

## Inflation Monthly

January 2009

### Singapore's Consumer Price Index

	2008	2009
	Dec	Jan
<b>y-o-y (%)</b>	4.3	2.9
<b>m-o-m (%)</b>	-0.6	-0.1
<b>Index</b>	111.3	111.2

- **Singapore's headline CPI inflation fell from 4.3% in December to 2.9% in January**

The MAS underlying inflation measure, which excludes the cost of accommodation and private road transport, also moderated from 5.2% in December to 3.2% in January.

- **On a m-o-m basis, the CPI was lower by 0.1%**

A 25% downward adjustment to electricity tariffs more than offset the seasonal increase in the cost of food and accommodation and the uptick in the cost of communication, health care and education.

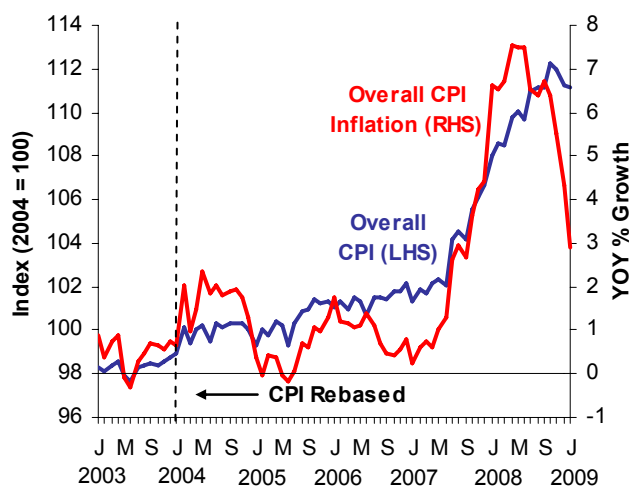
- **Outlook: COE premiums rebound**

Premiums rose ahead of the cut in COE supply from April onwards. However, car demand is still weak, reflected by the fall in the number of bids received.

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

The fall-off in inflation rates 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 moderated from 4.3% in December 2008 to 2.9% in January 2009. Excluding accommodation, CPI inflation fell by half to 1.5% in January, the lowest since May 2007. Excluding both accommodation and private road transport, the MAS underlying inflation came in at 3.2%, compared to 5.2% in the preceding month.

MONTH-ON-MONTH CHANGES IN KEY CPI CATEGORIES		
Per Cent Point Contribution	Category	
	<b>Overall</b>	In January 2009, the CPI was 0.1% lower than in December 2008. A steep decline in electricity tariffs more than offset the seasonal increase in the cost of food and accommodation and the uptick in the cost of telecommunication, dental treatment, medical insurance and pre-school tuition fees.
	<b>Housing</b>	Overall cost of housing fell by 2.0%. While accommodation cost rose by 3.5% due to the absence of rebates for service & conservancy charges (S&CC) in January <sup>1</sup> , this was more than offset by the 25% cut in electricity tariffs. In addition, the cost of household durables (e.g. furniture, furnishings and appliances) fell by 0.5%.
	<b>Clothing &amp; Footwear</b>	Clothing & footwear were cheaper by 0.9% as a result of Chinese New Year festive season discounts offered by retailers.
	<b>Food</b>	Food prices were up by 0.8%. However, apart from price hikes in meat, poultry and seafood products as well as restaurant food due to the Chinese New Year season, prices of most other non-cooked food items and hawker food were either lower or unchanged in Jan.
	<b>Transport &amp; Communication</b>	The transport & communication index rose by 0.6%, the first increase in eight months. This was primarily due to the 2.0% hike in communication cost. Residential fixed-line subscription cost and call charges were raised by 10% and 15% respectively, as announced by Singtel last October.

<sup>1</sup>

As S&CC rebates are administered only in certain months of the year, they can cause variations in the monthly accommodation cost component of the CPI. For 2008, the rebates were given out in March, June, September and December. For 2009, the rebates will be given out in March, April, June, September and December.

	<b>Health Care</b>	The health care index climbed by 1.1%. Notably, the cost of dental treatment and medical health insurance jumped by 6.5% and 5.5% respectively.
	<b>Education &amp; Stationery</b>	The education & stationery index was higher by 0.5% due largely to more expensive tuition fees charged by kindergartens, child-care centres and pre-schools.

## Outlook

### COE PREMIUMS ROSE AHEAD OF THE SUPPLY CUT IN QUOTA YEAR 2009

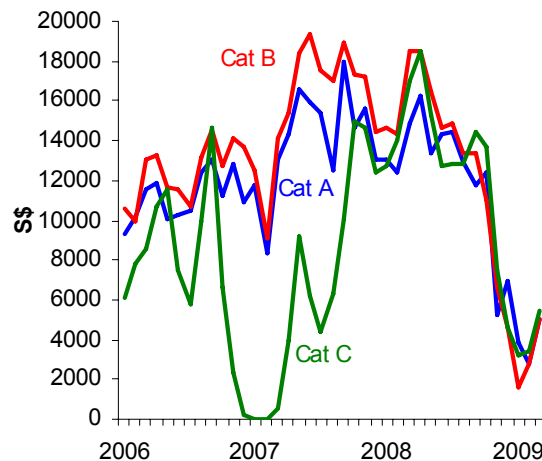
For the Quota Year 2009 (April 2009-March 2010), the available number of certificates of entitlement (COE) for bidding will be 24% lower than that in QY 2008, in turn representing a 7.5% cut from QY 2007. (Table 1) Potential bidders of COEs in the categories A, B and C will be affected the most. The cuts for QY 2009 took into account a lower 1.5% cap on the annual growth rate of the vehicle population in Singapore, as compared to the 3% cap that was in place for the past 15 years. In addition, it adjusted for an overestimate of the number of de-registered vehicles in 2008. The number of vehicles taken off the road last year fell to a nine-year low of 77,920. This reflects, in part, the young car population – about 80% of cars are under four years old – as well as weak demand for new cars, owing to the economic downturn.

**Table 1**  
**COE Quota for Quota Year (QY) 2008 and 2009**

Category		QY 2008	QY 2009	% Change
A	Small Cars	46501	33486	-28
B	Big Cars	26376	18233	-31
C	Goods Vehicles	7693	5333	-31
D	Motorcycles	10252	9351	-9
E	Open	19532	17186	-12
Total		110354	83589	-24

Expectations that the supply cut will drive prices up in the new quota year have led to more competitive COE bidding and higher premiums. On average in March, premiums for categories A, B and C rose by 83%, 81% and 61% respectively compared to a month ago before LTA's announcement. (Chart 1) Nonetheless, prices were still some 70% lower compared to a year ago, reflecting weak underlying consumer demand and sentiments. The total number of bids received in the recent session was about 15% lower on a year-on-year basis.

**Chart 1**  
**COE Premiums\* for Category A, B and C**



\*Simple averages of the premiums in the two bidding sessions conducted that month.

#### **DOMESTIC CPI INFLATION EXPECTED TO COME IN BETWEEN 0% AND -1% 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 -0.3% in January this year.<sup>2</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.

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 dampen domestic business costs. In turn, firms could pass on these cost savings to consumers. For example, SBS Transit and SMRT have rolled out a 4.6% fare reduction package.<sup>3</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.

<sup>2</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.

<sup>3</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 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
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

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 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	17.7	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	-24.3	-56.3
2009 Jan	2.9	3.2	-9.5	-25.5	-53.3

Source: Singapore Department of Statistics, IMF and Bloomberg