

Inflation Monthly

March 2008

Singapore's Consumer Price Index

	2008	
	February	March
y-o-y (%)	6.5	6.7
m-o-m (%)	0.5	-0.1
Index	108.6	108.5

- **Global inflation accelerated in Q1 2008**

Escalating food and energy prices were the common drivers of inflation in the G3 and most Asian economies.

- **Singapore's headline CPI inflation rose to 6.7% y-o-y in March from 6.5% in February, and averaged 6.6% in Q1 2008**

However, on a m-o-m basis, the CPI declined by 0.1% in March, the first fall since September 2007.

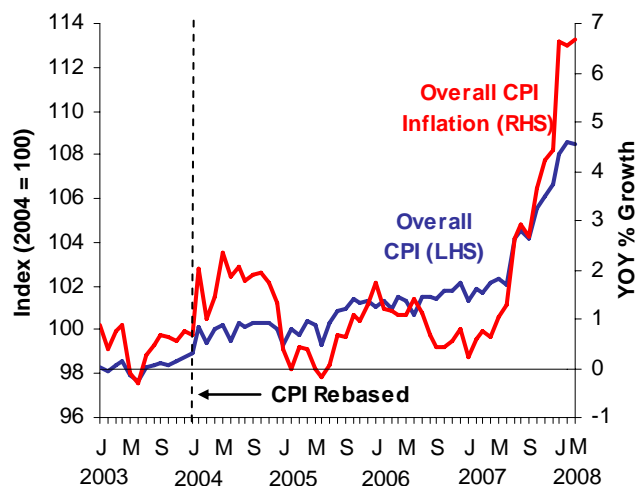
- **Outlook: Direct and indirect oil-related price pressures are the main risk to CPI inflation in H2**

There remains considerable uncertainty surrounding oil prices in the months ahead. Even if crude prices were to soften in H2, there could still be some lagged impact on domestic CPI inflation.

- **Outlook: CPI inflation forecast range revised up from 4.5-5.5% to 5-6%**

The inflation outcome for the rest of the year will depend on external price developments. Reflecting higher global oil and food prices, the CPI inflation forecast for 2008 has been revised from 4.5-5.5% to 5-6%.

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 Q1 2008, with the exception of Taiwan. Escalating food and energy prices were the primary drivers of inflation for most of these economies.

Inflation in the G3 was driven more by higher energy, rather than by food, prices. In the US, gasoline prices surged by 31% to a record high in Q1 2008 and contributed about 1.3% points to overall inflation, which climbed slightly to 4.1% y-o-y in Q1 2008, from 4.0% a quarter earlier. (Chart 1a) Core inflation also picked up slightly, due to higher cost of recreation and prescription drugs & medical supplies.

The acceleration in headline inflation in the Eurozone (3.4% y-o-y in Q1 2008) and in Japan (1%) was similarly underpinned by oil-related inflation. Core inflation for the Eurozone slowed slightly on a sequential basis from 1.9% in Q4 2007 to 1.8% in Q1 2008. Excluding food and energy, prices in Japan fell by 0.2% y-o-y, compared to declines of 0.3% in Q4 2007, and 0.5% in Q3 2007. The slightly smaller decline was largely because rates on mobile phone plans stopped falling, as the effects of the price war among service providers following the introduction of number portability continued to ebb.

With the exception of Korea and Taiwan, Asian economies experienced significantly higher inflation in Q1 2008 due to steep increases in food prices. China's headline CPI inflation reached 8.0% y-o-y in Q1 2008 as the Jan-Feb snowstorms aggravated food supply shortages and caused prices to rise rapidly. (Chart 1b) Core inflation also edged up, reflecting firm consumption demand. Surging prices of food imports similarly caused inflation in Hong Kong to accelerate to 4.6%. Likewise, South-east Asian countries were not spared from higher global food inflation. Malaysia's CPI inflation increased to 2.6% y-o-y in Q1 2008 from 2.2% in Q4 2007, the mildest in the region. (Chart 1c) Meanwhile, inflation in Thailand, the Philippines and Indonesia spiked to 5.0%, 5.5% and 7.6% respectively, recording some of the highest increases in recent years.

In contrast, inflation in Taiwan moderated to 3.6% y-o-y in Q1 2008 from 4.5% in Q4 2007, as imported inflation eased partly due to the strengthening of the Taiwan dollar. While inflation climbed to 3.8% in Q1 2008 in Korea, this was fuelled more by energy rather than food prices.

