

## Inflation Monthly

April 2009

### Singapore's Consumer Price Index

	2009	
	Mar	Apr
y-o-y (%)	1.6	-0.7
m-o-m (%)	-0.4	-1.1
Index	110.2	109.0

- **Singapore's headline CPI inflation dipped into negative territory in April**

The CPI declined by 0.7% y-o-y in April. The MAS underlying inflation measure, which excludes the cost of accommodation and private road transport, also moderated to 0.1% in April.

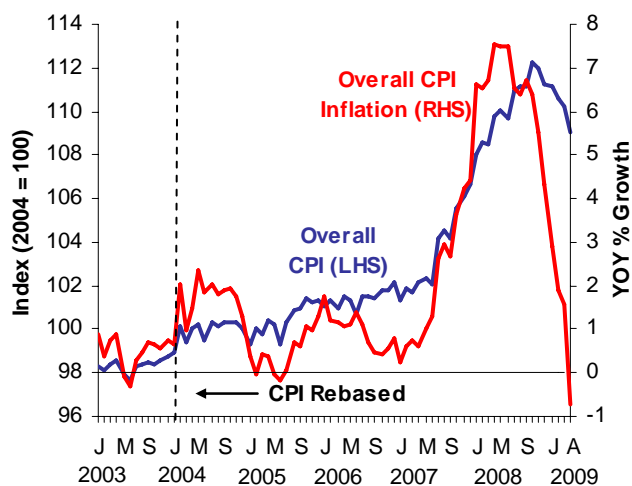
- **Compared to March, the CPI was lower by 1.1% in April**

The decline can be mostly attributed to the moderation in electricity tariffs, housing maintenance cost and public transport fares. The latter two adjustments are due to fiscal measures in the Resilience Package.

- **Headline CPI inflation will likely remain negative for the rest of the year**

The negative inflation rates largely reflect the drag from prices of oil-related items. For the whole of 2009, CPI inflation will average between -1% and 0%.

### Singapore: CPI and CPI Inflation

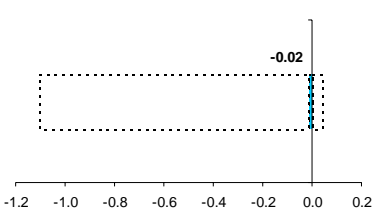
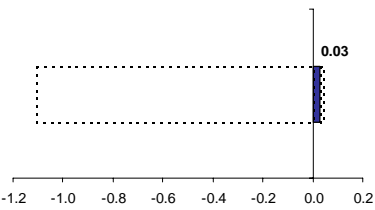
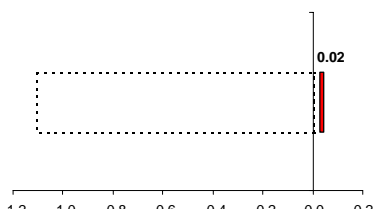


## Recent Developments in Domestic CPI Inflation

Headline CPI inflation fell from 1.6% y-o-y in March to -0.7% in April, the lowest since 2002, when the economy was hit by the global IT downturn. While the MAS underlying inflation also declined, it remained positive at 0.1% as it excludes housing maintenance cost, which plunged in April due to additional rebates for Service & Conservancy Charges (S&CC) administered as part of the Resilience Package.<sup>1</sup> (The measure also excludes the other accommodation cost components and private road transport costs.) In the first four months of 2009, headline CPI inflation and MAS underlying inflation averaged 1.4% and 1.9% respectively.

MONTH-ON-MONTH CHANGES IN KEY CPI CATEGORIES		
Per Cent Point Contribution	Category	
<p>Legend:</p> <ul style="list-style-type: none"> <li>Health Care</li> <li>Education &amp; Stationery</li> <li>Transport &amp; Comm</li> <li>Clothing &amp; Footwear</li> <li>Food</li> <li>Recreation &amp; Others</li> <li>Housing</li> </ul>	<b>Overall</b>	The CPI fell by 1.1% m-o-m in April, the sixth consecutive month of decline. This was mainly due to the fall in the costs of housing and recreation. Prices of goods and services in all other categories registered small changes or remained stable.
	<b>Housing</b>	The plunge in the cost of housing reflected two factors. First, electricity tariffs for Q2 were adjusted downwards by 21% from Q1. Second, additional S&CC rebates from the Resilience Package were administered in April, which in turn sharply lowered accommodation cost. (See footnote 1)
	<b>Recreation &amp; Others</b>	The steep decline in the cost of holiday travel dragged the recreation & others index lower. Globally, hotel room rates and airfares have plummeted to levels last seen in late 2007.
	<b>Food</b>	Non-cooked food prices moderated slightly due to cheaper vegetables. Cooked food prices were unchanged. Overall, food prices have stabilised since February after correcting from their peaks during the Chinese New Year season.

