

Inflation Monthly

September 2008

Singapore's Consumer Price Index

	2008	
	Aug	Sep
y-o-y (%)	6.4	6.7
m-o-m (%)	0.2	0.0
Index	111.2	111.2

- **Global inflation rose further into Q3 2009**

In most economies, with the notable exception of China, headline inflation was higher in Q3 compared to Q2. Nonetheless, inflation peaked in July and has started to moderate in recent months.

- **Singapore's headline CPI inflation rose from 6.4% in August to 6.7% in September**

However, the MAS underlying inflation measure, which excludes the cost of accommodation and private road transport, slipped slightly from 5.8% in August to 5.7% in September.

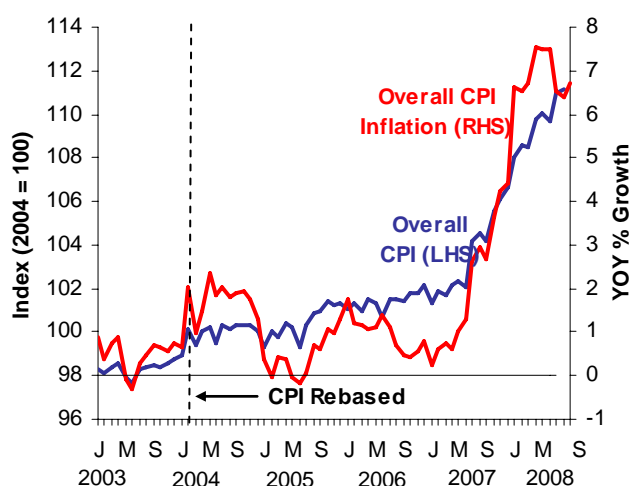
- **On a m-o-m basis, the domestic CPI was flat**

Aside from housing, food and recreation & others, costs of other good and services either fell or were unchanged from August.

- **Outlook: CPI inflation is expected to come in lower at 1-2% in 2009**

The downward revision from 2.5-3.5% is mainly attributable to the sharp fall in global commodity prices in the past few weeks and lower than expected annual values of HDB properties in 2009.

Singapore: CPI and CPI Inflation



Recent Developments in Global Inflation

Headline CPI inflation continued to rise in year-on-year (y-o-y) terms across the G3 and Asian economies, with the exception of China, Thailand and Hong Kong, in Q3 2008. For most economies, however, inflation had peaked in July and continued to moderate as commodity prices tumbled due to the global slowdown. Indeed, month-on-month figures indicate that price increases had come off in recent months.

In the US and Eurozone, headline inflation crept up to 5.3% y-o-y and 3.8% y-o-y respectively in Q3 2008, from 4.4% and 3.6% in the previous quarter. Core inflation was however more benign, at around half the headline rates, as the continued weakness in these economies helped to cap price pressures. In Japan, headline inflation rose to 2.2%, the highest rate in a decade, as cost increases for private transport doubled in Q3. Nevertheless, core inflation remained relatively muted at 0.1%.

With the exception of China, Thailand and Hong Kong, the major Asian economies experienced higher inflation in Q3 2008. Inflation in China fell from 7.8% to 5.3% due to moderating food prices, which account for a third of the CPI basket. Inflation in Thailand eased slightly from 7.5% to 7.2%, as the impact of the anti-inflation package that includes subsidies for utilities and public transportation took effect in August. In Hong Kong, the introduction of a three-month waiver for public housing rentals in August helped to bring down headline inflation to 4.6% in Q3 from 5.7% in the preceding quarter.

