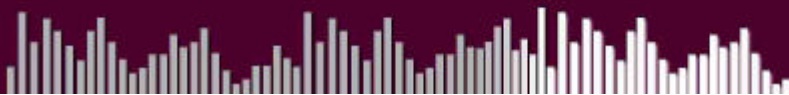


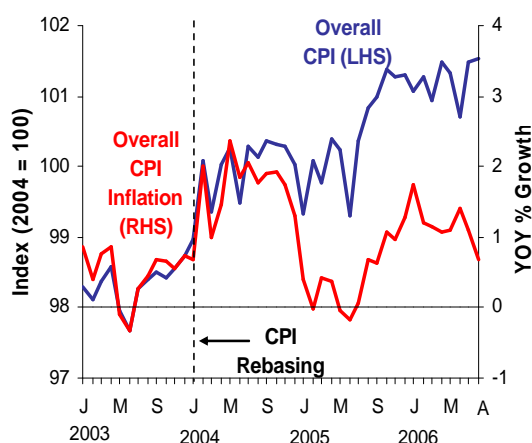
Inflation Monthly

August 2006



Domestic Inflation Eased in August

Singapore's CPI (2004 = 100)		
% Growth/Level	Aug 06	July 06
y-o-y	0.7	1.1
m-o-m	0.0	0.8
Index	101.5	101.5



- **CPI inflation moderated in the US, EU and Southeast Asian economies.**

In comparison, Japan and most other Northeast Asian economies continued to see an uptick in headline inflation.

- **Singapore's headline CPI inflation fell to 0.7% in August**

The MAS underlying inflation also eased to 1.6% in August from 1.7% in the previous month.

- **On a m-o-m basis, the CPI remained unchanged**

The moderate increase in prices of clothing, footwear and personal effects following the end of the Great Singapore Sale was offset by a dip in transport costs, led by lower car and petrol prices. Other consumer prices remained relatively stable, with various price declines offsetting increases.

- **Outlook: Domestic CPI inflation to come in at 0.5-1.5% in 2006 and 2007**

Oil prices have recently fallen to US\$60 per barrel from record high levels of above US\$70 in August. With this pull-back, the direct pass-through into prices of oil-related items could weaken going into 2007. Wage-related price pressures should also be benign, with modest wage growth expected ahead.

Recent Developments in External Inflation

For the month of August, inflation moderated in most economies, with the exception of those in Northeast Asia (excluding Taiwan) and Japan.

In the G3 economies, headline inflation for August eased in the US and the EU but picked up in Japan. (Chart 1a) In the US, headline inflation moderated to 3.8% y-o-y from 4.3% in July, largely due to the slower rise in energy prices. However, core CPI inflation continued to pick up, supported by higher inflation in the housing, food and medical services component. The cost of shelter remained elevated, up 3.8% y-o-y during the month, the fourth consecutive month of greater than 3% increase. In the EU, headline inflation eased to 2.3% y-o-y in August from 2.3% in July as energy prices receded. A decline in core inflation also supported the view that second round effects stemming from earlier increases in energy prices have remained contained so far. In contrast to the US and EU, headline inflation rose in Japan to 0.9% y-o-y in August from 0.3% in July due to stronger increase in food and energy prices. Fresh food prices went up by 16.4% y-o-y in August, the sharpest rise since November 2004, due largely to the rainy season which led to a surge in vegetable prices. Although crude oil prices came down slightly in August, earlier increases have begun to pass through to domestic prices.

Consumer price inflation picked up in most of the Northeast Asian economies, mainly driven by food prices. (Chart 1b) In China, inflation edged up to 1.3% y-o-y in August, from 1.0% in July. In Hong Kong, the composite CPI rose to 2.5% y-o-y in August, the highest level since September 1998, due to higher food prices and rents. In South Korea, both headline and core inflation extended their rising trends, which are likely to continue due to the recovery in consumer spending and the recent increase in food prices. In comparison, headline inflation turning negative in Taiwan, mostly because of base effects stemming from a sharp spike in food price in August 2005. The core inflation remained positive at 0.3% (y-o-y).

