

HIGHLIGHTS & OUTLOOK

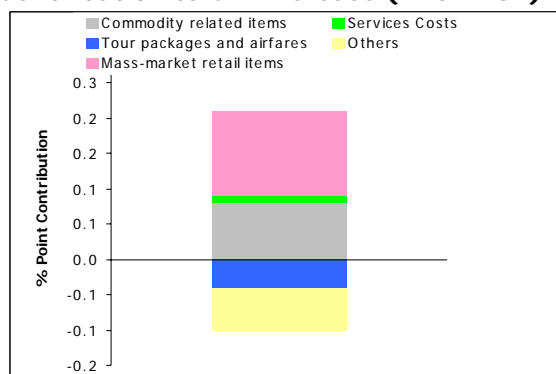
SOME RETAIL PRICE WEAKNESS AFTER GSS

CONSUMER PRICES EDGED UP

Headline CPI inflation came in at 1.6% year-on-year (y-o-y) in August, unchanged from the previous month. This brought average inflation for the first eight months of this year to 1.6%. The MAS underlying inflation – which excludes private road transport costs and accommodation – was also unchanged at 1.8% in August.

On a month-on-month, seasonally adjusted (m-o-m SA) basis, consumer prices inched up by 0.1% in August, after a 0.2% dip earlier in July. This largely reflected commodity-related increases, as petrol prices experienced another round of increases, while the poultry ban led to a sharp rise in egg prices. Prices of retail items such as clothing and footwear also rebounded following the conclusion of the Great Singapore Sale (GSS). (Chart 1)

Chart 1
% Point Contribution to CPI increase (m-o-m SA) in August



MASS-MARKET RETAIL PRICES REGAIN SOME LOST GROUND AFTER GSS

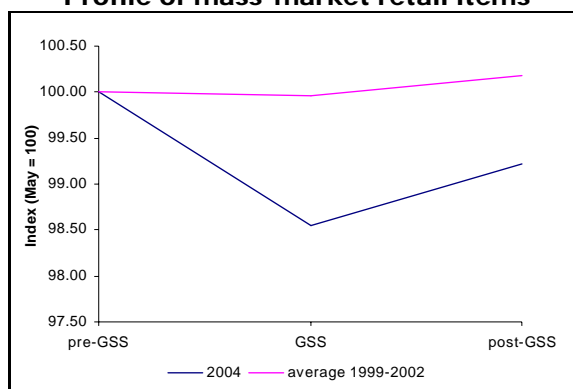
On a sequential basis, prices of several mass-market retail items recovered after recording declines for three consecutive months. Nevertheless, prices remained below their pre-Great Singapore Sale (GSS) levels, unlikely previous years when prices rebounded back fairly quickly after the end of the Sale. Our estimates show that retail prices remained some 0.8% below their pre-GSS levels as at August.¹ In comparison, retail prices had already exceeded their pre-GSS levels by an average of 0.2% in July in the earlier years of 1999-2002.²

The relatively sluggish recovery could have partly reflected the deeper and more substantial discounts offered by retailers during the GSS this time round, and the more gradual withdrawal of the price cuts in light of continuing weakness in domestic spending.

¹ The GSS was extended for another two weeks this year, ending in July, as compared to June during earlier years.

² 2003 was excluded in the comparison due to the large impact of Sars.

Chart 2
Profile of mass-market retail items



Anecdotal evidence also suggests that Singaporeans may be spending overseas. For example, several credit card companies such as Mastercard, Visa and Diners, reported an above-20% surge in card usage volumes in the first half of this year.³ However, MasterCard pointed out that apart from retail shopping, particularly during the GSS, the rebound in overseas travel was also another major reason for the increase in usage volume. A recent survey by global market research firm Synovate found that the rich generally preferred to spend on holiday trips rather than luxury goods, providing further evidence that the consumer spending dollars could be flowing out of Singapore.⁴

EGG PRICES SHOOT UP WITH POULTRY BAN

The ban on Malaysian poultry imports due to the bird flu in Kelantan led to a sudden shortage of eggs in Singapore. Malaysia supplied two-thirds of the eggs consumed in Singapore, with the remaining one third from local farms. The disruption in egg supply led to a surge in local egg prices, while Australian eggs that were brought in to ease the demand were also more expensive. At one stage, egg prices had spiked up to 70 cents – a tripling in prices from before the ban. In comparison, prices of chickens, which were also affected by the ban, were fairly stable. Although imports of live chicken from Malaysia were cut off, these were quickly replaced by frozen chicken from Brazil and the US. As food suppliers here already have an established network for importing frozen chicken, they were able to bring in new supplies quickly without affecting prices by too much. Overall food prices only edged up slightly during the month, as cheaper rice, seafood and fruits offset some of the increases.