In contrast, Malaysia's headline inflation soared from 4.9% in Q2 to 8.4% in Q3 as fuel subsidies were scaled back from June onward, resulting in a 40% increase in petrol costs. Similarly, inflation continued to trend higher in the Philippines, from 9.7% in Q2 to 12.2% in Q3, primarily due to higher food and fuel costs. Price increases for food, which comprises nearly half of the Philippines' CPI basket, continued to accelerate, rising to 17.9% in Q3 from 14.6% in the previous quarter. Similarly, fuel and/or food prices continued to contribute significantly to higher CPI inflation in Korea and Taiwan. Although the prices of rice and other agricultural commodity imports in US dollars have moderated from their historic highs in Q2, prices in local currency have remained somewhat elevated as most Asian currencies depreciated vis-à-vis the US dollar in Q3.

Chart 1a
CPI Inflation (G3 economies)

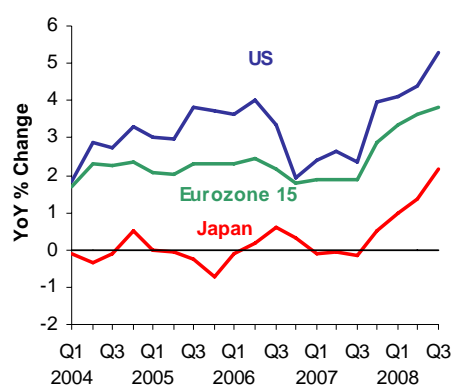


Chart 1b
CPI Inflation (Northeast Asia)

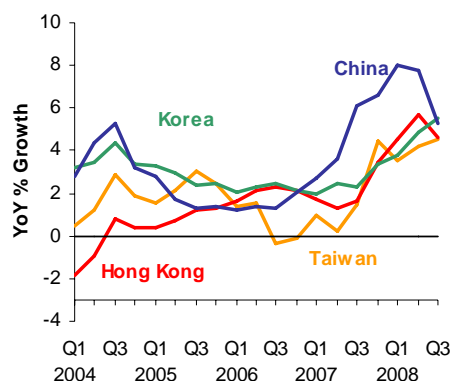


Chart 1c
CPI Inflation (Southeast Asia)

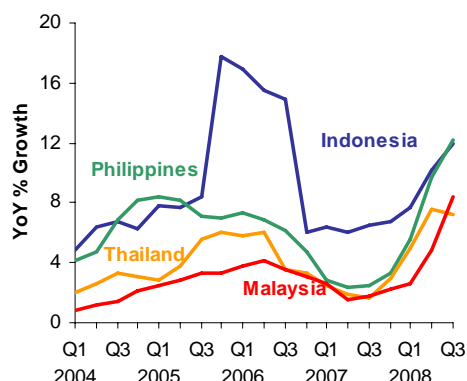


Table 1
External Inflation Indicator

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

Interpretation of Colour Codes:

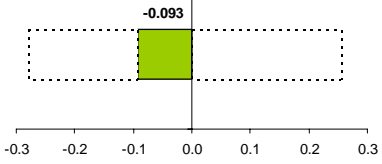
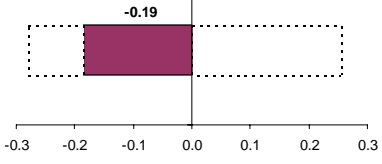
The indicator is based on the change in inflation compared to the preceding quarter in y-o-y terms.

Red	Inflation accelerating
Yellow	No change in inflation
Green	Inflation decelerating

Recent Developments in Domestic CPI Inflation

Domestic CPI inflation came in at 6.7% y-o-y in September 2008, a small increase from the 6.4% recorded in August, due largely to higher accommodation costs. Indeed, the MAS underlying inflation measure, which excludes the cost of accommodation and private road transport, slipped from 5.8% y-o-y in August to 5.7% in September. For the first nine months of 2008, the headline and underlying inflation measures averaged 6.9% and 5.8% respectively.