In Southeast Asia, consumer price inflation moderated on account of lower energy and food prices. (Chart 1c) In Thailand, CPI inflation decelerated sharply to 3.8% y-o-y in August from 4.4% in July, signaling that cost-push inflation from oil prices is easing. Softening domestic demand and decrease in food prices also dampened inflationary pressure. Indonesia's headline CPI inflation inched slightly lower in August, as sharper increase of rice prices and schooling expenditures were more than offset by lower inflation in processed food, clothing and transportation. In the Philippines, inflation eased marginally to 6.3% y-o-y in August, from 6.4% in July, as oil prices leveled off. In Malaysia, headline CPI Inflation decelerated sharply to 3.3% y-o-y in August from 4.1% y-o-y in July. Most major components of the CPI basket experienced slower growth, with both the clothing and communication components continuing to experience deflation.

Chart 1a
CPI Inflation (G3 economies)

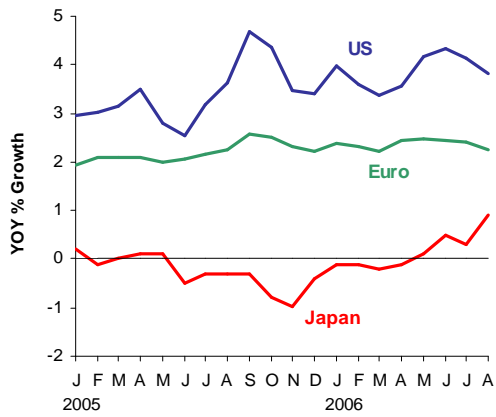


Chart 1b
CPI Inflation (Northeast Asia)

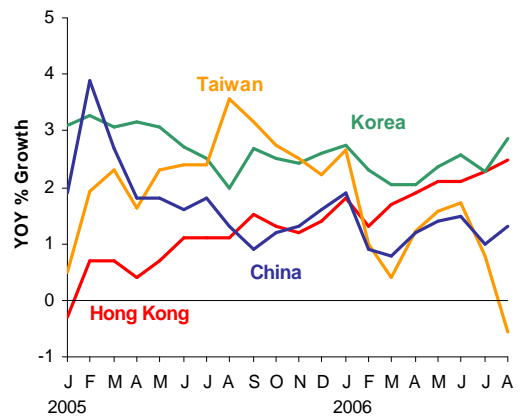


Chart 1c
CPI Inflation (Southeast Asia)

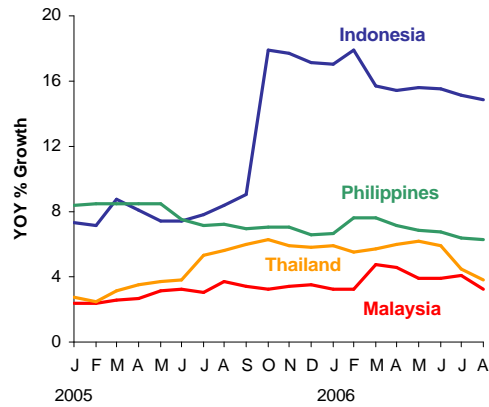


Table 1
External Inflation Indicator

	Overall Inflation	Food & Beverages	Clothing	Transport	Housing	Medical Care	Communication	Recreation	Education
USA	Decrease	Increase	No change	Decrease	Increase	Increase	No change	No change	No change
EU	Decrease	No change	No change	Decrease	No change	No change	No change	No change	No change
Japan	Increase	Increase	No change	Increase	No change	No change	No change	Increase	No change
China	Increase	Increase	Increase	No change	No change	No change	No data available		
Hong Kong	Increase	Increase	Increase	Decrease	No change	No change	No change	No change	No change
Taiwan	Decrease	Decrease	Decrease	Decrease	Increase	Decrease	Decrease	Increase	Increase
Korea	Increase	Increase	No change	Decrease	Increase	No change	Decrease	Decrease	Increase
Malaysia	Decrease	Decrease	No change	Decrease	No change	No change	No change	Decrease	No change
Thailand	Decrease	Decrease	No change	Decrease	Decrease	Decrease	No change	Increase	Increase
Indonesia	Decrease	Decrease	No change	Decrease	Decrease	No change	Decrease	Increase	Increase
Philippines	Decrease	Increase	No change	Decrease	No change	No change	Decrease	No change	No change

