

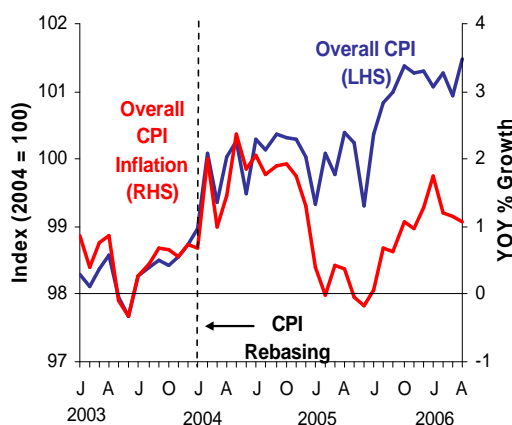
Inflation Monthly

Apr 2006



Domestic CPI Inflation Moderated in April

Singapore's CPI (2004 = 100)		
% Growth/ Level	Mar 06	Apr 06
y-o-y	1.2	1.1
m-o-m	-0.3	0.5
Index	100.9	101.5



- **CPI inflation in G3 and Northeast Asian economies moved higher in April...**

In particular, higher energy prices had a significant impact on consumer prices in the US, Japan and the EU. Looking ahead, the balance of risk has tilted towards somewhat stronger inflationary pressures.

- **... However, Singapore's headline CPI inflation moderated to 1.1%**

Meanwhile, the MAS underlying inflation remained unchanged at 1.8%.

- **On a m-o-m basis, CPI rose by 0.5%, mainly due to higher housing and private road transport costs**

The absence of service & conservancy rebates during the month offset lower electricity tariffs, leading to higher housing costs. Private road transport costs also rose due to a rebound in COE premiums and hikes in petrol prices.

- **Outlook: Domestic price pressures should remain fairly contained**

Although oil prices are expected to remain high, healthy productivity gains will keep domestic unit labour costs subdued. As such, Singapore's CPI inflation is expected to come in at 1-2% in 2006.

Recent Developments in External Inflation

After a prolonged period of low inflation, recent data releases hint at a possible upturn in the global inflation cycle.

In the G3 economies, headline inflation picked up in April (Chart 1a), with energy prices continuing to have a significant impact on utilities and transportation cost. For example, prices of gasoline used for motor vehicles in the US rose by 8.8% month-on-month (m-o-m) or 21.5% year-on-year (y-o-y), while higher energy prices also pushed headline CPI inflation higher in Japan and the EU. In addition, a number of other prices rose, causing core inflation to pick up in the US and EU. For example, mortgages and rents rose in the US, together accounting for half of the increase in core inflation in April. In the EU, the rise in the hotel & restaurant and miscellaneous goods & services components helped to push up overall inflation.

In the Northeast Asian economies, consumer price inflation was higher in April compared to a month earlier, with China and Taiwan seeing the biggest increase. (Chart 1b) Higher prices of food and miscellaneous goods & services appear to be the common factors underpinning inflation during the month. In addition, a variety of other factors added to inflationary pressures, including the jump in housing rents (the biggest since mid-1998) in Hong Kong and higher cost of utilities and transportation in Korea.

Unlike Northeast Asia, both headline and food price inflation receded in Southeast Asia (except Thailand) in April. Malaysia's CPI inflation moderated in April after hitting a seven-year high in March, largely on account of slower food price inflation and a sharp drop in auto prices as a result of a cut in import duties on cars and greater competition amongst car dealers. Moderating food price inflation due to a good rice harvest also helped to bring down Indonesia's headline inflation to a seven-month low of 15.4% in April. In the Philippines, a more moderate rise in fuel prices was the main factor behind the slowdown in CPI inflation, while the spike in transport fares and electricity tariffs contributed to Thailand's increase in both core and headline inflation.