MONTH-ON-MONTH CHANGES IN KEY CPI CATEGORIES		
Per Cent Point Contribution	Category	
<p>Legend:</p> <ul style="list-style-type: none"> Recreation & Others Housing Food Education & Stationery Clothing & Footwear Transport & Comm Health Care 	Overall	The CPI was unchanged in September from the preceding month. Increases in the cost of holiday travel, accommodation and food were mitigated by declines in tuition & other fees as well as car and petrol prices. Meanwhile, the cost of several other goods and services that had risen sharply in July and August, such as clothing & footwear and health care, were unchanged in September. Excluding accommodation, CPI inflation dropped from 0.24% in August to 0.19% in September on a m-o-m three-month moving average basis.
	Recreation & Others	More expensive air travel packages, higher hotel room charges abroad and a third consecutive monthly increase in the salaries for foreign domestic workers raised the cost of recreation & others by 0.6%.
	Housing	Despite the rebates for service and conservancy charges (S&CC), the cost of accommodation was up by 0.3%. Meanwhile, the cost of fuel & utilities rose by 0.2%. Although the price of LPG fell slightly, the price of piped gas continued to rise on the back of the 9.7% hike in gas tariffs which took effect from 15 August. In addition, the cost of household durables (e.g. furniture, furnishings and electronic goods) rose by 1%.
	Food	Non-cooked food prices rose by 0.5%, slightly higher than the 0.3% recorded in August. A steep 4.1% increase in the imported price of raw food between July and September could have started to feed into retail food prices. In contrast, cooked food price inflation remained benign at 0.2% in September, which is comparable with the historical monthly increases.

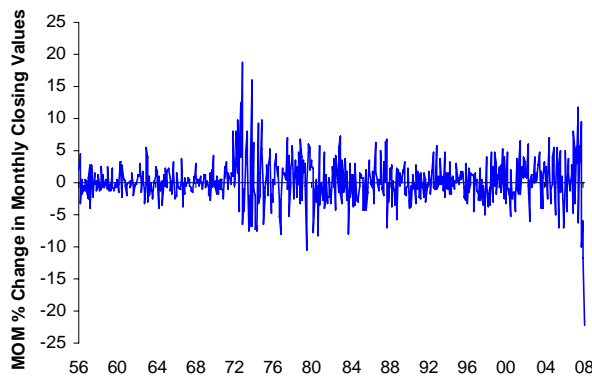
	<p>Transport & Communication</p>	<p>Further cuts in domestic petrol pump prices, a sharp fall in car COE premiums in August and a rollback in airline fuel surcharges mitigated higher parking fees and ERP rates. The cost of transport & communication slid by 0.5%, marking the fourth consecutive month of decline.</p>
	<p>Education & Stationary</p>	<p>The cost of education and stationary dropped significantly by 2.3%, largely due to sharply lower childcare centre charges. In addition, tuition fees at universities abroad and prices of computers & accessories were also down.</p>

Outlook

DIRECT OIL-RELATED ITEMS WILL DAMPEN CPI INFLATION IN 2009

Commodity prices suffered their largest one-month decline on record in October and continued to plunge in first two weeks of November, as economic conditions and sentiments worsened. (Chart 2) Crude oil prices were among the worst hit, declining by about 45% over a short span of six weeks since the start of October. Meanwhile, energy analysts slashed their forecasts for crude oil price and demand for 2009, reflecting expectations for a deeper and more protracted global economic downturn.

Chart 2
Reuters-Jefferies CRB Index



Source: Reuters

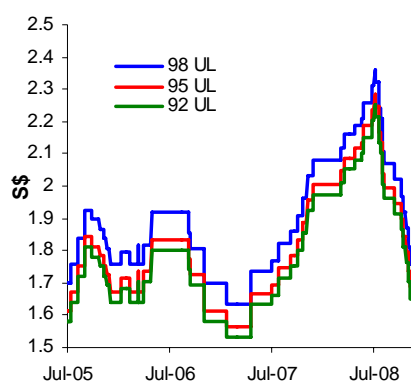
In its November issue of *Short-term Energy Outlook*, the Energy Information Administration (EIA) projected no growth in global oil demand and an average oil price of US\$64 a barrel next year, which represents a 37% y-o-y decline. These are significant shifts in short-term expectations from the last *Outlook* published in October. Indeed, given the weak outlook for oil demand, the upcoming additions to capacity following the completion of key projects in Saudi Arabia, Brazil and Azerbaijan, as well as the ongoing deleveraging process across risky assets including oil, there are limited upsides to already depressed oil prices in the near term. These developments would dampen the contribution of direct oil-related items to domestic CPI inflation in 2009.