HIGHER OIL PRICES LEAD TO HIKES IN PETROL PRICES ALTHOUGH PRICE WAR MODERATED INCREASES

Petrol prices saw another round of upward adjustment of four cents in August as global oil prices continued their upward climb. The increase during the month was however moderated by some National Day discounts offered by pump operators, which subsequently developed into a wider price war, with operators offering up to 16% reductions off petrol prices for around five days during the month.

POLICY MEASURES AND COMPETITION HOLD DOWN PRICES OF BIG-TICKET ITEMS

Meanwhile, prices of some big-ticket items retreated in August. After increasing steadily since the beginning of this year, COE premiums fell by more than \$1,000, which led to a corresponding fall in car prices. Car buyers could have been holding back their purchases in anticipation of an upward adjustment in the COE quota by the Land Transport Authority (LTA) during the mid-term review in September.

³ Source: Channel NewsAsia on 27 September 2004, "MasterCard H1 usage volume up 24% to US\$910m".

⁴ Source: The Straits Times on 6 October 2004, "Rich here splurge on trips, spend less on luxury goods".

Prices of “other miscellaneous” items, which comprises largely tour packages, also fell, as the price war amongst air carriers intensified. Prices of tour packages and airfares plunged to new lows as several full-service carriers slashed prices to compete with budget carriers. For the popular routes to Bangkok, Hongkong and Jakarta, airfares have sunk to as low as \$1.

GLOBAL OIL PRICES NOT ABATING YET

Commodity-related price pressures continue to pose a risk factor to consumer prices going forward. The West Texas Intermediate (WTI) oil prices recently breached the US\$50 mark in early October. Supply disruptions stemming from Hurricane Ivan have pushed commercial crude oil inventories to below average levels for this time of the year. Indeed, a US government agency recently reported that around 27% of the Gulf of Mexico's daily production of 1.7 million barrels remained disrupted because of the hurricanes. The production delays occurred amidst the decline in spare global oil-production capacity to its lowest level in nearly 25 years. Crude-oil inventories also tumbled to just under 270 million barrels as at late September, marking eight straight weeks of declines. Most analysts see 300 million barrels as a key comfort level for crude supplies. In addition, a rebel uprising in Nigeria threatening to disrupt oil supplies gave the final push for oil prices to breach the US\$50 mark. As the northern winter season approaches, global oil prices could remain high in the coming months, before they recede somewhat into next year.

SPIKE IN EGG PRICES EXPECTED TO RECEDE AS SUPPLIES COME ON STREAM

Although egg prices could still remain high in September, prices are expected to come down subsequently in October following the Agri-Veterinary Authority's (AVA) decision to partially resume egg imports from the bird flu-free zones of Johor and Melaka. Several traders believe that egg prices could fall back down to the pre-ban levels of around 20-30 cents.

Prices of other food items could also moderate, as world food commodity prices have abated recently. Rice prices could continue to see some support though, as the Thai government's intervention schemes to prop up prices have so far been fairly successful.

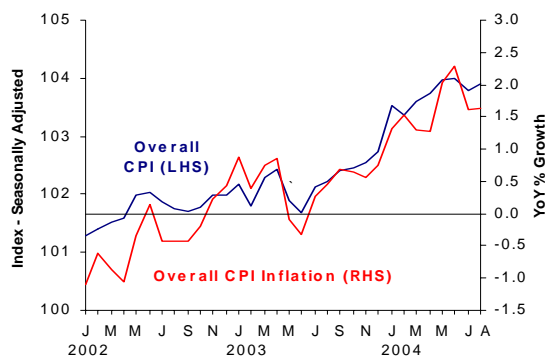
BUMPER CROP OF COEs TO LOWER CAR PRICES FURTHER

Meanwhile, as widely expected by industry players, the LTA recently announced a 28% increase in the number of COEs to be made available to the market for the next six months. This was due to the higher-than-projected number of cars being deregistered during the first half of the quota year. This is expected to result in a fall in COE premiums in the coming months, although the lower prices are likely to fuel demand again, as the car market adjusts to the increased supply of COEs. Nonetheless, in earlier years when similar revisions to the COE quota were made, premiums typically fell by around \$2000 within the first month, and up to \$7000 after four months.⁵

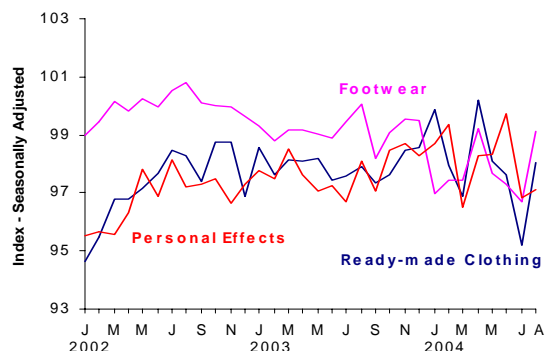
The headline CPI inflation forecast for 2004 remains unchanged at **1.5-2.0%**.