<sup>1</sup> S&CC rebates are scheduled to be administered in the last month of every quarter and are incorporated into the CPI through the accommodation index. As a result of the fixed schedule, the rebates introduce variations in CPI inflation on a m-o-m basis but not on a y-o-y basis. In 2009, additional rebates were administered in April, as part of the Resilience Package to help Singaporeans cope with the downturn. As these rebates were given out during off-cycle, they depressed CPI inflation both on a m-o-m and y-o-y basis in April.

	<b>Clothing &amp; Footwear</b>	Retail prices of clothing & footwear were cut ahead of the Great Singapore Sale. However, the contribution to the fall in the CPI was modest due to the small share in the basket.
	<b>Health Care</b>	An increase in the costs of nursing services, dental treatment and patent medicines caused the health care index to rise slightly.
	<b>Transport &amp; Communication</b>	Public transport fares fell as SMRT and SBS passed on cost savings from the various tax rebates and the Jobs Credits Scheme introduced in the Resilience Package. <sup>2</sup> Nonetheless, the transport & communication index registered a slight increase because of more expensive cars and petrol. Higher prices of cars reflected the pick-up in COE premiums following the 25% cut in supply for the current quota year (April 2009-March 2010), while petrol pump prices were raised in tandem with the recent uptick in global oil prices.

## Outlook

### PRICES OF MOST FOOD IMPORTS ARE STILL SIGNIFICANTLY ABOVE JAN 2008 LEVELS

The food import price index fell for the seventh consecutive month in April 2009 to its January 2008 level. (Chart 1) However, there were considerable variations in import prices of the different food items.

First, the steep decline in prices of imported dairy & eggs was the main drag on the food import price index, while prices of most other imported food products remained significantly above levels recorded in Jan 2008. (Table 1) Notably, the import price index of the cereal category, which includes rice, have retreated by 8.0% since June last year, but remained 12% higher compared to January last year, which was before the price surge caused by trade restrictions imposed by major rice producing countries. This was despite the record harvest in H2 last year and the subsequent removal of the export bans.

Second, prices of sugar, coffee & spices and beverages have been climbing since late 2007. (Chart 2) Sugar prices, in particular, are on an uptrend due to the use of sugar as a feedstock in the production of biofuels. Crop failure in India, the world's second largest producer, further tightened the sugar market.

<sup>2</sup> The fare reductions stretch over a 15-month period (April 2009-June 2010) and will cost the transport operators about \$80 million, of which about \$37 million represent savings from budgetary measures that the operators are passing on to commuters. It includes an increase in transfer rebate for all adult and senior citizen concession EZ-Link journeys, a reduction of 2 cents per trip in all adult EZ-Link fares for buses and trains, and a price reduction of between \$1 and \$4 for all monthly concession passes. Refer to <http://www.ptc.gov.sg/news28.pdf> for more details.

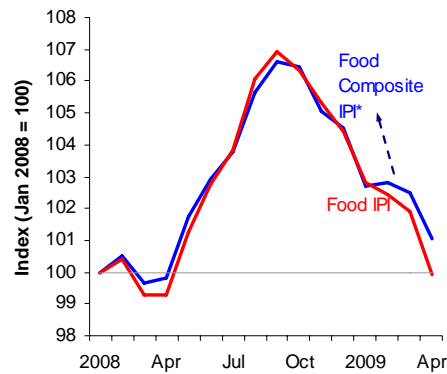
Third, animal feed costs have recovered strongly since the start of this year (due to weather-related supply disruptions), suggesting some upward pressures in the pipeline on the prices of meat and fish products. (Chart 3)

