

Inflation Monthly

June 2009

Singapore's Consumer Price Index

	2009	
	May	June
y-o-y (%)	-0.3	-0.5
m-o-m (%)	0.6	-0.5
Index	109.7	109.1

- **Disinflation continued apace, with many major economies turning in negative y-o-y inflation rates in Q2 2009**

Disinflation was largely due to the collapse in fuel prices in the G3, cheaper food in developing Asia and falling core prices in the Asian NIEs.

- **Singapore's headline CPI inflation slipped to -0.5% y-o-y in June and averaged 0.8% in H1**

The MAS underlying inflation measure, which excludes the cost of accommodation and private road transport, also moderated from -0.2% y-o-y in May to -0.4% in June. It averaged 1.1% in H1.

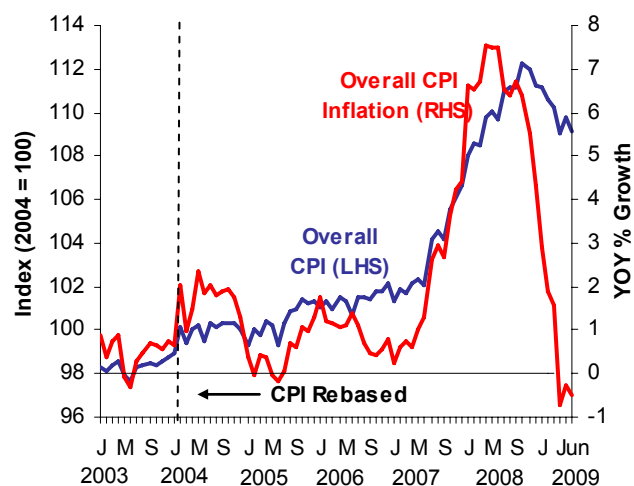
- **Compared to May, the domestic CPI was lower by 0.5% in June**

The fall largely reflected the declines in the housing and clothing & footwear price indices. Meanwhile, transport costs continued to climb, while prices of other goods and services were stable.

- **Headline CPI inflation (y-o-y) is expected to remain negative for the rest of the year**

It should come in between -0.5% and 0.5% for the whole of 2009.

Singapore: CPI and CPI Inflation



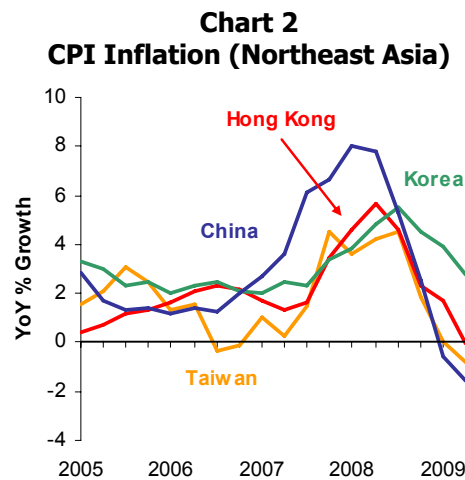
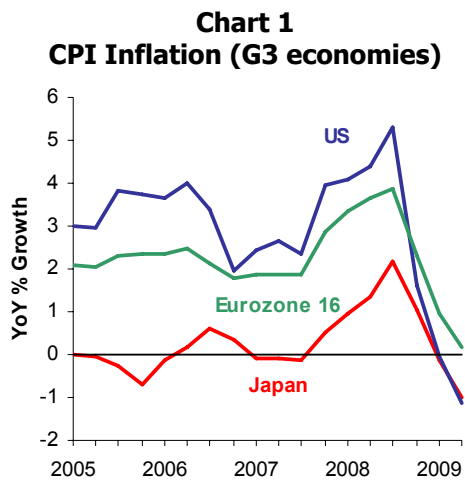
Recent Developments in Global Inflation

Disinflation continued apace across the G3 and Asian economies in Q2 2009. In the G3, headline CPI fell by 0.6% y-o-y in Q2 2009, following an increase of 0.4% in the previous quarter. Both the US and Japan recorded negative inflation rates for the second consecutive quarter while the Eurozone posted a record low inflation rate of 0.2%. Inflation moderated to a more measured pace in the Asian NIE-3 and ASEAN-4 to 1.6% and 2.4% respectively.