Among the direct oil-related items, petrol is the most responsive to crude oil prices and carries the largest weight of 2.4% in the CPI basket. Since the start of October, domestic petrol pump

prices have been slashed by 31 cents or around 16%. (Chart 3a) These cuts brought prices down to levels last seen in May and June 2007 when crude oil prices averaged US\$65.

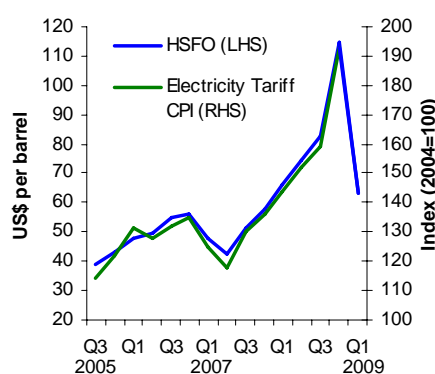
The cost of the other items, namely electricity, LPG and gas, tend to lag crude prices by a quarter due to the use of hedging contracts. With the collapse in oil prices in October, sharp declines in electricity tariffs are expected in Q1 2009, as they are pegged to the forward price of fuel oil (HSFO – 180cst) quoted in the first month of the preceding quarter. Indeed, the average 3-month forward price of fuel oil (HSFO 180-cst) in October was about 45% lower than that in July and 5% lower than that a year ago. (Chart 3b) Hence, electricity tariffs in Q1 2009 could potentially be reduced sharply. Similarly, the price of piped gas, which is loosely pegged to the forward price of HSFO, is expected to fall in the next revision.¹

Chart 3a
Petrol Pump Prices
(01/07/05- 21/11/08)



Source: Petrolwatch Singapore

Chart 3b
Singapore HSFO 180-cst Swap Prices
and Electricity Tariff CPI



Source: ICE and EPD, MAS estimates

Note: HSFO Prices for the quarter refer to those quoted in the first month of the preceding quarter.

DOMESTIC CPI INFLATION IS EXPECTED TO DECLINE TO 1-2% IN 2009

CPI inflation averaged 6.6% y-o-y in Q3, down 0.9% point from the peak in Q2 with the dissipation of the GST impact. It is projected to moderate further in Q4 and come in at 6-7% for the whole of 2008. Next year, headline CPI inflation is expected to fall to 1-2%, lower than the 2.5-3.5% projected previously. This revision in forecast is attributable to two factors. First, annual values of HDB properties in 2009, and hence, the owner-occupied public accommodation component in the CPI, will remain unchanged from that of 2008, as opposed to an increase projected earlier. Second, the sharp declines in spot and expected future global commodity prices over the past few weeks will dampen food and direct oil-related inflation next year. Accordingly, the MAS underlying inflation forecast, which excludes the cost of accommodation and private road transport, has also been lowered from around 2% to 1-2%.

¹ CityGas attributed the 9.7% hike in gas tariffs with effect from 15 August to a 25% jump in the price of HSFO from the last revision in February. The current forward price of HSFO is lower than that recorded in February.

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 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	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

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 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	17.2	92.3
Jul	6.5	5.6	9.8	17.6	83.1
Aug	6.4	5.8	8.1	14.7	63.7
Sep	6.7	5.6	4.5	5.5	30.6

Source: Singapore Department of Statistics, IMF and Bloomberg