⁵ Source : The Straits Times on 24 September 2004, “Huge increase in COE quotas”.

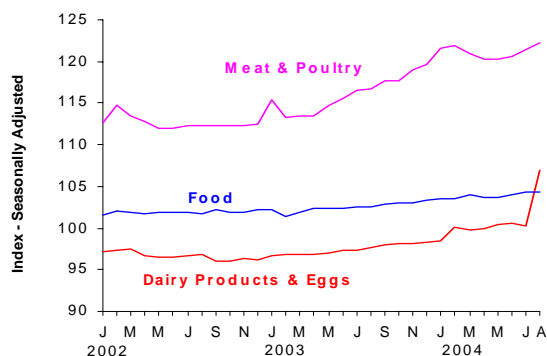
Headline CPI inflation remained unchanged at 1.6% in August. The seasonally adjusted index edged up by 0.1% after declining by 0.2% earlier in July.



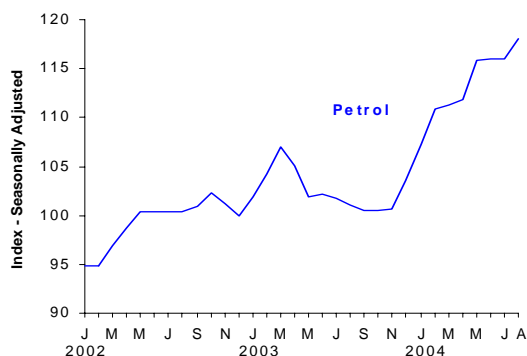
The sequential rise in consumer prices reflected the rebound in prices of several retail items during the month. Prices of ready-made clothing, footwear and personal effects all bounced back in August.



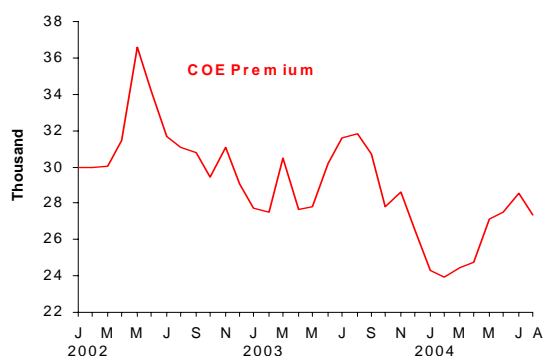
Egg prices spiked up as the poultry ban led to a shortage of eggs in the market. In comparison, chicken prices were fairly stable.



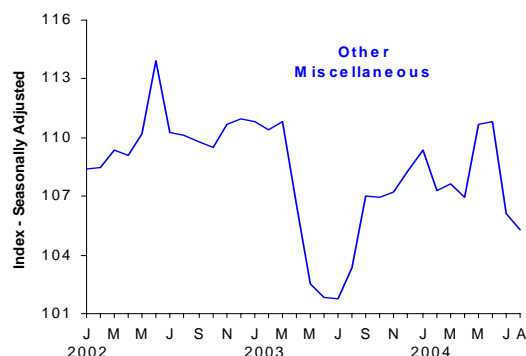
Petrol prices were hiked again as global oil prices continued to rise, although discounts offered by pump operators moderated the extent of the increase.



COE premiums fell in August, which led to a corresponding decline in car prices.

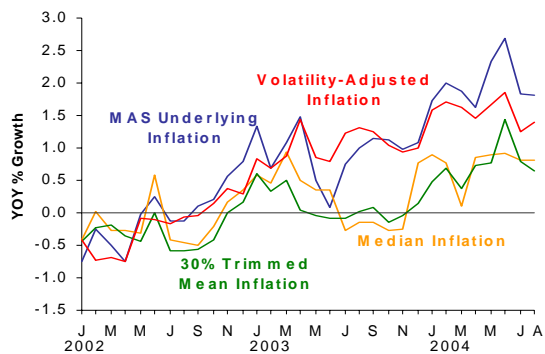


Meanwhile, "other miscellaneous" items (comprising largely tour packages), continued to fall with the price war between air carriers.



Core inflation measures were fairly stable in August, with minimal movements, with the MAS underlying inflation and median inflation unchanged at 1.8% and 0.8% respectively.

Note: CPI SA series are used only when seasonality is detected. Otherwise, non-SA series are used.