The plunge in global crude oil prices was the main contributor to lower inflationary pressures across the G3 economies. Following a 54% y-o-y fall in Q1 2009, the average petroleum spot price¹ declined by a steeper 62% in Q2. As a result, prices of fuel-related items in the G3 pulled back by 19% in Q2 after falling by 11% previously. In Asia ex-Japan, the relatively smaller share of fuel in the CPI basket limited the impact of lower oil prices on headline inflation.

A slower increase in the price of food & beverages continued to be the main reason for disinflation in the ASEAN-4, underpinned by lower global food commodity prices in y-o-y terms. Notably, the benchmark price of rice² fell by 36% y-o-y in Q2, while that of pork³ declined by 19%. Food inflation in the ASEAN-4 thus decelerated to 6.4% in Q2 from 11% in the previous quarter, accounting for 59% of the decline in headline inflation from Q1 to Q2.

Most of the deceleration in inflation in the Asian NIE-3 was attributed to easing core price pressures. Core inflation also diminished in nearly all the other major economies as the global downturn weighed on aggregate demand. However, price pressures have increased noticeably for a number of items, including clothing & apparel, in the G3 and Northeast Asian economies.



¹ Average petroleum spot price of Brent, Dubai Fateh and West Texas Intermediate.

² Average quoted price of 5% broken milled white rice in Thailand (US\$ per metric tonne).

³ Average quoted price of 51-52% lean hogs in the US (US cents per pound).

Chart 3
CPI Inflation (Southeast Asia)

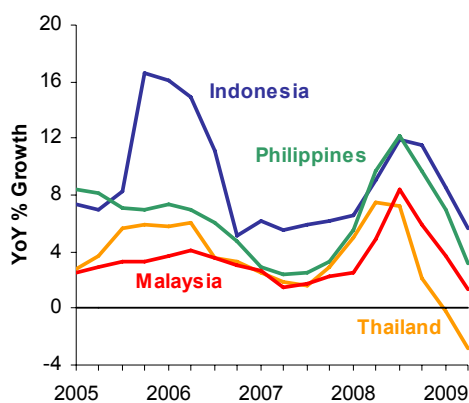


Chart 4
Sources of Disinflation⁴ in Q2 2009

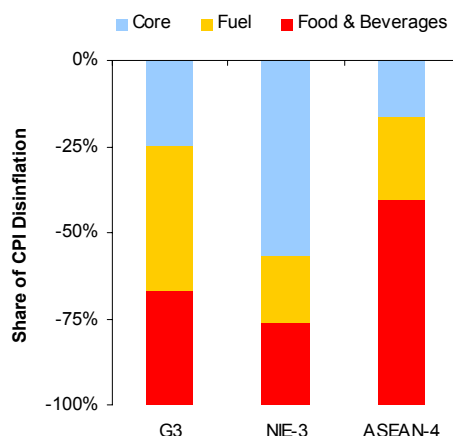


Table 1
External Inflation Indicator

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

Interpretation of Colour Codes:

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

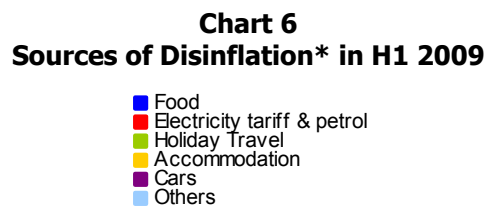
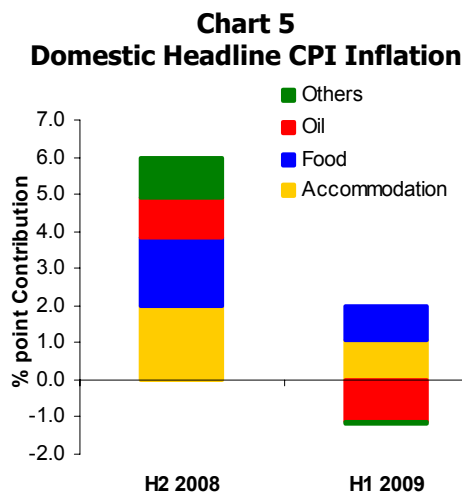
Inflation accelerating	No change in inflation	Inflation decelerating
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⁴ Disinflation is calculated as the rate of inflation in Q2 2009 minus that of Q1 2009. Weighted by nominal GDP at market exchange rates.

