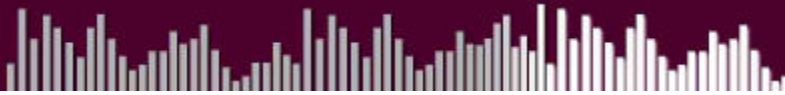


Inflation Monthly

December 2006



Highlights:

- Inflation developments in December were mixed for external economies**

Inflation came in higher in the US due to more expensive motor fuel, while inflation was stable in the EU and Japan. Most Northeast Asian economies experienced higher inflation but developments were non-homogenous in the Southeast Asian economies.

- Singapore's headline CPI inflation rose to 0.8% in December**

For the whole of 2006, it averaged 1.0%. Meanwhile, the MAS underlying inflation rose to 1.6% in December, compared to 1.4% in the previous month. The MAS underlying inflation came in at 1.7% in 2006.

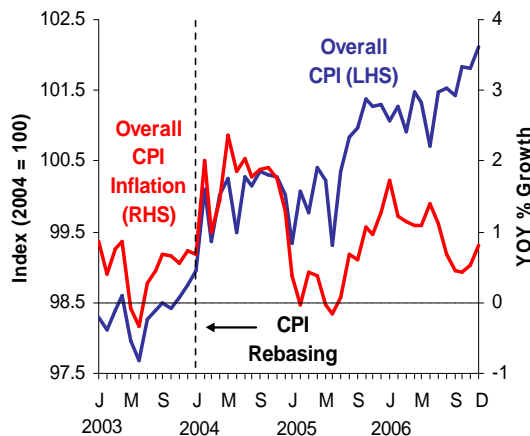
- On a m-o-m basis, the CPI rose by 0.3%**

With the exception of clothing & footwear, all other major categories of the CPI basket experienced price increases during the month. In particular, higher costs of holiday travel, transport and food contributed the bulk of the increase.

- Global oil prices could remain high and volatile**

On the whole this year, global economic growth is expected to stay healthy, which could lead to upward pressure on oil prices. The IEA has warned that OPEC production cuts, together with lower projection of non-OPEC supply, risk tightening the oil market markedly.

Singapore's CPI (2004 = 100)		
% Growth/ Level	Nov 06	Dec 06
y-o-y	0.5	0.8
m-o-m	0.0	0.3
Index	101.8	102.1



Recent Developments in External Inflation

In December, inflation developments in the G3 economies were mixed. (Chart 1a) Supported by an increase in motor fuel prices, US' headline inflation rose to 2.5%, breaching the 2% mark for the first time since October. Core inflation continued to be a cause of concern, remaining at a high of 2.6%. While durables such as new cars, televisions and personal computers became cheaper, rental cost continued to rise (the highest since Apr 02) as more people turned to renting instead of buying property. In the EU, headline inflation was stable in December, with higher energy price inflation being offset by lower food price inflation. Headline inflation remained at 0.3% in Japan, lower than market expectations. Excluding energy and food, Japan experienced a deflation of 0.3% in December, more than the decline observed in the previous month.

With the exception of Korea, the Northeast Asian economies saw higher inflation in December, mainly due to the influence of food prices. (Chart 1b) In China, CPI inflation rose from 1.9% in November to 2.8% in December, the highest rate of inflation observed in almost two years. Although detailed data has not been released yet, higher food price inflation is expected to be the main cause. CPI inflation stayed positive for the second consecutive month in Taiwan, after three months of price declines over August to October. Hong Kong's inflation was pushed up by the rising cost of food, housing and clothing/footwear, while inflation in Korea remained steady as prices in many of the major categories stabilised.

In Southeast Asia, higher CPI inflation was recorded in Malaysia and Indonesia. (Chart 1c) Malaysia's headline CPI rose slightly as the higher cost of healthcare and education was partly mitigated by falling prices of clothing & footwear. In Indonesia, headline CPI inflation picked up to 6.6% in December due to sharply higher food prices, though this was considerably lower than the double-digit rate of inflation in the first nine months of last year. In Thailand, headline inflation remained at 3.5% while core inflation receded to 1.5%, well within the Bank of Thailand's target range of 0-3.5%. In the Philippines, CPI inflation slowed to 4.3%, the lowest since Mar 04, reflecting lower food and housing price inflation.