**MONETARY POLICY DIVISION
ECONOMIC POLICY DEPARTMENT**

CONSUMER PRICE INDEX								
Period	All Items	Food	Clothing	Housing	Tpt & Comm	Education	Health	Misc
Weights	10000	2752	443	2292	1803	729	305	1676
	INDEX – SEASONALLY ADJUSTED							
2002 Jan	101.3	101.6	95.7	99.9	97.9	106.0	106.4	104.9
Feb	101.4	102.1	96.5	99.5	98.1	106.2	106.5	105.1
Mar	101.5	101.9	97.5	99.5	98.3	106.4	109.1	105.0
Apr	101.6	101.8	97.5	99.3	98.6	106.3	109.1	104.7
May	102.0	101.9	97.8	99.6	99.0	106.4	109.1	106.0
Jun	102.0	101.9	98.2	99.7	98.7	106.6	109.3	107.4
Jul	101.9	101.8	98.9	99.8	98.8	106.3	109.5	105.3
Aug	101.8	101.7	98.8	99.6	98.7	106.5	109.5	105.4
Sep	101.7	102.2	98.5	99.5	97.9	106.7	109.8	105.2
Oct	101.8	101.9	99.0	99.6	98.2	106.8	110.2	105.4
Nov	102.0	102.0	99.0	99.9	98.5	107.1	110.4	105.7
Dec	102.0	102.1	97.5	99.8	98.4	107.3	110.6	106.0
2003 Jan	102.2	102.3	98.7	99.4	99.1	107.6	110.7	106.4
Feb	101.8	101.4	97.9	99.1	99.2	107.7	110.8	106.2
Mar	102.3	101.9	98.3	99.1	99.6	107.8	110.8	107.4
Apr	102.4	102.4	98.4	100.4	98.7	108.0	110.8	105.9
May	101.9	102.4	98.5	99.4	98.0	108.1	110.8	104.6
Jun	101.7	102.3	97.8	99.5	98.2	108.3	111.0	104.6
Jul	102.1	102.5	98.0	99.4	98.1	109.7	111.4	105.6
Aug	102.2	102.6	98.4	99.3	98.1	109.7	111.5	106.2
Sep	102.4	102.8	98.0	99.2	98.0	110.0	111.7	107.1
Oct	102.4	103.0	98.0	98.6	98.2	110.2	111.7	107.5
Nov	102.6	103.1	98.7	98.4	98.5	110.4	112.0	107.7
Dec	102.7	103.4	98.8	98.3	98.9	110.6	112.0	108.0
2004 Jan	103.5	103.6	99.3	99.0	99.5	112.5	117.3	108.6
Feb	103.4	103.6	97.9	98.8	99.8	112.9	117.7	108.3
Mar	103.6	104.0	97.0	98.7	99.4	113.1	117.6	109.5
Apr	103.7	103.7	100.0	98.9	99.2	113.0	117.7	109.0
May	104.0	103.6	97.9	99.2	99.9	113.2	117.6	110.0
Jun	104.0	104.0	97.4	99.3	99.9	113.3	117.7	110.4
Jul	103.8	104.3	95.6	99.1	99.6	114.0	118.0	108.9
Aug	103.9	104.4	98.3	98.9	99.8	113.9	118.2	108.9

Source: Department of Statistics

SELECTED INFLATION INDICATORS				
Period	CPI	Import Price Index	Non-fuel Primary Commodities	Opec Oil Price
	YOY% Growth			
2002 Jan	-1.1	-2.8	-8.7	-24.4
Feb	-0.6	-2.8	-7.6	-25.6
Mar	-0.9	-2.3	-4.6	-4.4
Apr	-1.1	-2.7	-5.2	0.5
May	-0.3	-3.2	-6.3	-5.8
Jun	0.1	-3.7	-2.7	-8.9
Jul	-0.4	-3.2	0.2	6.0
Aug	-0.4	-2.0	1.4	5.7
Sep	-0.4	-1.3	7.9	13.8
Oct	-0.2	-0.5	13.5	40.2
Nov	0.2	-1.1	11.3	37.2
Dec	0.4	0.0	11.4	59.6
2003 Jan	0.9	1.0	11.8	65.5
Feb	0.4	2.5	11.5	66.7
Mar	0.8	2.1	7.3	30.4
Apr	0.9	0.0	7.2	1.9
May	-0.1	-1.2	6.9	3.6
Jun	-0.3	-0.3	3.9	12.7
Jul	0.3	0.1	1.4	9.3
Aug	0.5	0.6	4.0	10.7
Sep	0.7	-0.9	3.1	-4.7
Oct	0.6	-1.0	6.8	3.8
Nov	0.6	0.4	9.6	17.4
Dec	0.7	0.2	12.2	4.8
2004 Jan	1.3	0.3	15.8	-0.3
Feb	1.5	-2.0	19.2	-6.4
Mar	1.3	-1.9	23.7	9.3
Apr	1.3	-0.3	24.7	27.8
May	2.0	2.6	21.8	41.9
Jun	2.3	2.9	22.2	28.9
Jul	1.6	3.0	22.9	32.0
Aug	1.6	3.6	20.3	40.9

Source: Department of Statistics, IMF and Bloomberg