Chart 1a
CPI Inflation (G3 economies)

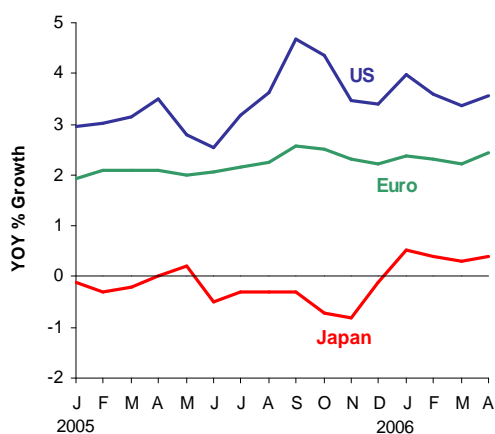
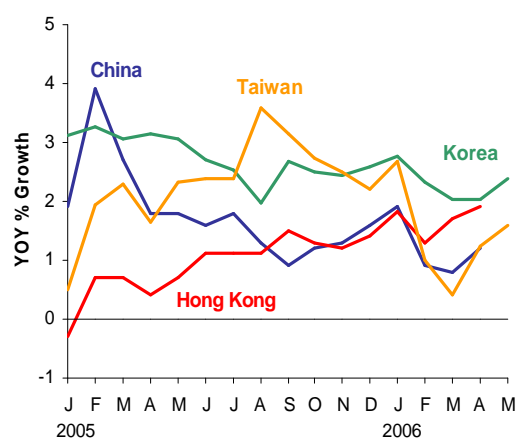
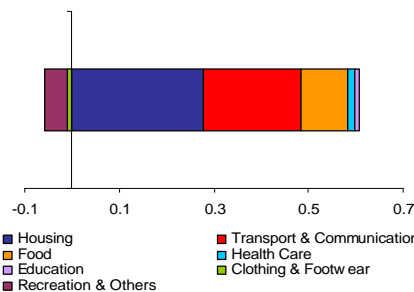
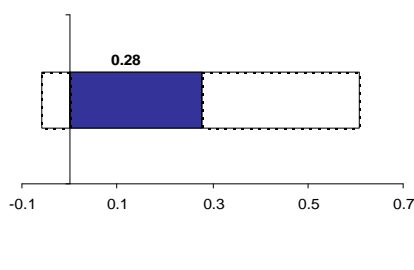
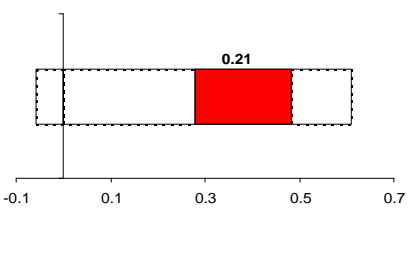


Chart 1b
CPI Inflation (Northeast Asia)



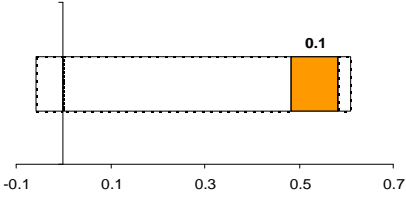
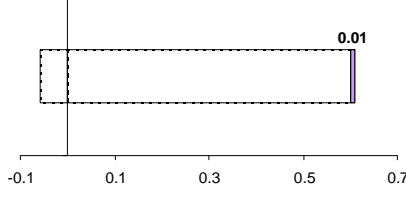
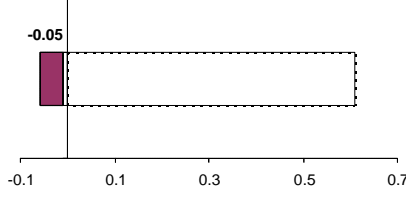
Recent Developments in Domestic CPI Inflation

In comparison to the general trend in the region, headline domestic CPI inflation moderated to 1.1% in April, after coming in at 1.2% in March and February. This brought average inflation for the first four months of 2006 to 1.3%. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – remained unchanged from the previous month at 1.8%. Over the period Jan-Apr 2006, it averaged 2.0%.

