	8.5	-0.6
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	15.3	85.0
Jun	7.5	6.5	8.2	17.7	92.3

Source: Singapore Department of Statistics, IMF and Bloomberg