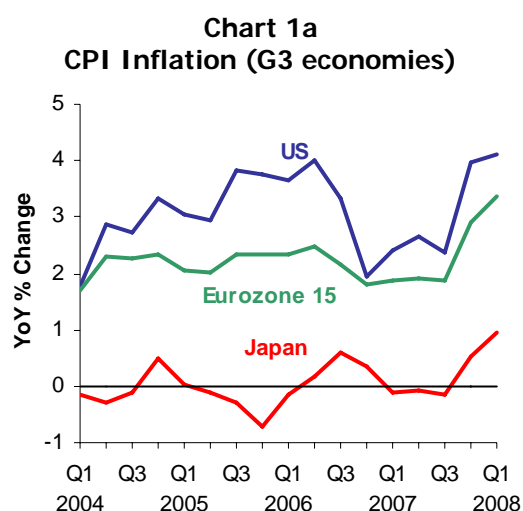


Chart 1b
CPI Inflation (Northeast Asia)

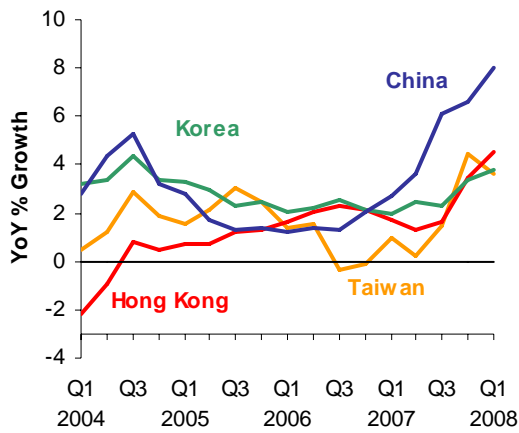


Chart 1c
CPI Inflation (Southeast Asia)

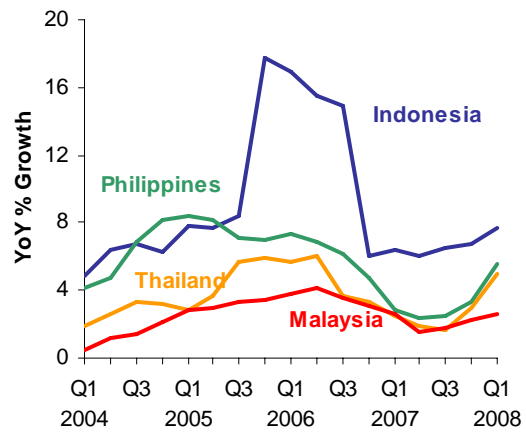


Table 1
External Inflation Indicator

	Overall Inflation	Food & Beverages	Clothing	Transport & Communication	Housing	Medical Care	Recreation	Education	Misc
USA	Red	Yellow	Green	Red	Yellow	Green	Red	Red	Green
Eurozone 15	Red	Red	Green	Red	Red	Red	Red	Red	Red
Japan	Red	Red	Red	Red	Red	Red	Red	Yellow	Green
China	Red	Red	Yellow	Red	Red	Red	Green	Green	Red
Hong Kong	Red	Red	Green	Red	Red	Red	Red	Red	Red
Taiwan	Green	Green	Green	Red	Red	Green	Red	Green	Green
Korea	Red	Green	Yellow	Red	Red	Green	Red	Green	Red
Malaysia	Red	Red	Red	Green	Red	Red	Red	Red	Red
Thailand	Red	Red	Red	Red	Red	Red	Red	Red	Red
Indonesia	Red	Red	Red	Red	Red	Red	Green	Green	Red
Philippines	Red	Red	Red	Red	Red	Red	Red	Red	Red