% Point Contribution, Apr 2006	Group	
	<p>Overall (m-o-m)</p>	<p>On a m-o-m basis, CPI rose by 0.5% in April, largely driven by the increase in accommodation costs (subsumed under Housing) and private road transport costs (subsumed under Transport and Communication). At the same time, price increases were recorded on other categories including food, health care and education.</p>
	<p>Housing</p>	<p>Housing costs rose by 1.3% and contributed about 0.3% point to the overall m-o-m price increase in April. The rise was mainly due to the absence of rebates for service & conservancy (S&C) charges and HDB flat rents¹, which more than offset the slight reduction in electricity tariffs.</p>
	<p>Transport & Communications</p>	<p>Meanwhile, private road transport costs came in higher on account of more expensive cars and petrol. COE premiums rebounded in early March when LTA announced a reduction in the number of COE available for tender for the Quota Year 2006. This consequently led to car dealers adjusting retail prices upwards in April.²</p> <p>During the month of April, global oil prices continued to rally strongly. The WTI oil prices touched a record high of US\$75.35 per barrel on the back of unfavourable geopolitical events which sparked supply fears. The rise in product costs pressured domestic petrol companies to raise pump prices twice by a total of 16 cents per litre during the month.</p>

¹ For 2006, S&C rebates are given out in the months of January, March, June, September and December.

² 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.

% Point Contribution, Apr 2006	Group	
	Food	<p>Food prices also increased in April. Apart from the seasonal variations in vegetable prices, prices of sugar and confectionery items rose by a significant 3.4% as retailers passed on the increases from surging global sugar prices.</p> <p>Meanwhile, prices of meat & poultry rose due to a jump in duck prices after imports from Perak were banned following an avian flu outbreak in the Malaysian state. Prices of food items in restaurants and fast food outlets also increased, possibly reflecting higher operating costs from electricity, gas charges, and wages.</p>
	Education	<p>The five local polytechnics raised tuition fees by 2.4% in the new academic year beginning in April, contributing to the bulk of the increase in education costs for the month.</p>
	Re-creation & Others	<p>Holiday expenses continued to fall for the fourth consecutive month since the beginning of the year, largely due to the decline in costs of overseas holiday accommodation. This resulted in a 0.3% decline in the costs of recreation & others, which subtracted 0.05% points from the overall m-o-m change in the CPI.</p>

Outlook

UPSIDE RISKS TO OIL PRICES IS COMPOUNDED BY THE HURRICANE SEASON IN THE ATLANTIC

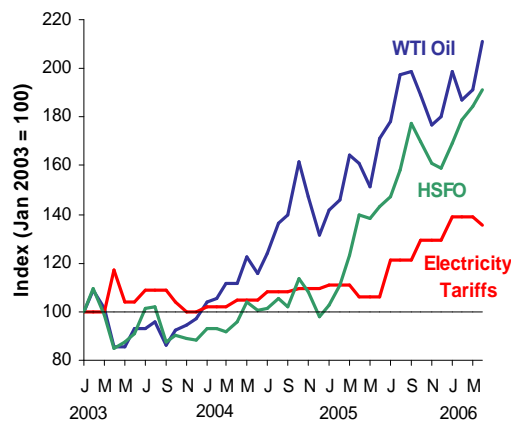
While prices of some non-oil commodities such as base metals have recently fallen in tandem with the plunge in global equities, global oil prices have remained rather sticky downwards. (Chart 2a) After having touched a record high level of US\$75.35 per barrel in April, the WTI oil price remained elevated and averaged US\$71 per barrel in May, as compared to an average price of US\$64.90 per barrel over the period Jan-Apr 2006.

Several key factors look set to continue to influence oil price developments going forward. Global economic growth is expected to remain relatively firm for the rest of the year although some slowdown can be expected. As such, the International Energy Agency (IEA) is expecting global oil demand to grow by 1.24 million barrels per day (mbd) in 2006 compared to last year. Meanwhile, on the supply side, spare production capacity is near historical low levels, implying a thin buffer against major supply disruptions. Supply uncertainties and price volatility are further compounded by continuing geopolitical tensions in the Middle East.

