

## Inflation Monthly

February 2009

### Singapore's Consumer Price Index

	2009	
	Jan	Feb
<b>y-o-y (%)</b>	2.9	1.9
<b>m-o-m (%)</b>	-0.1	-0.5
<b>Index</b>	111.2	110.6

- **Singapore's headline CPI inflation fell from 2.9% y-o-y in January to 1.9% in February**

The MAS underlying inflation measure, which excludes the cost of accommodation and private road transport, also declined from 3.2% in January to 2.1% in February.

- **On a m-o-m basis, the CPI was lower by 0.5%**

Apart from the rebound in the prices of clothing & footwear following two consecutive months of festive discounts, prices of nearly all other goods and services fell.

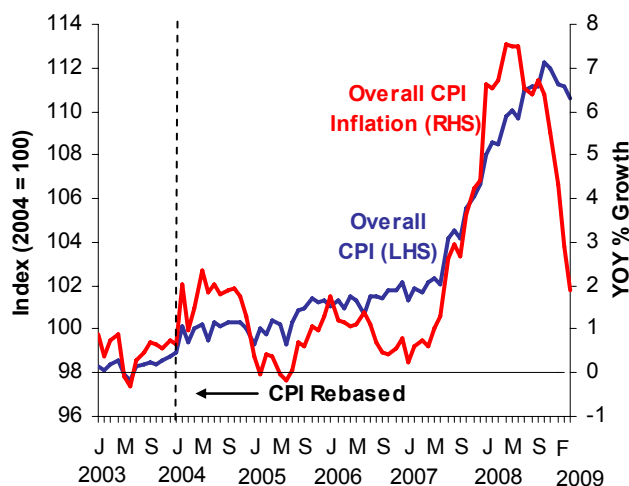
- **Outlook: Electricity tariffs to fall by 21% in Q2 from a quarter earlier**

The tariff rate in Q2 2009 will be the lowest in four years. This revision follows from a 25% reduction in Q1.

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

The fall-off in the inflation rate is due partly to the high base last year and largely led by oil-related items. The overall price level remains high compared to 2007.

### Singapore: CPI and CPI Inflation



## Recent Developments in Domestic CPI Inflation

Headline CPI inflation fell by a full percentage point to 1.9% y-o-y in February 2009, the lowest since June 2007. Excluding accommodation and private road transport, the MAS underlying inflation came in at 2.1%, down from 3.2% in January.

MONTH-ON-MONTH CHANGES IN KEY CPI CATEGORIES		
Per Cent Point Contribution	Category	
<p>Waterfall chart showing the contribution of various categories to the overall CPI change in February 2009. The total change is -0.5%. The categories and their contributions are: Recreation &amp; Others (-0.21%), Food (-0.14%), Housing (-0.12%), Education &amp; Stationery (-0.05%), and other categories (Clothing &amp; Footwear, Transport &amp; Comm, Health Care) contributing a total of -0.08%.</p>	<b>Overall</b>	In February, the CPI was 0.5% lower than in January. Aside from the rebound in the prices of clothing & footwear following two consecutive months of festive discounts, prices of nearly all other goods and services fell.
<p>Waterfall chart showing the contribution of Recreation &amp; Others to the overall CPI change in February 2009. The contribution is -0.21%.</p>	<b>Recreation &amp; Others</b>	A steep decline in the cost of holiday travel, due largely to the discounts offered during the NATAS travel fair, caused the "Recreation & Others" index to fall by 1.2%. Personal effects (e.g. watches, jewellery and leather goods) were also cheaper, reflecting weak consumer demand.
<p>Waterfall chart showing the contribution of Food to the overall CPI change in February 2009. The contribution is -0.14%.</p>	<b>Food</b>	Non-cooked food prices corrected by 1.2%, completely reversing the hike in January as a result of the Chinese New Year festive season. Cooked food prices fell marginally by 0.1%.
<p>Waterfall chart showing the contribution of Housing to the overall CPI change in February 2009. The contribution is -0.12%.</p>	<b>Housing</b>	Housing costs fell on account of the sharp 29% downward adjustment in gas tariffs.
<p>Waterfall chart showing the contribution of Education &amp; Stationery to the overall CPI change in February 2009. The contribution is -0.05%.</p>	<b>Education &amp; Stationery</b>	The education & stationery index was down by 0.7% due largely to lower tuition fees at universities overseas. This could reflect the weakening in the currencies of some popular overseas study destinations such as the United Kingdom and Australia, against the Singapore dollar.