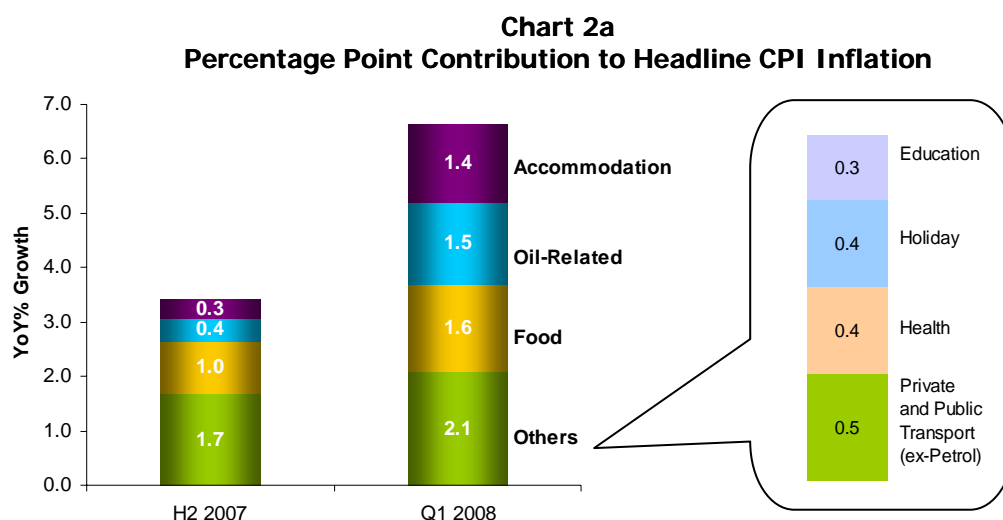
Interpretation of Colour Codes:

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

	Inflation accelerating
	No change in inflation
	Inflation decelerating

Recent Developments in Domestic CPI Inflation

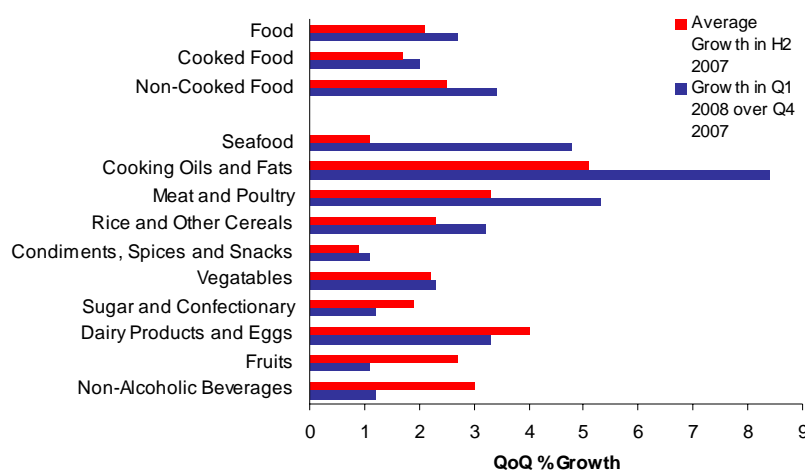
Domestic headline CPI inflation edged up slightly to 6.7% y-o-y in March 2008 from 6.5% in February, bringing average inflation in Q1 2008 to 6.6%. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – came in at 5.6% in March 2008, an increase from 5.3% in the previous month. For Q1 2008, it averaged 5.3%.



The contribution from costs of accommodation, oil-related and food items to overall CPI inflation stepped up significantly in Q1 2008 from H2 2007. (Chart 2a) Accommodation costs were higher primarily due to the revision in the Annual Values (AVs) of HDB flats by IRAS. The price rally in the global oil market was reflected in more expensive petrol (1% point contribution to Q1 2008 CPI inflation) as well as higher electricity, LPG and gas tariffs.

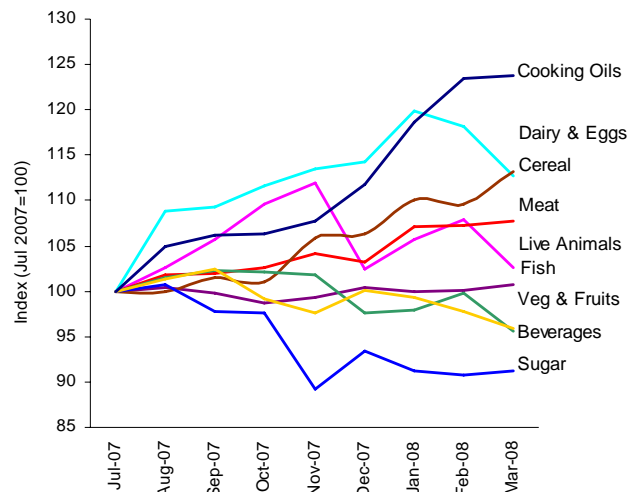
The steep increase in food prices contributed approximately 1.6% points to overall y-o-y inflation in Q1 2008, up from 1.2% points in Q4 2007 and 0.8% point in Q3 2007. On a quarter-on-quarter basis, the increase in food prices accelerated to 2.7% in Q1 2008, from 1.9% in Q4 2007. In particular, prices of *non-cooked* food rose by 3.4% in Q1 2008 over Q4 2007, significantly higher than the average sequential increase of 2.1% in the last two quarters of 2007. In the chart below, we compare the q-o-q increase in the prices of various *non-cooked* food items in Q1 2008 with their average q-o-q increases in H2 2007.