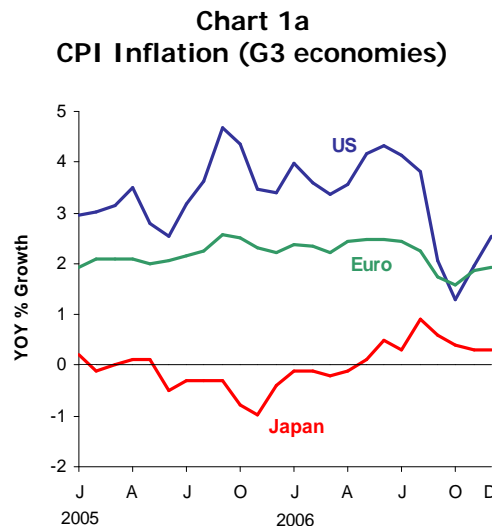


Chart 1b
CPI Inflation (Northeast Asia)

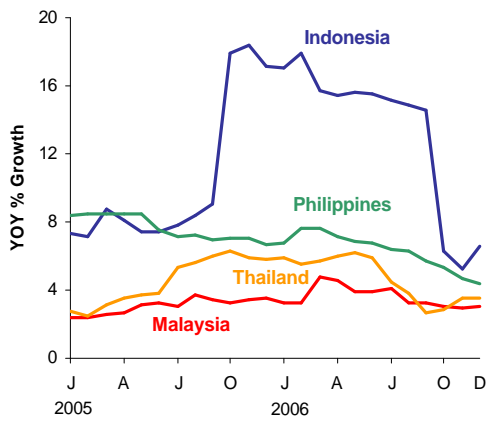


Chart 1c
CPI Inflation (Southeast Asia)

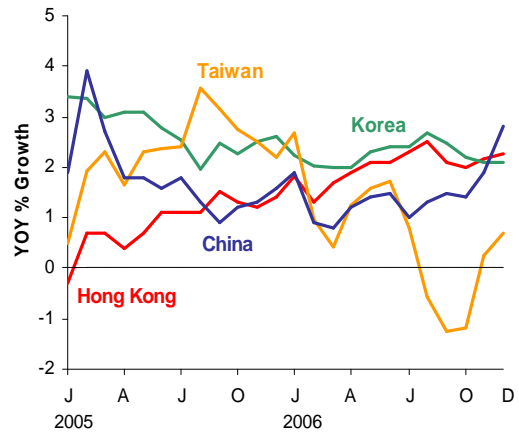


Table 1
External Inflation Indicator

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

* China component data is not available this month.

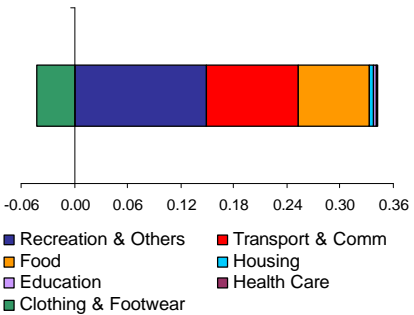
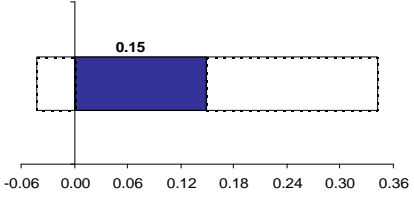
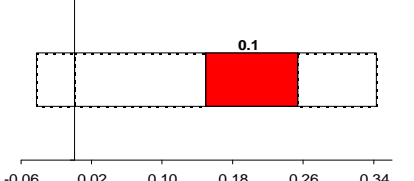
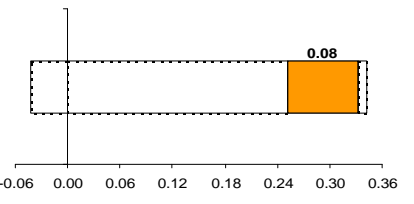
Interpretation of Colour Codes:

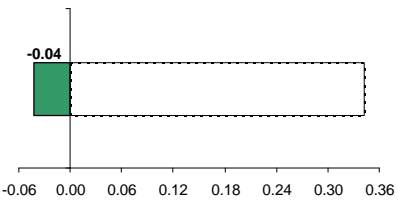
The indicator is based on the change in inflation over the past month of individual components in y-o-y terms.