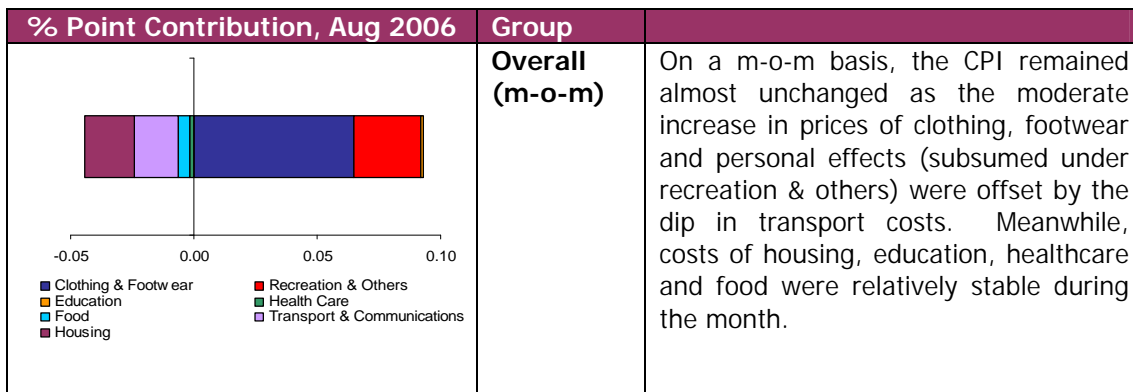
Interpretation of Colour Codes:

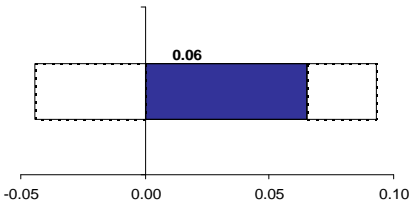
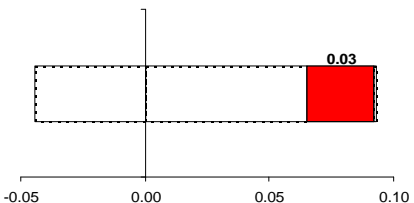
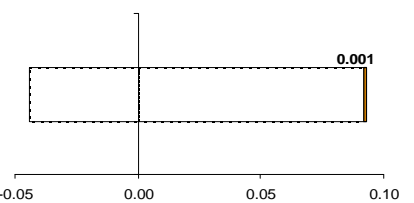
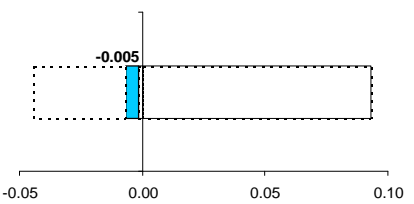
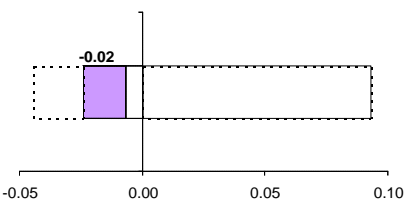
The indicator is based on the change over the past month in percentage-point contribution of individual factors to overall CPI inflation.

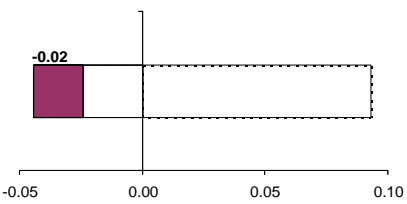
	Increase
	No change
	Decrease

Recent Developments in Domestic CPI Inflation

As with most external economies, headline domestic CPI inflation eased further to 0.7% y-o-y in August, from 1.1% in July and 1.4% in June. This brought average inflation to 1.2% for the first eight months of 2006. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – edged down to 1.6% from 1.7% in the previous month. Over the period January-August 2006, it averaged 1.8%.



% Point Contribution, Aug 2006	Group	
	<p>Clothing & Footwear</p>	<p>Prices of clothing and footwear rose by 1.8% (m-o-m) in August, following a 2.5% (m-o-m) rise in the previous month. On a y-o-y basis, prices were on average 2.9% higher in July and August compared to the same period last year. The rise in prices reflected (a) the end of the Great Singapore Sale (GSS) in July, after which retailers re-adjusted prices back to more normal levels; and (b) the strengthening of consumer demand amidst sanguine economic sentiments.</p>
	<p>Recreation & Others</p>	<p>Similarly, prices of personal effects rose after the GSS. Alcoholic drinks and tobacco also saw price increases during the month. However, the lower cost of personal care (e.g. hairdressing, beauty treatment and cosmetics) provided some offset.</p>
	<p>Education</p>	<p>Education costs increased during the month as local universities raised tuition fees with the start of the new academic year. Nevertheless, the cost increase was offset by the continued decline in the prices of computers and IT accessories.</p>
	<p>Food</p>	<p>Although prices of cooked food continued to edge up, due possibly to the indirect pass-through of energy-related costs, cheaper raw food (rice, seafood, meat & poultry and vegetables) helped to dampen overall food price pressures.</p>
	<p>Transport & Communication</p>	<p>Despite costlier taxi fares, overall transport costs were dragged down by lower car and petrol prices. Car prices fell in August due to lower COE premiums while a slight increase in discounts offered by petrol companies caused petrol prices to dip.</p> <p>Meanwhile, communication costs continued to decline in line with falling prices of telecommunications equipment.</p>

