

Inflation Monthly

March 2009

Singapore's Consumer Price Index

	2009	
	Feb	Mar
y-o-y (%)	1.9	1.6
m-o-m (%)	-0.5	-0.4
Index	110.6	110.2

- **Inflation eases across the G3 and Asian economies in Q1 2009**

The plunge in crude oil prices was the largest source of disinflationary pressures in the G3. In Asia ex-Japan, headline inflation rates fell due to a more moderate increase in the price of food.

- **Singapore's headline CPI inflation eased from 1.9% y-o-y in February to 1.6% in March**

The MAS underlying inflation measure, which excludes the cost of accommodation and private road transport, also declined from 2.1% in February to 2.0% in March.

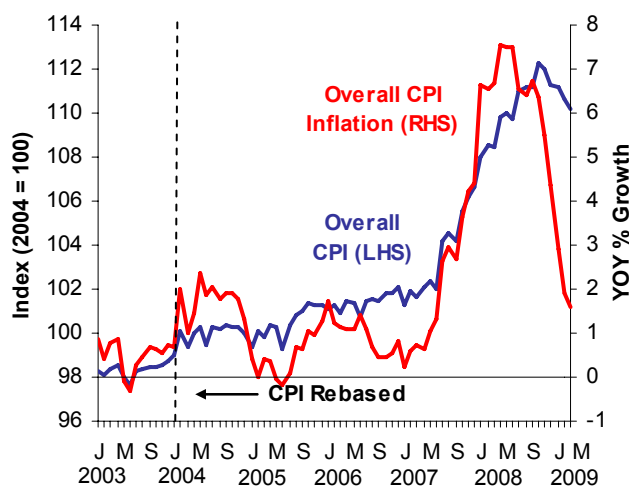
- **On a m-o-m basis, Singapore's CPI was lower by 0.4%**

Apart from the higher cost of clothing & footwear, personal effects and holiday travel, prices of nearly all other goods and services either fell or remained largely unchanged in March.

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

However, less than two-fifths of the CPI basket is expected to record price declines for the whole of 2009, a much smaller ratio compared to that in past economic downturns.

Singapore: CPI and CPI Inflation



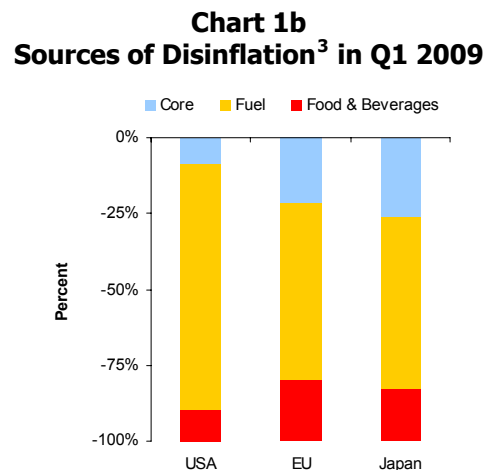
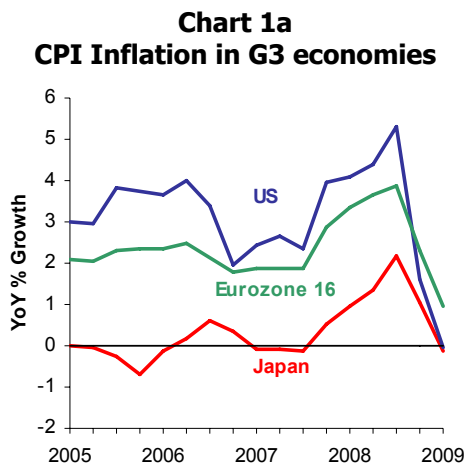
Recent Developments in Global Inflation

Disinflation set in across the G3 and Asian economies in Q1 2009. In the G3, headline CPI inflation slowed to 0.4% y-o-y in Q1 2009, from 1.8% in the previous quarter. The US recorded its lowest quarterly inflation since 1955 at 0%, the Eurozone posted a decade-low rate of 1.0%, while Japan's inflation slipped back into negative territory for the first time in six quarters. While overall price levels in China fell by 0.6% in Q1, down from an increase of 2.5% in the previous quarter, inflation moderated at a more measured pace in the NIE-3 and ASEAN-4 to 2.7% and 5.3%, respectively.