Chart 2b
Q-o-Q Growth Rates for Prices of Non-Cooked Food Items

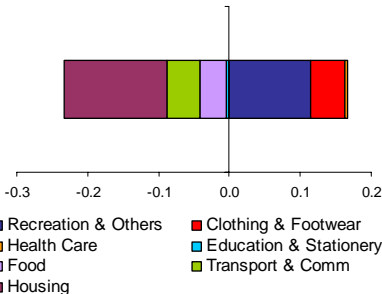
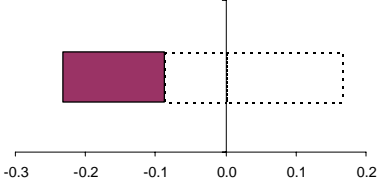
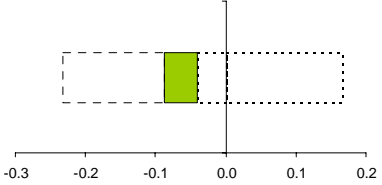
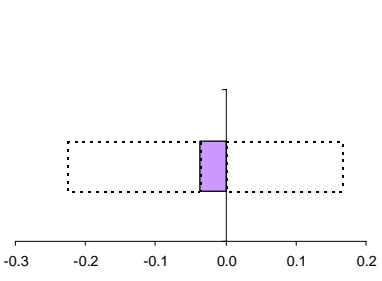
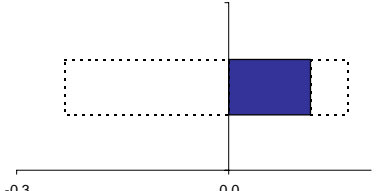
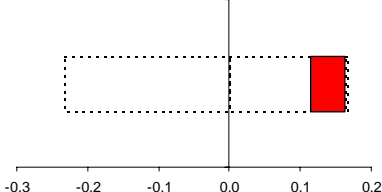


Aside from seafood, cooking oils, meat, poultry and rice, the inflation momentum for other *non-cooked* food items appeared to have stabilised or even slowed in Q1 2008 from H2 2007. This was despite the seasonal effects in Q1, when prices typically saw stronger sequential increases due to higher demand during the Chinese New Year festive period. The moderated increase in prices of these *non-cooked* food items could have reflected in part the levelling in imported prices. (Chart 2c) If this trend is maintained, there could be some abatement in CPI food inflation in the latter part of the year.

Chart 2c
Wholesale Price Index for Imports of Selected Food Items



Meanwhile, the 2.0% q-o-q rate of increase in *cooked* food prices was higher than the average of 1.7% in H2 2007. While some of this increase could have been due to the Chinese New Year effect, *cooked* food operators could have also passed on the higher cost of raw materials to final prices against the backdrop of intensified business cost pressures arising from higher wages, rentals, as well as transport and electricity charges.

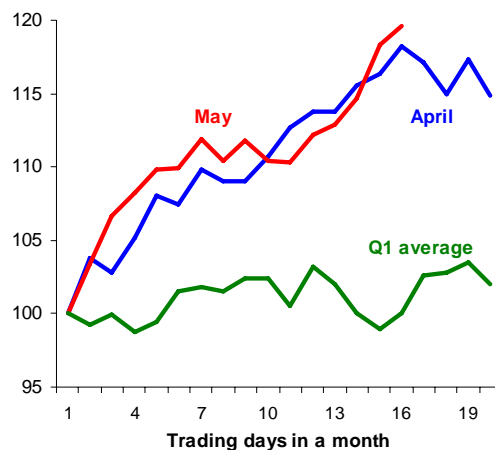
% Point Contribution (m-o-m), March 2008	Group	
 <p>■ Recreation & Others ■ Clothing & Footwear ■ Health Care ■ Education & Stationery ■ Food ■ Transport & Comm ■ Housing</p>	Overall (m-o-m)	The CPI in March declined by 0.1% over February due to lower costs of housing, transport and food. Meanwhile, m-o-m price increases were observed in the recreation and clothing categories.
	Housing	Housing costs were lower in March by 0.7% compared to February due mainly to the hefty S&CC rebates and HDB rental rebates. However, prices of LPG were revised up by 1.2% in March.
	Transport & Communication	Transport and communication costs dropped by 0.2% in March over February. The fall in car prices more than offset the impact of the eight cents hike in petrol pump prices.
	Food	Food prices declined by 0.2% in March over February. Prices of meat, poultry and seafood fell to levels lower than those in January, as the "Chinese New Year effect" subsided. However, prices of rice and cooking oils shot up sharply by 2.6% and 9.9% m-o-m respectively, in tandem with the run-up in global rice, soybean and palm oil prices. Prices of cooked food also continued to increase, by 0.3%, albeit at a slower pace compared to Jan-Feb when prices were marked up by festive menus.
	Recreation & Others	The CPI for recreation and others was lifted by 0.7% in March due to more expensive personal effects and holiday travel.
	Clothing and Footwear	Retail prices of clothing and footwear were higher by 1.4% in March compared to February as the festive sale ended.