% Point Contribution, Aug 2006	Group	
	Housing	Costs of housing posted a decline due to cheaper household durables as well as lower charges for domestic refuse removal.

Outlook

RECENT RETRACE OF OIL PRICES COULD DAMPEN DOMESTIC INFLATIONARY PRESSURES IN MONTHS AHEAD

From a record high of US\$78.40 per barrel in mid-July, the benchmark WTI crude oil price has retracted to around US\$60 per barrel recently. The rapid shift in market sentiments reflected the unwinding of built-up risk premiums associated with geopolitical tensions and supply uncertainties.

Prices of oil-related items have been a dominant factor influencing domestic CPI inflation since H2 2005. However, with the recent pullback, the direct pass-through to energy-related consumer items (electricity, petrol, gas and LPG) is expected to weaken going into 2007, as these items tend to react more promptly to changes in input prices. For instance, domestic petrol companies have cut pump prices twice by a total of 11 cents in September following the plunge in global oil prices. Electricity tariffs for Q4 2006 are set to rise by a smaller 2.3% (q-o-q), compared to the average quarterly increase of 3.7% over the period Q1 2005 – Q3 2006. Tariffs for Q1 2007, which are determined based on high sulphur fuel oil (HSFO)¹ forward prices in October, could also come in lower with the recent pullback in prices.

In addition, the higher base in H2 2005 implies that the contribution to overall inflation from direct energy-related items would be weaker in H2 2006 compared to H1. It is estimated that direct energy-related items will contribute about 0.4% point to CPI inflation in H2, down from 1.0% point in the first half of the year.

WAGE-RELATED PRICE PRESSURES ARE EXPECTED BE BENIGN DUE TO MODEST WAGE GROWTH

With forward-looking indicators continuing to point to optimism in the job market, wage growth could strengthen going forward, especially in the financial and business services sectors where wage pressures are already building up. But wage growth is still expected to be modest at 3.5%-4% in both 2006 and 2007, compared to 3.5% in 2005. Together with projected productivity growth of around 1.5-2%, the increase in unit labour costs will remain low at around 1.5% in 2007, compared to 0-0.5% this year. As labour costs stay subdued, related price pressures will therefore be contained.

¹ The high sulphur fuel oil (HSFO) is a refined by-product used in the electricity generation process in Singapore. Prices of piped natural gas used for the generation of electricity in Singapore are also pegged to the prices of HSFO.

INCREASED QUOTAS FOR COES COULD LEAD TO A FURTHER DECLINE IN CAR PRICES

Car prices may continue to fall in the months ahead, after subtracting 0.7% point from headline CPI inflation in the first eight months of 2006. In the recent mid-year COE quota review, the LTA has raised the total number of Category A, B and E COE by 18%, prompting many car dealers to slash prices. At the same time, replacement demand is likely to remain sluggish due to the increasingly newer fleet of cars on the road.

SINGAPORE'S HEADLINE CPI INFLATION TO COME IN AT 0.5-1.5% IN 2006 AND 2007

Domestic price pressures are likely to remain fairly tame, with headline inflation for 2007 projected to be in the 0.5-1.5% range, similar to 2006. Meanwhile, the MAS underlying inflation measure, which excludes accommodation and private road transport, is expected to remain within 1-2% in 2007, after averaging 1.8% in the first eight months of this year.

(Please see Macroeconomic Review Oct 2006 for more details on the inflation outlook for Singapore. This semi-annual publication in conjunction with the monetary policy review will be released on MAS' website www.mas.gov.sg on 25th October 2006).

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)							
2005 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
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

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	0.6	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	24.5	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	32.9	19.3

Source: Singapore Department of Statistics, IMF and Bloomberg