

Inflation Monthly

February 2007



Highlights:

- **Singapore's headline CPI inflation rose to 0.6% y-o-y in February, from 0.2% in the previous month**

The MAS underlying inflation also increased to 1.3% in Feb 2007 from 0.9% in Jan 2007.

- **On a m-o-m basis, the CPI was higher due mainly to accommodation costs**

The CPI went up by 0.6% m-o-m in February due largely to the withdrawal of S&CC rebates, which resulted in higher housing costs. However, lower costs of transport & communications provided some offset.

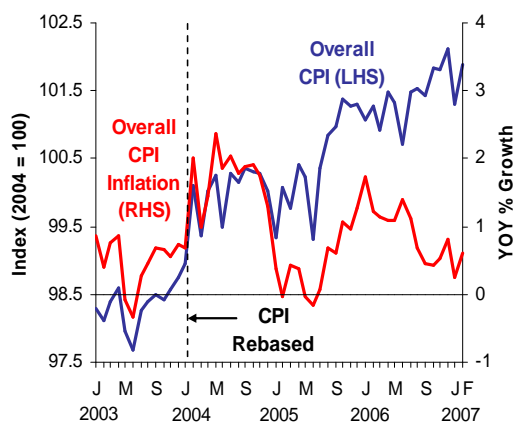
- **Higher global agricultural prices lifted domestic food prices**

Globally, sharply higher wheat and corn prices led to costlier animal feeds. Recently, eggs exporters had started to pass-on the cost increases by raising prices. Going forward, prices of agricultural and other related food products are likely to rise further.

- **CPI inflation to remain at 0.5%-1.5% in 2007**

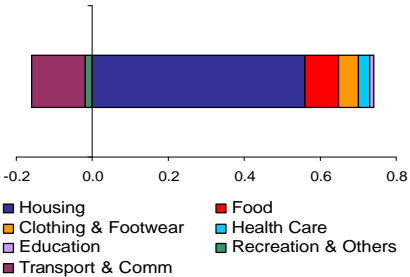
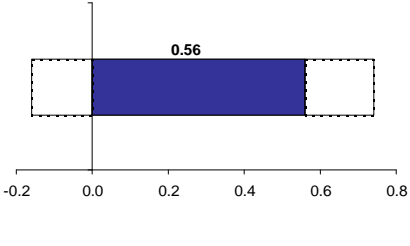
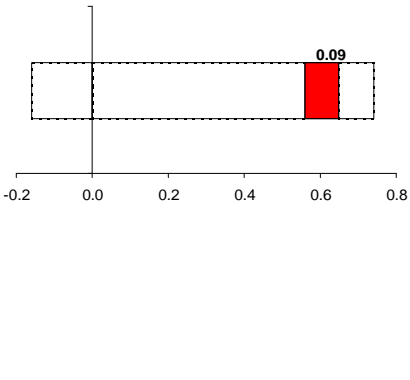
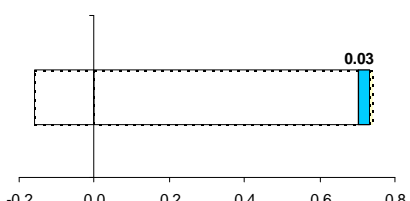
We expect the 2% GST hike to lead to around 0.5% point increase in CPI inflation each year in 2007 and 2008. The full extent of the impact will however be tempered by other offsetting fiscal measures. Overall, CPI inflation in 2007 is expected to remain benign.

Singapore's CPI (2004 = 100)		
% Growth/ Level	Jan 07	Feb 07
y-o-y	0.2	0.6
m-o-m	-0.8	0.6
Index	101.3	101.9

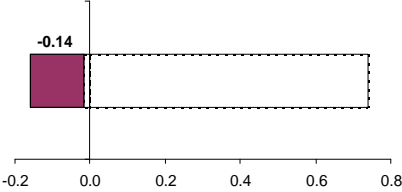


Recent Developments in Domestic CPI Inflation

Domestic headline CPI inflation rose to 0.6% y-o-y in February from 0.2% in the previous month. This brought average inflation to 0.4% for the first two months of 2007. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – also edged up to 1.3% from 0.9% in January. Over the January-February 2007 period, it averaged 1.1.