	Inflation accelerating
	No change in inflation
	Inflation decelerating

Recent Developments in Domestic CPI Inflation

Headline CPI inflation in Singapore rose to 0.8% in December, from 0.5% in November 2006. This brought average inflation to 1.0% for the whole of 2006, compared with 0.5% a year earlier. Meanwhile, the MAS underlying inflation measure – which excludes accommodation and private road transport costs – also came in higher at 1.6%, from 1.4% in the previous month. For 2006, it averaged 1.7%, after registering 1.3% in 2005.

% Point Contribution, Dec 2006	Group	
 <p>Legend:</p> <ul style="list-style-type: none"> Recreation & Others Transport & Comm Food Housing Education Health Care Clothing & Footwear 	Overall (m-o-m)	<p>On a m-o-m basis, the CPI rose by 0.3% in December. With the exception of clothing & footwear, all other major categories of the CPI basket experienced price increases during the month.</p>
	Re-creation & Others	<p>Costs of recreation & others rose by 0.9% in December, after a strong gain of 1.1% in the previous month. Holiday expenses were again sharply higher due to a jump in the cost of overseas accommodation. Prices of packaged tours also edged up.</p>
	Transport & Communications	<p>The cost of transport & communications was also higher during the month, largely on account of increased car prices due to an uptick in COE premiums.</p>
	Food	<p>Overall food prices rose for the ninth consecutive month, as prices of vegetables, dairy products and restaurant food all posted significant increases. For 2006 as a whole, food prices contributed about 0.4% point to overall CPI inflation.</p> <p>In December, the severe flood in Malaysia led to the disruption of some imported food supplies. As a result, vegetable prices jumped by 3.4% while prices of eggs & dairy products rose by 1.0%. This compares with the average monthly price changes of 0.3% and 0.2% respectively in the last two years.</p> <p>Meanwhile, restaurant food was also costlier, possibly due to strong demand during the Christmas season.</p>

% Point Contribution, Dec 2006	Group	
 <p>A horizontal bar chart with a green bar extending to the left from the zero line. The x-axis is labeled from -0.06 to 0.36 in increments of 0.06. The bar is labeled with '-0.04' at its end.</p>	<p>Clothing & Footwear</p>	<p>In contrast, prices of clothing & footwear posted declines as retailers held end-of-year sales.</p>

Outlook

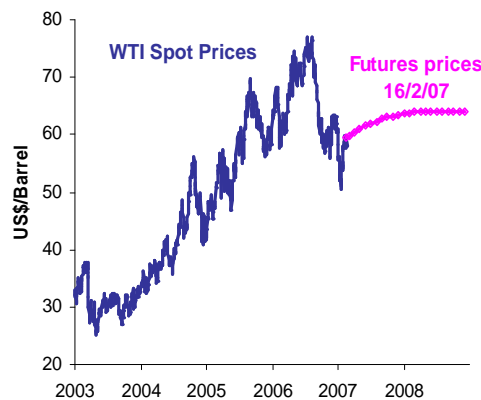
GLOBAL OIL PRICES COULD REMAIN HIGH AND VOLATILE

For the first time in 18 months, the benchmark WTI oil price hit about US\$50 per barrel in mid-January, before rebounding to around US\$60 currently. We envisage that oil prices could stay high and volatile in view of the factors below:

- Brisk global economic growth would continue to drive oil demand, which is projected by the International Energy Agency (IEA) to grow by 1.5 million barrels per day (mbd) in 2007. This compares with a slower growth of 0.9 mbd in 2006.
- OPEC has announced a plan to cut production quota by 1.7 mbd. The IEA warned that OPEC production cuts, together with lower projection of non-OPEC supply, risk tightening the oil market markedly.
- The decline in OECD inventories in December suggests some tightening in underlying supply and demand conditions.
- Risks of supply shocks, with OPEC spare capacity representing just 5% of 2007 global oil demand.