Recent Developments in Domestic CPI Inflation

YEAR-ON-YEAR CHANGES IN SINGAPORE'S CPI (H1 2009)

Headline CPI inflation slipped from -0.3% y-o-y in May to -0.5% in June. It averaged 0.8% in H1 2009, 5.2% points lower compared to H2 2008. (Chart 5) External factors, notably effects of the collapse in global oil and food commodity prices in H2 2008, as well as the worldwide reduction in airfares, explained around 60% of the domestic disinflation in H1 2009. (Chart 6) Among the domestic sources of disinflation, the more moderate rise in accommodation cost was the key factor, due in part to the weaker property market and administrative measures from the resilience package⁵. The recession also dampened inflation through cheaper cars⁶.



*Disinflation in H1 2009 refers to the decline in headline CPI inflation rates between H2 2008 and H1 2009.

MONTH-ON-MONTH CHANGES IN SINGAPORE'S CPI (JUNE 2009)

MONTH-ON-MONTH CHANGES IN KEY CPI CATEGORIES																		
Per Cent Point Contribution	Category																	
<table border="1"> <thead> <tr> <th>Category</th> <th>Contribution</th> </tr> </thead> <tbody> <tr> <td>Transport & Comm</td> <td>-0.2</td> </tr> <tr> <td>Health Care</td> <td>-0.1</td> </tr> <tr> <td>Recreation & Others</td> <td>-0.1</td> </tr> <tr> <td>Housing</td> <td>-0.1</td> </tr> <tr> <td>Education & Stationery</td> <td>0.1</td> </tr> <tr> <td>Food</td> <td>0.1</td> </tr> <tr> <td>Clothing & Footwear</td> <td>0.1</td> </tr> </tbody> </table>	Category	Contribution	Transport & Comm	-0.2	Health Care	-0.1	Recreation & Others	-0.1	Housing	-0.1	Education & Stationery	0.1	Food	0.1	Clothing & Footwear	0.1	<p>Overall</p> <p>The CPI fell by 0.5% m-o-m in June. The decline was largely attributed to "seasonal" factors such as (i) rebates for HDB Service & Conservancy Charges (S&CC), which are administered every last month of the quarter; and (ii) cheaper retail items due to the Great Singapore Sale. Meanwhile, cost of transport rose because of more expensive cars and petrol. Prices of other goods and services, such as food, health care and recreation, were stable.</p>	
Category	Contribution																	
Transport & Comm	-0.2																	
Health Care	-0.1																	
Recreation & Others	-0.1																	
Housing	-0.1																	
Education & Stationery	0.1																	
Food	0.1																	
Clothing & Footwear	0.1																	

⁵ An additional month of rebates for HDB Service & Conservancy Charges (S&CC) was scheduled for 2009, administered in April. S&CC rebates lower housing maintenance cost which is incorporated in the accommodation cost index.

⁶ Car prices are heavily influenced by COE premiums which plummeted by nearly 90% between November 2008 and February 2009 as bidders turned cautious amidst economic uncertainty.

	<p>Housing</p>	<p>The sharp decline in the housing index largely reflected lower maintenance cost arising from the S&CC rebates.⁷ Rentals and owner-occupied housing cost⁸ also fell.</p>
	<p>Clothing & Footwear</p>	<p>Retail prices of clothing & footwear were lower due to the Great Singapore Sale.</p>
	<p>Education</p>	<p>The cost of education picked up slightly following a hike in kindergarten school fees.</p>
	<p>Transport & Communication</p>	<p>Sustained jumps in COE premiums raised the cost of cars, while petrol pump prices were hiked in tandem with the surge in global oil prices during May and June.</p>

