

## Inflation Monthly

August 2007

CPI	2007	
	July	August
y-o-y (%)	2.6	2.9
m-o-m (%)	2.1	0.3
Index	104.1	104.5

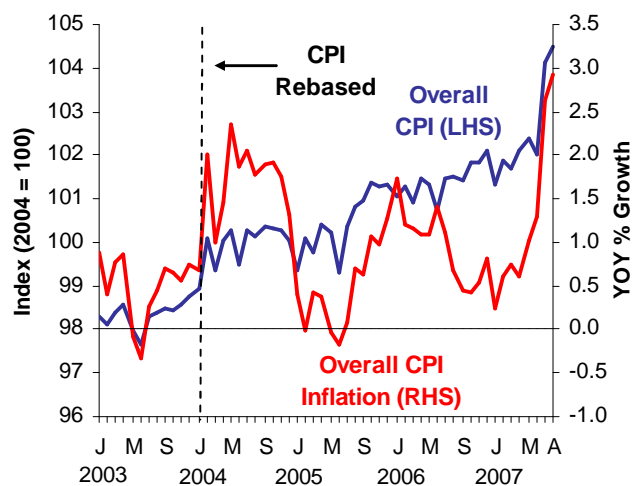
- Singapore's headline CPI rose by 0.3% on a m-o-m basis**

After a one-off rise of 2.1% in July following the GST hike, the CPI registered a sequential increase in August that was generally in line with the average m-o-m price fluctuations in over Jan 2004 – Jun 2007. With the exception of education, the indices for all major categories of the CPI basket posted gains.

- Headline CPI inflation forecast to come in at 1.5-2% in 2007 and 2-3% in 2008**

The Singapore economy is expected to continue to expand going into 2008, albeit at a more moderate pace. At the current advanced stage of the business cycle, domestic inflationary pressures stemming from a tight labour market and the short-term shortage of commercial space could persist, amidst external pressures from rising oil and food prices.

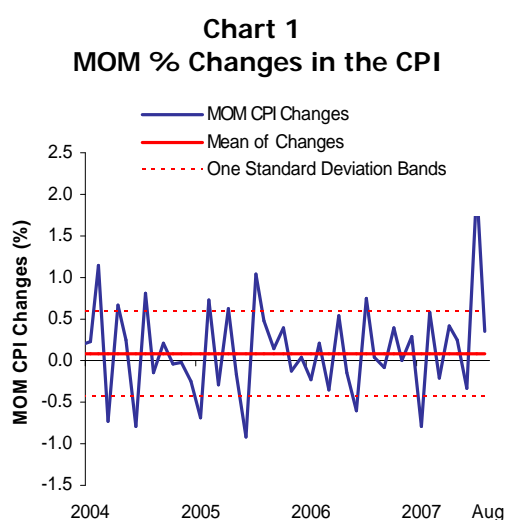
Singapore: CPI and CPI Inflation



## Recent Developments in Domestic CPI Inflation

Domestic headline CPI inflation rose to 2.9% y-o-y in August from 2.6% in the previous month, bringing average inflation to 1.3% for the first eight months of 2007. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – also edged up to 2.8% in August from 2.7% in July. Over the period Jan-Aug 2007, it averaged 1.6%.

On a m-o-m basis, the CPI edged up by 0.3%, a slowdown compared to the 2.1% rise in July. Thus, while the increase in the CPI was significant in July reflecting the pass-through of the GST hike and higher business costs (notably wages and rentals), it has eased in August to be generally in line with the average m-o-m CPI fluctuations over Jan 2004 – Jun 2007 (Chart 1).



% Point Contribution (m-o-m), August 2007	Group	
<p style="font-size: small;"> <span style="color: blue;">■</span> Transport &amp; Comm    <span style="color: red;">■</span> Food  <span style="color: orange;">■</span> Recreation &amp; Others    <span style="color: green;">■</span> Housing  <span style="color: cyan;">■</span> Clothing &amp; Footwear    <span style="color: purple;">■</span> Health Care  <span style="color: brown;">■</span> Education &amp; Stationery                 </p>	<b>Overall (m-o-m)</b>	On a m-o-m basis, the CPI rose by 0.3% in August. Prices increased in all major categories of the CPI basket with the exception of education & stationery.
<p style="font-size: small;">0.1</p>	<b>Transport &amp; Communications</b>	Driven mainly by higher private road transport costs, the index for overall transport & communications was lifted by 0.5% in August. Petrol prices in the CPI increased 2.2%, as petrol companies raised prices and reduced discounts following the run-up in global oil prices. Cars were also costlier in August, despite COE premiums having fallen in July <sup>1</sup> .

<sup>1</sup> COE premiums in a particular month tend to be reflected in overall car prices in the following month, given that car dealers need to secure the certificates before the cars are delivered.