Outlook

HIGH DEGREE OF UNCERTAINTY SURROUNDING GLOBAL OIL PRICES

The pace of increase in global oil prices has been particularly strong in April and May, as compared to Q1 2008. (Chart 3) Since mid-May, the benchmark NYMEX West Texas Intermediate (WTI) oil futures prices have been setting new records consecutively. On 22 May 2008, the WTI oil price surged to US\$135 per barrel, more than double the price from a year ago.

Chart 3
WTI Oil Daily Spot Prices
 (Price at first trading day of the month = 100)



At this juncture, the outlook for oil prices remains uncertain. With limited spare production capacity, prices could react to unexpected supply shocks as production shutdowns in an affected area would not be easily offset by increased output elsewhere. On the other hand, while firm demand from emerging markets may support oil prices in H2, an increase in output from OPEC could also send prices falling. This uncertainty is reflected in the wide range of price estimates among energy analysts. Although the average price for the year thus far is US\$105, full year projections by the analysts range from as low as US\$93 to as high as US\$125, indicating a lack of consensus on the direction oil prices could take in H2.

Nevertheless, even if crude prices were to soften in H2, there could still be some lagged impact on domestic CPI inflation from the current price rally, particularly through the indirect oil-related categories such as public road transport, other travel and transport (largely airfares) and *cooked* food. Meanwhile, as electricity tariffs for the quarter are pegged to futures prices of 180-cst High-Sulphur Fuel Oil (HSFO) quoted in the first month of the preceding quarter, hence, even if oil prices are lower in H2, their effects on electricity tariffs may only be felt in Q4 2008 and Q1 2009.

HEADLINE CPI INFLATION EXPECTED TO COME IN AT 5-6% IN 2008

The inflation outcome for the rest of the year will depend on global food and oil price developments. Although global food prices are expected to remain high in 2008, the pace of price increase could moderate in the latter part of the year if the increase in global supply as expected by the FAO materialises. Meanwhile, even though global oil prices have risen more sharply in the last two months as compared to the start of the year, uncertainty surrounding future prices has also heightened considerably.

On the domestic front, the GST hike will continue to have an impact on CPI inflation in the first half of the year, while housing costs are expected to rise significantly in 2008 due to the AV

revision for owner-occupied accommodation by IRAS. Business cost increases, notably wages and rentals, will also continue to put some upward pressure on consumer prices.

Reflecting these factors, the CPI inflation forecast for 2008 has been revised from 4.5-5.5% to 5-6%. Due to the low base in H1 2007, CPI inflation could average around 7% y-o-y in H1 2008, but is expected to taper off in H2 2008 due partly to the dissipation of the GST hike effect.

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 Apr	102.1	103.7	102.8	102.7	96.3	103.9	103.7	105.3
May	102.4	104.1	100.9	102.6	97.8	103.9	104.4	104.5
Jun	102.0	104.6	97.3	99.9	98.5	103.8	104.9	105.0
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

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 Apr	0.6	1.2	-4.0	19.8	-1.9
May	1.0	1.3	-3.2	11.7	-1.1
Jun	1.3	1.5	-3.4	14.5	3.1
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	0.6	11.5	43.6
Nov	4.2	3.5	3.4	9.5	60.6
Dec	4.4	3.7	4.0	7.9	50.4
2008 Jan	6.6	5.0	5.1	15.4	74.8
Feb	6.5	5.3	4.2	20.6	66.6
Mar	6.7	5.6	4.3	22.4	69.4

Source: Singapore Department of Statistics, IMF and Bloomberg