

Inflation Monthly

December 2007

Singapore's Consumer Price Index

	2007	
	November	December
y-o-y (%)	4.2	4.4
m-o-m (%)	0.6	0.5
Index	106.1	106.6

- **Singapore's headline CPI inflation rose to 4.4% y-o-y in December from 4.2% in November**

The MAS underlying inflation measure, which excludes accommodation and private road transport costs, increased to 3.7% in December from 3.5% in the preceding month.

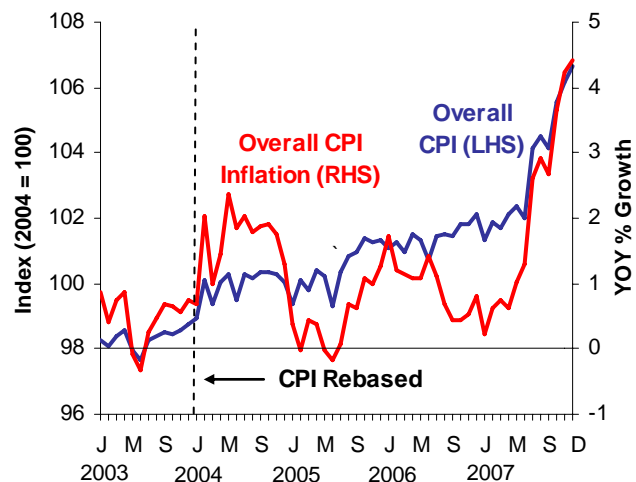
- **On a m-o-m basis, Singapore's headline CPI went up by 0.5%**

The largest contributor to the increase was the cost of transport & communications, which rose by 1.2% m-o-m due to higher prices of cars, petrol and public transport. At the same time, food prices continued to rise at a similar pace as in November.

- **Outlook: Labour market to remain firm**

Job creation remained strong in the last quarter of 2007, resulting in a decade-low unemployment rate. Despite growing concerns of a US-led global economic downturn, the latest manpower surveys show that hiring expectations in the major sectors remain positive, albeit slightly more muted than in Q4 07.

Singapore: CPI and CPI Inflation



Recent Developments in External Inflation

Headline CPI inflation rose year-on-year across all the major economies in Q4 07 due largely to increases in food and energy prices. Core inflation was also higher for most of these economies, with the exception of the Euro Area and the Philippines.

In the US, headline CPI inflation rose by 4.0% y-o-y in Q4, the fastest pace in one and a half years, due to surging food and energy prices. (Chart 1a) Core inflation also inched up to 2.3%, as the costs of medical care, education and communication remained elevated. At the same time, the cost of home ownership (owner's equivalent rent, OER) continued to increase, albeit at a slightly slower pace.

Headline inflation in Japan reached 0.5% y-o-y in Q4, its highest level in five quarters, due to high fresh food prices. Core inflation (ex-fresh food) also rose as energy costs increased sharply. This translated into higher prices for utilities and private transportation.

In the Euro Area, headline CPI inflation came in at 2.9% y-o-y in Q4, the highest since Q2 01. The bulk of the increase came from energy and food prices, which rose by 8.1% and 4.3% respectively. Nonetheless, core inflation remained unchanged at 1.9% in the quarter.

China's CPI inflation accelerated to 6.6% in Q4, from 6.1% in Q3. (Chart 1b) With strong demand aggravating supply-side constraints, energy and food prices continued to climb at a rapid pace despite the price controls. Core inflation, however, was more muted despite also rising from 0.5% in Q3 to 0.9% in Q4, fuelled by higher wages and other costs passed on to consumers. Rising food prices in China, together with price hikes in utilities and strong consumption demand, also added to Hong Kong's inflation, which soared from 1.6% in Q3 to 3.5% in Q4. Taiwan's headline CPI in Q4 jumped to 4.5%, as food prices rose due to severe damage from typhoon Krosa. Higher prices of food and imported oil drove up South Korea's headline inflation to 3.4% in Q4 from 2.3% in Q3.

Thailand's headline inflation was driven up largely by higher energy prices, which surged by 13% in Q4, compared to a 1.4% decline in Q3. (Chart 1c) Core inflation showed a moderate increase from 0.7% to 1.1%, reflecting increased pass-through from commodity to consumer prices. In the Philippines, despite the sustained strength in the peso, headline inflation was pushed up by the increase in global food and energy prices. Both Malaysia's headline and core inflation accelerated during Q4. In particular, food prices stepped up by 1% point to 3.7% in Q4, as food supplies were disrupted by flooding. Indonesia's inflation rose slightly to 6.7% in Q4, from 6.5% in the previous quarter, due primarily to food prices.

