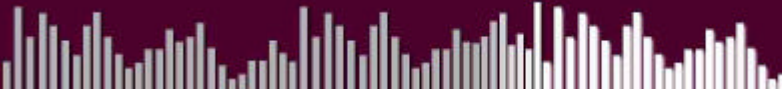


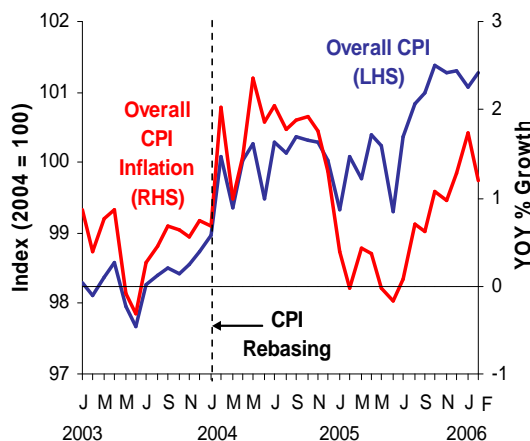
Inflation Monthly

Feb 2006



Oil Prices Remain the Key Influence on CPI Inflation

| CPI (2004 = 100) | | |
|---------------------|--------|--------|
| % Growth/ Level | Jan 06 | Feb 06 |
| y-o-y | 1.7 | 1.2 |
| m-o-m | -0.2 | 0.2 |
| Index | 101.1 | 101.3 |



- **Headline CPI inflation fell to 1.2% in February**

The easing of the headline inflation from 1.7% in January reflected to some extent the “moving holiday effect”. Meanwhile, the MAS underlying inflation also came in lower at 2.0%, down from 2.3% in the previous month.

- **On a m-o-m basis, CPI rose by 0.2%, mainly due to higher housing costs**

As expected, the withdrawal of service & conservancy rebates lifted housing costs, which more than offset declines in costs of private road transport, food and recreation.

- **Pass-through of high oil prices remains the key influential factor**

Global oil prices have sustained at high levels into 2006. As such, the pass-through of high oil prices, directly into energy-related items and indirectly through increasing business operating costs, will continue to be an important factor influencing CPI inflation.

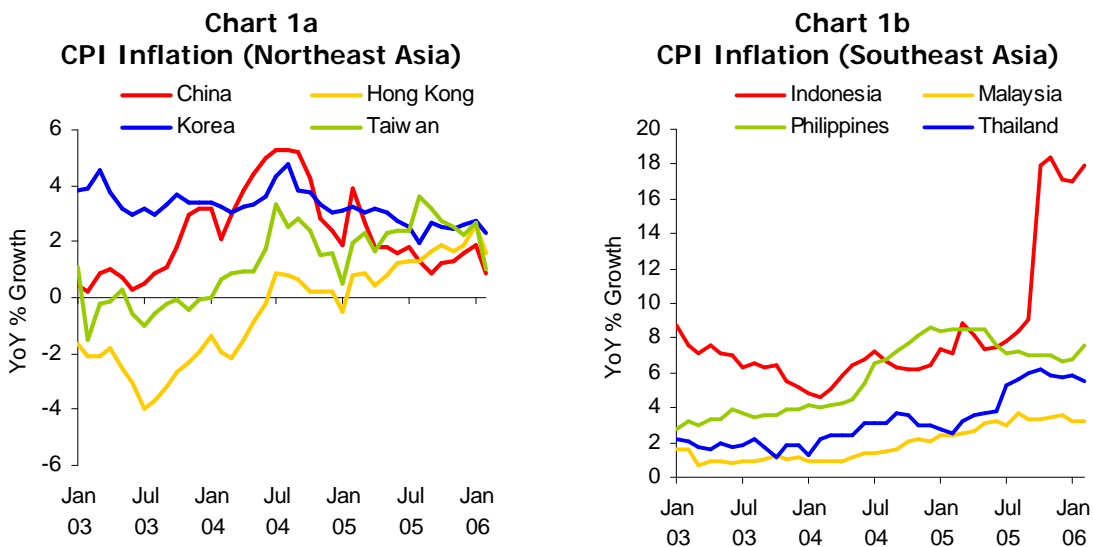
- **CPI inflation is expected to come in at 1-2% in 2006**

Meanwhile, the MAS underlying inflation is projected to be around 1.5-2.0% this year.

Quick Overview of External Price Developments

Energy and food prices dominated February's inflation developments in the major external economies. Headline CPI inflation moderated in the US and EU in February as gasoline and heating oil prices grew at a slower pace, while inflation eased in Japan due to the fall in fresh food prices. Core inflation remained stable in Japan and the EU, and dipped slightly in the US, reflecting well-entrenched inflation expectations and limited pass-through of higher energy prices to other business costs.