Inflation Outlook

PRICE PRESSURES OWING TO THE EL NIÑO WEATHER PHENOMENON HAVE SO FAR BEEN LIMITED TO BEVERAGE RELATED COMMODITIES

There have been some recent concerns over a resurgence of global food price inflation, as the El Niño weather phenomenon⁹ caused more disruptions to crop supplies worldwide. However, thus far, El Niño induced price pressures have been concentrated in beverage-related commodities, such as sugar, tea, cocoa and coffee, which have relatively small weights in the CPI baskets. For example, in Singapore’s CPI, these items constitute about 5% of the non-cooked food basket, which in turn makes up one-tenth of the CPI basket.

In contrast, food commodities, which make up the other 95% of Singapore’s non-cooked food basket, remain relatively insulated thus far from the impact of El Niño. Indeed, grain (and hence

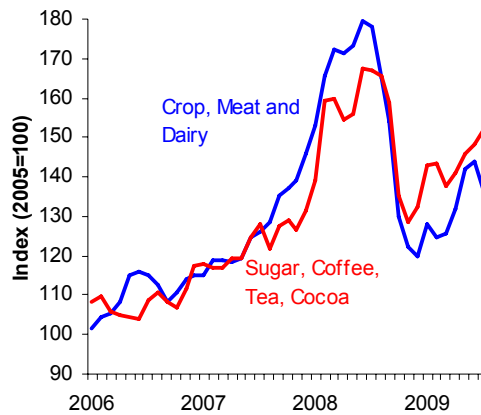
⁷ As S&CC rebates are given out only in certain months of the year, they can cause variations in the monthly accommodation cost component of the CPI. For 2009, the rebates are scheduled to be administered in March, April, June, September and December.

⁸ Owner-occupied housing cost is computed using the rental equivalence method. Imputed rentals are proxies of the rentals that consumers would have to pay if they had to lease the property rather than own it.

⁹ El Niño refers to the abnormal warming of water in the eastern Pacific Ocean, off the west coast of South America. An El Niño usually recurs every 3-7 years with varying degrees of intensity, and conditions are usually felt around the world for over a year. El Niño usually causes severe droughts and forest fires in Australia, Central America, Indonesia, the Philippines and southern India. It is associated with heavy rain and flooding in Bolivia, Ecuador and the US Gulf States. They also suppress hurricane activity in the Atlantic.

meat and dairy) prices have corrected recently after rising between March and May on the back of strong Chinese demand, lower forecasted supply due to reduced planting areas in the United States and export restrictions in Argentina. Going forward, prices could fall further as conducive summer growing conditions in the US prompted renewed optimism over another bumper autumn harvest from the world's largest exporter of coarse grains. (Chart 7)

Chart 7
IMF Food and Beverage Commodity Price Indices



HEADLINE CPI INFLATION EXPECTED TO AVERAGE BETWEEN -0.5% AND 0.5% IN 2009

Into H2 2009, CPI inflation is expected to continue turning in small negative rates on a year-ago basis. Although global oil prices have nearly doubled since February to around US\$70 in early August, they should on average remain lower compared to a year ago due to still weak demand and high inventories. However, following the recent surge in prices, the drag of oil-related items on inflation in H2 is now smaller than earlier expected. Already, electricity and gas tariffs for Q3 have each been hiked by around 7%, and petrol pump prices are now some 15% higher compared to April.

Meanwhile, other key sources of price pressures last year, such as food and accommodation costs, had abated in H1 and will only add marginally to inflation in H2. The prices of some retail goods and overseas travel packages should continue to decline in the coming months, amidst weak consumer demand.

For the whole of 2009, CPI inflation is expected to average between -0.5% and 0.5%.

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 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
May	109.7	116.5	102.9	116.1	97.6	108.4	114.6	108.6
Jun	109.1	116.5	100.6	112.5	98.6	108.7	114.6	108.5

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 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	-9.3	-30.4	-52.2
May	-0.3	-0.2	-11.6	-25.7	-52.2
Jun	-0.5	-0.4	-11.5	-24.1	-46.7

Source: Singapore Department of Statistics, IMF and Bloomberg