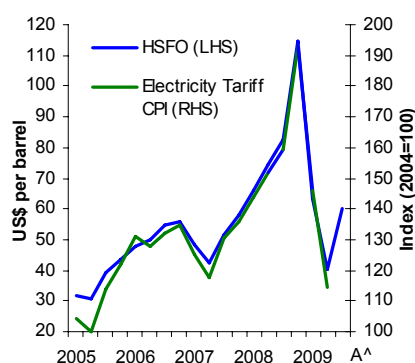
	<p><b>Transport &amp; Communication</b></p>	<p>Private road transport costs were almost unchanged as the decline in car prices and airfares were offset by the pick-up in petrol pump prices.</p>
	<p><b>Clothing &amp; Footwear</b></p>	<p>Costs of clothing &amp; footwear rose by 1.2% as prices returned to the pre-festive levels in November.</p>

## Outlook

### ELECTRICITY TARIFFS FOR Q2 WILL BE REDUCED BY 21%

Following the 25% q-o-q reduction in Q1 2009, the electricity tariffs for households in Q2 2009 will be cut by another 21% to its lowest rate since Q2 2005. This is based on the existing tariff formula where the three-month forward price of High Sulphur Fuel Oil (HSFO 180-cst) in the first month of the previous quarter, i.e. January, is used to determine the tariff rate. In the new formula to be introduced from Q3 onwards, the electricity tariffs will be derived from the average fuel oil price over all three months of the previous quarter, thereby reducing the time lag in reflecting global oil price developments.

**Chart 1**  
**Forward Prices of HSFO 180-cst\* and Electricity Tariff CPI**



\*Prices in the first month of the preceding quarter  
 ^Average price in the first week of April

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

Domestic CPI inflation is expected to moderate in the months ahead. The m-o-m growth of the CPI on a three-month moving average basis declined from a peak of 0.8% in January 2008 to -0.4% in February this year.<sup>1</sup> This largely reflects the fall in global commodity prices in H2 2008. The impact of easing external price pressures on domestic inflation will continue to be felt over the next few months, as local retail prices, such as food prices, adjust to global prices with a lag.

<sup>1</sup> Assessing inflation on a 3MMA m-o-m basis smoothes out the monthly fluctuations in the CPI caused by the S&CC rebates and seasonalities in the cost of food, clothing & footwear and holiday packages.

On the domestic front, prices of sentiment-sensitive items in the CPI basket are likely to moderate in the coming months, against the weak economic conditions. Wages and rentals have started to wane and should remain benign as resource utilisation declines, while the 2009 fiscal measures such as the Jobs Credit Scheme and the tax rebates will further help to lower domestic business costs. In turn, firms could pass on these cost savings to consumers. For example, SBS Transit and SMRT have rolled out a package that will reduce fares by an average of 4.6%.<sup>2</sup>

Given these developments, as well as the high base in 2008, headline CPI inflation is forecast to average between -1 and 0% in 2009.

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<sup>2</sup> The package stretches over a 15-month period (April 2009-June 2010) and will cost about \$80 million, of which about \$37 million are the savings from budgetary measures that the transport 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.

## 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 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
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

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 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	-24.0	-56.3
2009 Jan	2.9	3.2	-9.5	-25.1	-53.3
Feb	1.9	2.1	-8.7	-31.6	-54.4

Source: Singapore Department of Statistics, IMF and Bloomberg