Currently, oil futures are predicting an average of about US\$62 per barrel for the rest of 2007, compared to the average annual high of US\$66 in 2006. (Chart 2) Barring any supply disruption, the contribution to Singapore’s overall inflation from direct energy-related items in the CPI basket (electricity, petrol, gas and LPG) in 2007 is expected to be more modest than the 0.7% point in 2006.

Chart 2
WTI Oil Spot & Futures Prices



Source: Bloomberg

DOMESTIC INFLATION OUTLOOK REMAINS BENIGN

The Ministry of Finance recently unveiled Budget 2007, which includes the details of the anticipated increase in Goods and Services Tax (GST). Specifically, the GST will be raised from 5% to 7% in July 2007. At the same time, domestic price increases could be partly mitigated by the reduction in road tax and domestic worker levy, as well as the extension of rebates on Service & Conservancy Charges (S&CC) and rentals.

Notwithstanding the fiscal policy changes, price pressures in the economy is expected to be well-contained going forward. Overall wage growth is likely to be subdued at a modest 3.5-4% in 2007. Tuition & school fees¹, which contributed an annual 0.2% point to overall inflation in the last three years, could also rise at a more moderate pace this year as the local universities have frozen tuition fees in view of the impending GST hike. In addition, the persistent fall in the prices of technological products would continue to alleviate some upward price pressures.

MAS would be reviewing its inflation forecasts – currently at 0.5-1.5% – to incorporate the fiscal policy changes. Details would be announced in the upcoming policy review in April 2007.

¹ Subsumed under “Education” in the CPI.

Statistical Appendix

Table A.1
Singapore: Consumer Price Index

	All Items	Food	Clothing & Footwear	Housing	Tpt & Comm	Educ- ion & Stationery	Health Care	Recreation & Others
Weights	10000	2338	357	2126	2176	819	525	1659
	INDEX (2004 = 100)							
2006 Jan	101.1	102.8	98.9	101.3	96.8	103.9	101.0	103.0
Feb	101.3	102.1	100.7	104.0	96.0	103.7	100.9	102.6
Mar	100.9	102.1	102.3	102.4	95.8	103.6	100.9	102.5
Apr	101.5	102.5	102.0	103.8	96.8	103.7	101.2	102.2
May	101.3	102.7	100.9	103.7	96.7	103.6	101.3	101.4
Jun	100.7	102.8	97.4	102.0	95.8	103.6	101.3	101.7
Jul	101.5	103.1	99.9	104.1	96.7	104.0	101.4	101.3
Aug	101.5	103.0	101.8	104.0	96.6	104.1	101.3	101.5
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

Source: Singapore Department of Statistics

Table A.2
Singapore: Selected Inflation Indicators

	CPI	MAS Underlying Index	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH				
2006 Jan	1.7	2.3	7.4	17.5	44.1
Feb	1.2	2.0	7.0	17.9	34.1
Mar	1.2	1.8	5.2	13.9	16.3
Apr	1.1	1.8	5.6	24.5	30.5
May	1.1	1.7	6.1	36.7	39.9
Jun	1.4	1.8	4.4	30.5	25.3
Jul	1.1	1.7	4.1	34.5	29.8
Aug	0.7	1.6	3.1	33.1	19.3
Sep	0.4	1.5	-1.2	31.7	2.8
Oct	0.4	1.3	-2.6	34.1	0.9
Nov	0.5	1.4	-2.3	35.2	8.5
Dec	0.8	1.6	-1.4	31.8	10.1

Source: Singapore Department of Statistics, IMF and Bloomberg