% Point Contribution, Feb 2007	Group	
 <p>Legend:</p> <ul style="list-style-type: none"> Housing Clothing & Footwear Education Transport & Comm Food Health Care Recreation & Others 	Overall (m-o-m)	On a m-o-m basis, the CPI went up by 0.6% in February due largely to increased housing costs. Lower petrol prices, however, dragged down the costs of transport & communications.
	Housing	The sharp rise in housing costs was due to the withdrawal of Service & Conservancy Charges (S&CC) ¹ rebates, which were given to most HDB households in the previous month.
	Food	<p>Greater demand for food items, such as seafood and meat products, around the Chinese New Year holiday season led to a 0.7% increase in overall non-cooked food prices. Restaurants also raised cooked food prices during the festive season.</p> <p>Vegetables prices, which had spiked up in the last two months due to severe flooding in Malaysia, fell slightly in February after the floods subsided.</p>
	Health Care	In February, some government restructured hospitals raised ward and treatment charges on the basis of higher manpower costs. Overall health care costs consequently went up by 0.6% m-o-m.

¹ For 2007, rebates on S&C charges and HDB rentals are given out in the months of January, March, June, September and December.

	<p>Transport & Communications</p>	<p>Costs of transport and communications declined by 0.7% largely on account of cheaper petrol. This reflected the greater discounts offered by petrol companies as well as previous month's reduction in pump prices.</p>
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Outlook

IMPACT OF HIGHER GLOBAL AGRICULTURAL PRICES IS FILTERING DOWN TO DOMESTIC FOOD PRICES

Food prices are likely to emerge as the dominant contributor to domestic CPI inflation in 2007. In the Sep 2006 issue of the *Inflation Monthly*, we noted that sharply higher corn and wheat prices would lead to costlier animal feeds and consequently dearer poultry and meat products. Domestic prices of eggs imported from Malaysia have already risen sharply for the abovementioned reason. Countries are also encouraging the greater use of renewal biofuel, so prices of agricultural products used in biofuel production, such as sugar, corn and soybeans, will continue to face upward pressure. In addition, dry weather conditions associated with the La Niña phenomenon could hit the US which would lower agricultural production at a time when global inventories are extremely low.

HEADLINE CPI INFLATION TO REMAIN AT 0.5-1.5% IN 2007

The Goods and Services Tax (GST) will be raised from 5% to 7% effective July 2007. This is estimated to add about 0.5% point to baseline CPI inflation each year in 2007 and 2008. The full extent of the impact will however be tempered by other offsetting fiscal measures, such as the reduction in road tax and domestic worker levy, as well as the extension of rebates on S&CC and rentals. These fiscal measures are expected to offset the GST impact on inflation by about 0.2% point each in 2007 and 2008.

Notwithstanding higher food prices and the GST hike, overall inflationary pressures are expected to be well-contained, given lower oil prices and moderate increase in labour costs. Overall, domestic headline CPI inflation is projected to come in at 0.5-1.5% in 2007, similar to the 1% registered in 2006. The MAS underlying inflation, which excludes accommodation and private road transport costs, is expected to be slightly higher at 1-2% in 2007.

(Please see Macroeconomic Review Apr 2007 for more details on the inflation outlook for Singapore. It includes a Special Feature which provides a detailed analysis on the impact of the GST on CPI inflation. The Macroeconomic Review Apr 2007 will be released on MAS' website www.mas.gov.sg on 24 April 2007.)

Statistical Appendix

Table A.1
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 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
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	105.0	102.5	103.7

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 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	34.7	8.5
Dec	0.8	1.6	-1.4	31.2	10.1
2007 Jan	0.2	0.9	-3.1	23.0	-13.4
Feb	0.6	1.3	-1.3	21.9	-3.7

Source: Singapore Department of Statistics, IMF and Bloomberg