More recently in the US, the Minerals Management Service (MMS) and the Department of Energy (DOE) highlighted the potential risks of reduced production and further spikes in energy prices should severe storms hit oil production facilities in the Gulf of Mexico (GOM) in the coming hurricane season.³

Domestically, CPI inflation in 2006 will be significantly influenced by the developments in oil prices. Already, the recent upswing in oil prices to record high levels in April had resulted in higher fuel costs for electricity production in Q3 2006. Data released by the Market Support Services Licensee, SP Services Ltd, showed that the Payment Reference Price of electricity for Q3 2006 – the basis for residential electricity tariffs calculations – has increased by 6.3%⁴. As such, residential electricity tariffs are expected to rise further in Q3 2006, following the 24% increase since the beginning of 2005. (Chart 2)

Chart 2
High Sulphur Fuel Oil (HSFO) Prices
and Singapore Electricity Tariffs



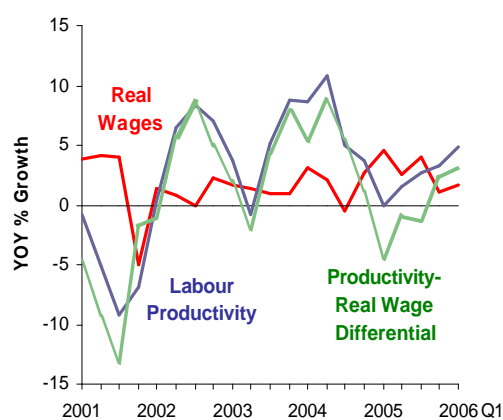
NOMINAL WAGES COULD RISE, BUT ARE EXPECTED TO LAG BEHIND PRODUCTIVITY GAINS IN THE DOMESTIC ECONOMY

Apart from the external costs pressures from high oil prices, there could also be some modest increases in wages amidst healthy employment and robust economic growth. In view of the good economic performance in the past year, as well as the positive prospects for 2006, the National Wage Council (NWC) has recommended companies to reward workers with higher wages and bonuses this year. Nevertheless, the NWC has advised companies to ensure that real wage increases lag behind productivity gains so that the competitiveness of companies would not be undermined. As can be seen in Chart 4, the productivity-real wage differential has been trending up since Q1 2005, indicating that real wage increases have generally been slower relative to productivity growth. Going forward, this trend is likely to continue and unit labour costs should remain subdued.

³ The official hurricane season will last from June to November.

⁴ http://www.mssl.com.sg/vesting_contracts_frameset.htm

Chart 4
Singapore's Labour Productivity Growth, Real Wage Growth
and Productivity-Real Wage Differential



SINGAPORE'S HEADLINE CPI INFLATION TO COME IN AT 1-2% IN 2006

Taking all factors into consideration, headline CPI inflation is expected to come in at 1-2% in 2006, before moderating somewhat in 2007. The MAS underlying inflation measure, which excludes accommodation and private road transport costs, is forecast to come in at 1.5-2% in 2006.

Statistical Appendix

Table A.1
Singapore's 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)							
2005 May	100.2	101.1	99.8	100.5	97.5	101.5	100.2	101.8
Jun	99.3	101.1	96.4	97.4	97.1	101.5	100.3	101.4
Jul	100.4	101.2	96.3	101.9	97.3	102.2	100.5	101.2
Aug	100.8	101.3	99.8	101.9	98.4	102.5	100.5	101.6
Sep	101.0	101.2	99.4	101.4	99.2	102.7	100.6	102.0
Oct	101.4	101.5	100.7	102.7	98.7	102.8	100.8	102.7
Nov	101.3	101.6	102.2	103.0	97.5	102.8	100.9	102.8
Dec	101.3	101.8	100.5	103.0	97.3	102.9	100.7	103.2
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

Source: Singapore Department of Statistics

Table A.2
Selected Inflation Indicators

	Singapore's CPI	MAS Underlying Index	Singapore's Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH				
2005 May	0.0	0.8	3.2	7.2	28.1
Jun	-0.2	0.8	5.1	8.1	49.8
Jul	0.1	1.1	5.9	7.7	46.2
Aug	0.7	1.5	5.3	11.5	43.1
Sep	0.6	1.2	8.1	12.1	44.3
Oct	1.1	1.7	6.6	13.1	20.8
Nov	1.0	1.8	6.6	13.3	32.3
Dec	1.3	2.0	7.4	17.5	46.8
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	24.6	30.5

Source: Singapore Department of Statistics, IMF and Bloomberg