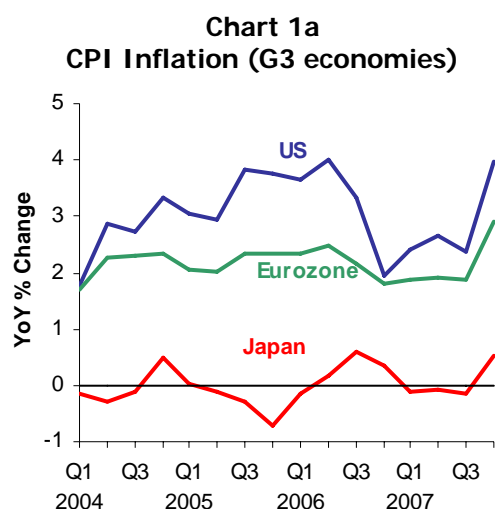


Chart 1b
CPI Inflation (Northeast Asia)

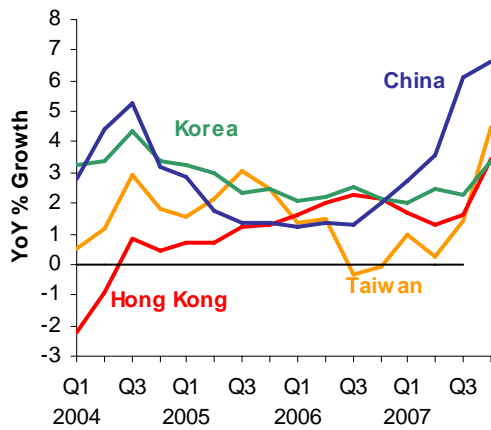


Chart 1c
CPI Inflation (Southeast Asia)

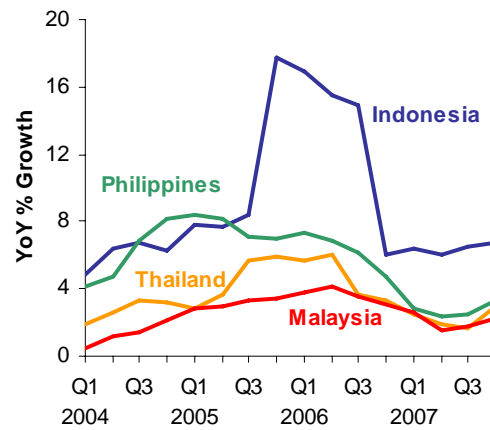


Table 1
External Inflation Indicator

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

Interpretation of Colour Codes:

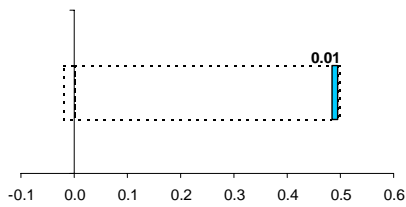
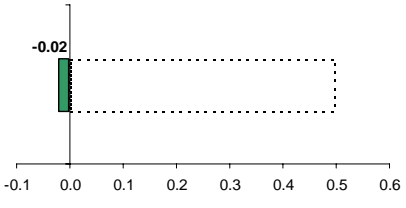
The indicator is based on the change in inflation compared to the preceding quarter in y-o-y terms.

	Inflation accelerating
	No change in inflation
	Inflation decelerating

Recent Developments in Domestic CPI Inflation

Domestic headline CPI inflation rose to 4.4% year-on-year (y-o-y) in December from 4.2% in the previous month, bringing average inflation to 2.1% for the whole of 2007. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – increased to 3.7% in December from 3.5% in the preceding month. For the year, it averaged 2.2%.