**Table 1**  
**Change in Import Prices from Jan 2008 to Apr 2009**

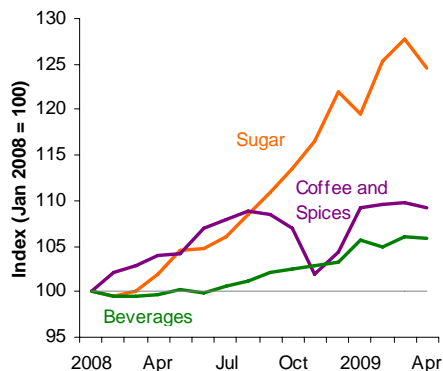
Category	%
<b>Composite*</b>	<b>1.0</b>
<b>Food</b>	<b>-0.1</b>
Dairy Produce & Eggs	-26.5
Meat & Meat Preparation	0.6
Fish & Fish Preparation	3.2
Live Animals	4.2
Veg & Fruit	4.4
Misc Food Preparation	4.9
Animal Feeding Stuff	7.4
Coffee etc & Spices	9.2
Cereal & Cereal Preparation	12.0
Sugar & Sugar Preparation	24.7
<b>Beverages</b>	<b>5.8</b>
<b>Animal and Vegetable Oil</b>	<b>-8.5</b>

\*Food Composite IPI is constructed by EPD, MAS and refers to the weighted average of food, beverages and animal & vegetable oil import price indices.

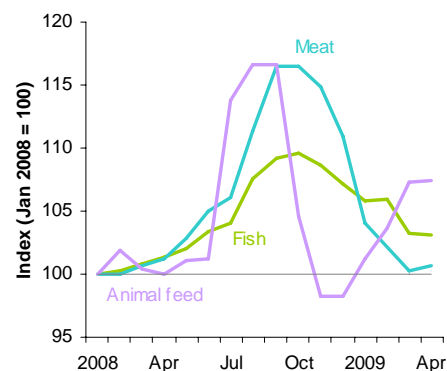
**Chart 1**  
**Food Import Prices**



**Chart 2**  
**Import Prices of Sugar, Coffee & Spices and Beverages**



**Chart 3**  
**Import Prices of Animal Feed, Meat and Fish**



In sum, external cost pressures for food are not as benign as suggested by the recent declines in the import price index. Further, aside from import costs, retail food prices are also affected by a host of other local costs. Hence, while consumer food inflation rate will moderate sharply from the 7.8% in 2008, it will remain positive this year.

#### **DOMESTIC CPI INFLATION EXPECTED TO AVERAGE BETWEEN -1% AND 0% IN 2009**

Imported price pressures from oil and food, key sources of inflation in 2008, are expected to ease sharply this year, reflecting the slowdown in the global economy. Although global oil prices have recovered from the trough reached in December last year, they remain significantly lower compared to a year ago. As mentioned above, domestic food price increases will be positive but much more modest this year.

On the domestic front, the cost of accommodation and prices of some retail goods will continue to fall in the coming months. In addition, domestic business cost pressures, notably wages and rentals, have started to wane and should moderate further due to the decline in resource utilisation and the introduction of fiscal measures such as the Jobs Credit Scheme, as well as property, rental and road tax rebates.

Largely reflecting the drag from prices of oil-related items, headline inflation is expected to remain negative on y-o-y terms in the months ahead. For the whole of 2009, headline CPI inflation is expected to average between -1% and 0%. The MAS underlying measure will follow a similar profile.

## Appendix Tables

**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 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
2009 Jan	111.2	117.4	102.2	120.3	97.1	109.1	114.0	111.1
Feb	110.6	116.7	103.4	119.7	97.0	108.4	114.0	109.7
Mar	110.2	116.8	104.7	117.7	96.4	108.4	114.0	110.3
Apr	109.0	116.6	104.2	112.8	96.5	108.4	114.6	109.6

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 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	-24.0	-56.3
2009 Jan	2.9	3.2	-9.5	-24.9	-53.3
Feb	1.9	2.1	-8.7	-31.5	-54.4
Mar	1.6	2.0	-8.7	-34.1	-53.7
Apr	-0.7	0.1	-9.2	-30.0	-52.2

Source: Singapore Department of Statistics, IMF and Bloomberg