The plunge in global crude oil prices was the main contributor to easing inflationary pressures across the G3 economies. The average petroleum spot price¹ was 54% lower in Q1 2009 relative to the same period in 2008. On average, lower fuel prices accounted for 65% of the deceleration in headline inflation in the G3 from Q4 2008 to Q1 2009. In Asia ex-Japan, the relatively smaller share of fuel in the CPI basket limited the impact of lower petrol prices on headline inflation.

In contrast, a slower increase in the price of food & beverages was the main reason for disinflation in Asia ex-Japan. Notably, the price of rice² increased by 21% in Q1, down from 62% in the previous quarter. The exception was in Korea, where despite the more moderate increase in the prices of rice and other staples, the cost of food – both raw and prepared – accelerated for a fifth consecutive quarter. This could be attributed to the weakened Won, given the high import content of Korean food consumption.

Core inflation also diminished in almost all the economies as the globally synchronized downturn weighed on aggregate demand. Inflation decelerated across most major categories of consumption, with the notable exception of housing in Hong Kong. The Hong Kong government's one-off measures to tackle inflation in mid-2008 included rental waivers for public housing, which ceased after October 2008. The resulting step-up in this component of the CPI pushed up core inflation from 1.6% in Q4 2008 to 3.1% in Q1 2009.



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 Disinflation is calculated as the y-o-y rate of inflation in Q1 2009 less that of Q4 2008.

Chart 2a
CPI Inflation in Northeast Asia

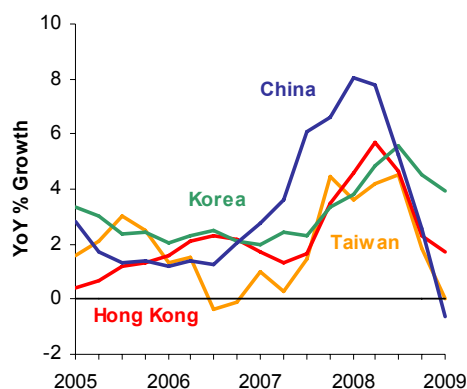
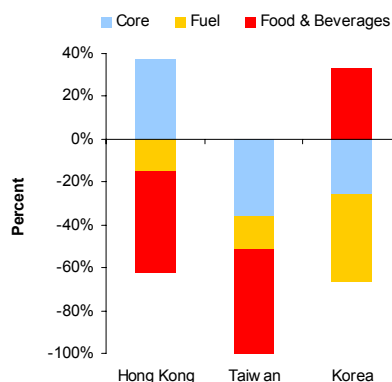


Chart 2b
Sources of Disinflation in Q1 2009



Note: Fuel and core inflation rates are unavailable for China.