% Point Contribution (m-o-m), December 2007	Group	
<p>Legend:</p> <ul style="list-style-type: none"> ■ Transport & Comm ■ Food ■ Recreation & Others ■ Housing ■ Education & Stationery ■ Clothing & Footwear 	Overall (m-o-m)	The CPI rose by 0.5% on a month-on-month (m-o-m) basis. The main contributors to the increase were costs of transport & communications, food, and recreation & others.
	Transport & Communications	The transport & communications index advanced by 1.2% in December, largely reflecting higher taxi fares following the hike in late November. Car prices also rose while pump prices increased following the upward adjustment by petrol companies in end November.
	Food	<p>Non-cooked food prices rose at a similar pace as in November, reflecting the sustained increase in prices of food imports. Notably, meat & poultry prices jumped by 2.4% while vegetable prices rose by a considerable 1.9%. Most other non-cooked food such as dairy products & eggs, fruits and non-alcoholic drinks also saw price increases.</p> <p>At the same time, cooked food prices were raised again in most types of eateries, including hawker centres, restaurants and fast food outlets.</p>
	Recreation & Others	The CPI for recreation & others was lifted by costlier holiday travel and higher salaries for foreign maids. Cost of holiday travel rose by 1.3% in December, driven by more expensive overseas accommodation, packaged tours as well as air fares during the year-end travel season.

	Health-care	Health care costs were marginally higher in December on account of more expensive Chinese medicines & herbs.
	Clothing & Footwear	Clothing & footwear were slightly cheaper in December due to the lower prices of ready-made clothing & accessories.

Outlook

WAGE COST IS LIKELY TO REMAIN FIRM GIVEN POSITIVE LABOUR MARKET OUTLOOK

MOM's preliminary estimates showed that 64,200 jobs were created in Q4 2007, almost matching the record gain in Q2 2007. All the major sectors saw robust job growth in the quarter, particularly services and construction. Correspondingly, the overall seasonally-adjusted unemployment rate fell to a decade low of 1.6%.

Wage growth slowed to 4.3% in Q4, from 6.9% in Q3. This was in part due to easing wage pressures in the real estate segment.

The labour market outlook remains favourable despite some headwinds from the sub-prime crisis and the global economic slowdown. According to the latest manpower surveys, hiring expectations in the major sectors continue to be positive, albeit slightly more muted than those in Q4 2007. In particular, the Hudson report in January showed that only a small proportion of firms in the financial services sector expect some impact of the global credit crunch on their hiring plans. With labour demand remaining generally firm, this could lead to steady wage increases this year.

HEADLINE CPI INFLATION TO COME IN AT 4.5-5.5% IN 2008

In addition to the sustained increase in wage cost, the shortage of commercial space would continue to add to domestic cost pressures. IRAS' revision of the HDB Annual Values would also push up the cost of owner-occupied accommodation.

At the same time, global food prices have risen at an unprecedented pace since Q3 2007 as demand continued to grow rapidly amidst supply constraints. Even in the scenario of a sharp global economic downturn, global food prices are likely to stay firm given that underlying demand and supply conditions remain tight. Similarly, the price of benchmark West Texas Intermediate (WTI) oil continues to tread above US\$90 despite growing concerns over the state of the global, especially the US, economy. With global oil prices remaining elevated, there could be significant pass-through to domestic inflation.

Taking into account these factors and the step-up in the level of domestic prices of food and oil-related items, MAS has revised the CPI inflation forecast from 3.5-4.5% to 4.5-5.5% for 2008.

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)							
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
Sep	104.2	106.9	101.6	103.9	98.7	106.3	107.4	106.3
Oct	105.5	107.5	101.1	106.6	101.0	106.3	107.8	107.2
Nov	106.1	108.6	102.9	107.3	101.1	106.3	108.0	107.8
Dec	106.6	109.3	102.3	107.3	102.3	106.2	108.1	108.3

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				
2007 Jan	0.2	0.9	-5.4	21.3	-13.4
Feb	0.6	1.3	-4.5	20.6	-3.7
Mar	0.7	1.2	-3.5	21.7	1.5
Apr	0.6	1.2	-4.0	19.8	-1.9
May	1.0	1.3	-3.2	11.7	-1.1
Jun	1.3	1.5	-3.4	14.5	3.1
Jul	2.6	2.7	-3.5	12.3	4.0
Aug	2.9	2.8	-3.1	8.5	-0.6
Sep	2.7	3.0	-0.2	12.8	24.3
Oct	3.6	3.2	0.6	11.5	43.6
Nov	4.2	3.5	3.4	9.5	60.6
Dec	4.4	3.7	3.6	7.7	50.4

Source: Singapore Department of Statistics, IMF and Bloomberg