	<b>Food</b>	Food prices went up by 0.4% in August, after having risen 2.3% in the first seven months of the year. The increase was partly attributed to more expensive cooked food at hawker centres. At the same time, prices of most retail non-cooked food items were also higher, but particularly for vegetables, seafood, meat & poultry.
	<b>Re-creation &amp; Others</b>	While the recreation & others component of the CPI was influenced by the costs of services, such as holiday travel, in the past year, dearer consumer goods were the main reason for the increase in August. Leather & travel goods, personal effects as well as cosmetics & toilet requisites all posted price gains.
	<b>Housing</b>	Overall housing costs edged up by 0.2% in August. Faced with higher fuel input costs, City Gas Ltd hiked residential gas tariffs by 4.7%. Household durables were also pricier during the month.
	<b>Clothing &amp; Footwear</b>	Prices of clothing and footwear jumped 1.5% in August, as price discounts were withdrawn following the end of the Great Singapore Sale on 22 July.
	<b>Health Care</b>	Costs of medical and dental treatment were stable, but Chinese herbs were more expensive, which led to a marginal increase in health care costs.
	<b>Education &amp; Stationery</b>	With tuition fees remaining unchanged during the month, declining prices of personal computers helped to drag down the overall costs of education & stationery.

## Outlook

### HEADLINE CPI INFLATION FORECAST TO COME IN AT 1.5-2% IN 2007, AND 2-3% IN 2008

The Singapore economy has performed better than expected in 2007, with robust growth across various sectors. The Singapore economy is expected to continue to expand going into 2008, albeit at a more moderate pace. Given the current advanced stage of the business cycle, domestic cost pressures stemming from a tight labour market and shortage of commercial space will persist, amidst external pressures from rising oil and food prices.

Externally, oil prices have risen to record levels above US\$90 per barrel. Looking ahead, the oil market is expected to remain tight, with prices staying elevated. Both the International Energy Agency (IEA) and the US Energy Information Administration (EIA) are forecasting oil demand to increase at an even faster pace in 2008 relative to 2007. However, there is limited spare capacity in OPEC and its intended increase in production quota of 0.5 million barrels per day (mbd) in November 2007 was perceived to be inadequate in alleviating market tightness. At the same time, supply increases from non-OPEC producers are still expected to be modest in the coming year. Meanwhile, global food prices are likely to trend up due to cyclical and structural factors.

Domestically, car prices could be one of the key contributors to CPI inflation in 2008. According to the LTA, COE quotas for each quota year are based on a 3% car population growth rate, including provisions for projected car de-registrations. With falling de-registrations in 2006 and 2007 COE quotas are expected to drop in the next quota year (Apr 08 - Mar 09), which could support car prices. (Chart 3.6) In addition, the LTA has indicated that the target car population growth rate of 3% is unsustainable in the long run, and will review this policy in 2008.

CPI inflation is now projected to come in at 1.5-2% for 2007. For the first half of 2008, headline CPI inflation is projected to rise to about 3.5% on a year-on-year basis on account of the GST hike, as well as the base effects of lower energy and car prices in H1 2007. In the second half of the year, inflation should ease, and come in at 2-3% for 2008 as a whole. The MAS underlying inflation measure, which excludes accommodation and private road transport costs, is projected at 1.5-2.5% in 2008.

*(Please see Macroeconomic Review Oct 2007 for more details on the inflation outlook for Singapore. The Macroeconomic Review Oct 2007 will be released on MAS' website [www.mas.gov.sg](http://www.mas.gov.sg) on 30 October 2007.)*

**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)							
2006 Sep	101.4	103	100.6	103.5	96.5	104.3	101.5	101.7
Oct	101.8	103.1	101.2	104.2	96.8	104.5	101.6	102.5
Nov	101.8	103.2	101.5	104.3	95.7	104.3	101.7	103.6
Dec	102.1	103.6	100.3	104.3	96.2	104.4	101.7	104.5
2007 Jan	101.3	104.4	99.2	100.6	95.6	104.9	102.0	103.9
Feb	101.9	104.8	100.7	103.2	94.9	105	102.5	103.7
Mar	101.7	103.8	102.8	103.2	94.4	104.9	102.7	104.1
Apr	102.1	103.7	102.8	102.7	96.3	103.9	103.7	105.3
May	102.4	104.1	100.9	102.6	97.8	103.9	104.4	104.5
Jun	102.0	104.6	97.3	99.9	98.5	103.8	104.9	105.0
Jul	104.1	106.0	101.1	104.8	99.4	106.0	107.2	105.6
Aug	104.5	106.4	102.5	105.1	99.9	105.9	107.4	105.9

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				
2006 Sep	0.4	1.5	-1.0	31.7	2.8
Oct	0.4	1.3	-2.4	34.1	0.9
Nov	0.5	1.4	-2.4	34.7	8.5
Dec	0.8	1.6	-2.0	31.2	10.1
2007 Jan	0.2	0.9	-5.4	23.7	-13.4
Feb	0.6	1.3	-4.5	22.5	-3.7
Mar	0.7	1.2	-3.5	25.2	1.5
Apr	0.6	1.2	-4.0	24.1	-1.9
May	1.0	1.3	-3.2	15.2	-1.1
Jun	1.3	1.5	-3.4	19.4	3.1
Jul	2.6	2.7	-3.5	16.0	4.0
Aug	2.9	2.8	-3.1	10.9	-0.6

Source: Singapore Department of Statistics, IMF and Bloomberg