Chart 3a
CPI Inflation in Southeast Asia

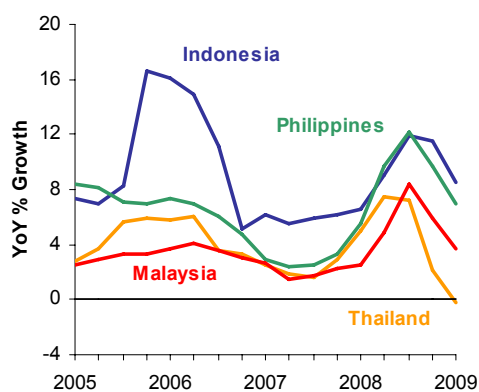


Chart 3b
Sources of Disinflation in Q1 2009

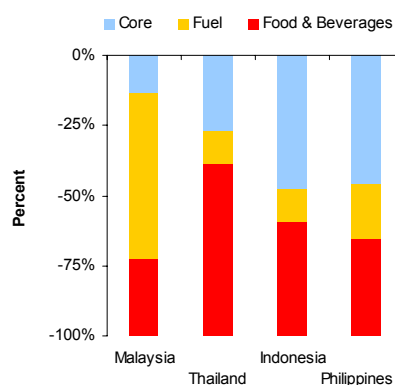


Table 1
External Inflation Indicator

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

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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Recent Developments in Domestic CPI Inflation

In Singapore, headline CPI inflation eased further by 0.3% point to 1.6% y-o-y in March 2009, the lowest since June 2007. Excluding accommodation and private road transport, the MAS underlying inflation moderated slightly to 2.0%. For Q1 this year, headline CPI inflation and MAS underlying inflation averaged 2.1% and 2.4% respectively, less than half the rates recorded in the preceding quarter.

MONTH-ON-MONTH CHANGES IN KEY CPI CATEGORIES		
Per Cent Point Contribution	Category	
<p>Legend:</p> <ul style="list-style-type: none"> Recreation & Others (Blue) Food (Orange) Education & Stationery (Purple) Housing (Red) Clothing & Footwear (Green) Health Care (Light Blue) Transport & Comm (Yellow) 	Overall	The CPI fell by 0.4% m-o-m in March, the fifth consecutive month of decline. Steep declines in the costs of housing and transport more than offset the price increases of recreation goods & services, clothing & footwear, and food. Costs of education & stationery and health care were unchanged.
	Housing	The fall in the housing index was due largely to lower maintenance cost arising from the rebates for HDB service & conservancy charges (S&CC). ⁴ Rentals and owner-occupied housing cost ⁵ also fell in line with the weaker property market.
	Transport & Communication	Car prices continued to slip, reflecting the plunge in COE premiums in the preceding months. Petrol was also cheaper and air fares plummeted for the seventh consecutive month.
	Recreation & Others	The cost of personal effects (e.g. watches, jewellery and leather goods) and holiday travel packages rebounded following the large discounts offered in February.
	Clothing & Footwear	Retail prices of clothing & footwear rose again to pre-festive (discount) levels.

⁴ 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.

⁵ 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.

	<p>Food</p>	<p>Both non-cooked and cooked food prices have largely stabilised, rising by only 0.1% each.</p>
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Outlook

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. Hence, direct oil-related items, such as petrol and electricity tariffs, are expected to shave around 1.4% points from headline CPI inflation this year. Domestic food price increases will be much more modest this year, as a result of the bumper harvest in H2 2008 and some reduction in demand.

On the domestic front, the cost of accommodation and prices of some retail goods are likely to fall in the coming months, given the downturn in the economy. In addition, domestic business cost pressures, notably wages and rentals, have started to wane and should moderate further given the decline in resource utilisation as well as the introduction of fiscal measures such as the Jobs Credit Scheme; property, rental and road tax rebates; and the 1% point corporate tax cut. 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 in April.

Overall, however, less than two-fifths of the CPI basket is expected to record price declines in 2009, a much smaller ratio compared to that in past economic downturns. Of this, half will experience price declines of less than 1%. There is thus little likelihood at this point in time of a persistent and broad-based drop in consumer prices.

For the whole of 2009, headline CPI inflation will average between -1% and 0%. The MAS underlying measure will be slightly higher, as it excludes prices of petrol and cars which are likely to fall this year.

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 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
Mar	110.2	116.8	104.7	117.7	96.4	108.4	114.0	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				
2008 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	-24.9	-53.3
Feb	1.9	2.1	-8.7	-31.5	-54.4
Mar	1.6	2.0	-8.7	-34.5	-53.7

Source: Singapore Department of Statistics, IMF and Bloomberg