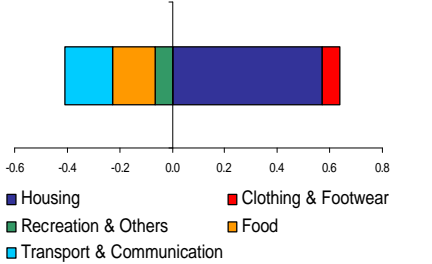
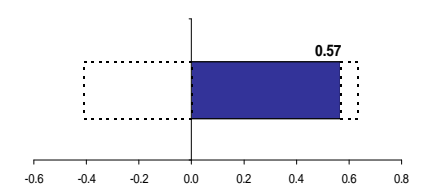
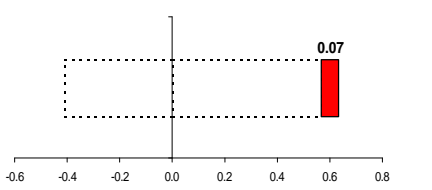
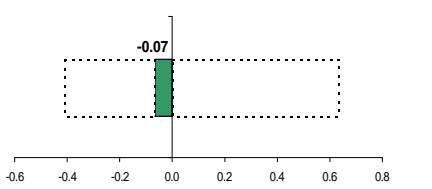
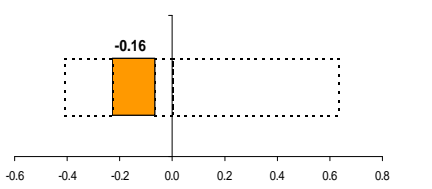
Consumer price inflation also weakened in the Northeast Asian economies (Chart 1a), partly reflecting the "moving holiday effect" as the rise in food prices moderated after the Lunar New Year in January 2006. In Southeast Asia, however, both headline and core CPI inflation accelerated or stayed high due mainly to the continuing impact of earlier rounds of fuel subsidy cuts in Malaysia and Indonesia and the hike in the VAT rate in the Philippines in February 2006. (Chart 1b)



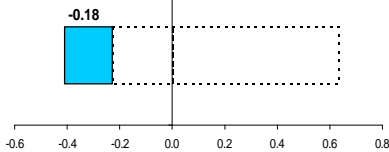
Going forward, tighter resource utilisation is likely to contribute to medium-term inflationary pressures in the major external economies. The unemployment rate has fallen to four-year lows in the US and Germany, a seven-year low in Japan and below 2% in Thailand. Manufacturing capacity utilisation rates have also risen in most of the major external economies.

Recent Developments in Domestic CPI Inflation

Headline CPI inflation moderated to 1.2% in February, after coming in at 1.7% last month. This brought average inflation for the first two months of 2006 to 1.5%. The easing of the headline inflation partly reflected the "moving holiday effect", with the Chinese New Year occurring in February last year but in January this year. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – came in at 2.0%, from 2.3% in the previous month.

| % Pt Contribution, Feb 2006 | Group | |
|---|---------------------------------------|--|
|  | <p>Overall (m-o-m)</p> | <p>On a month-on-month (m-o-m) basis, CPI rose by 0.2% in February, largely driven by the increase in accommodation costs (subsumed under Housing). Prices of clothing & footwear also went up, although overall price pressures were somewhat offset by the decline in food prices and private road transport costs (subsumed under Transport & Communications)</p> |
|  | <p>Housing</p> | <p>Housing costs rose by 2.7% and contributed about 0.6% point to the overall m-o-m price increase in February. This mainly reflected the withdrawal of rebates for service & conservancy (S&C) charges and HDB flat rental¹.</p> <p>At the same time, global oil prices rose further from US\$56.44 in 2005 to an average of US\$63.55 in Jan-Feb 2006. This in turn prompted retailers of LPG to raise product prices again after having recently lifted prices in November 2005, bringing the total hikes to 9.2%.</p> |
|  | <p>Clothing & Footwear</p> | <p>Following the end of festive sales held during the Chinese New Year, prices of clothing and footwear rebounded by 1.9% in February and added 0.1% point to overall m-o-m price increase.</p> |
|  | <p>Recreation & Others</p> | <p>Meanwhile, costs of recreation & others fell and subtracted 0.1% point off overall inflation. This reflected the decline in holiday expenses as prices of both tour packages and overseas accommodation rates moderated somewhat after the peak holiday season.</p> |
|  | <p>Food</p> | <p>As anticipated, food prices fell sharply by 0.7% this month as the effect from the strong seasonal demand for seafood, meat & poultry and vegetables dissipated following the end of Chinese New Year.</p> |

¹ For 2005, S&C rebates are given out in the months of January, March, June, September and December.

| | | |
|---|---------------------------------------|--|
|  | Transport & Communications | <p>With potential car buyers expecting an announcement for a reduction in car ownership taxes in the Budget 2006, car demand weakened in February as buyers withheld purchases, leading COE premiums to fall below \$10,000². Coupled with a dip in petrol prices, private road transport costs fell 1.7%. Overall, the decline in Transport & Communications costs dragged down inflation by 0.2% point.</p> |
|---|---------------------------------------|--|

Outlook

Pass-through of Higher Oil Prices Remains the Key Influential Factor

OIL PRICES STAYED HIGH IN Q1 2006

Global oil prices were sustained at fairly high levels in the first quarter of 2006, with the benchmark WTI oil price averaging US\$63.33 per barrel after coming in at US\$61.54 in H2 2005. Looking ahead, several factors that prevailed in 2005, including firm global demand growth, low spare production capacity and supply uncertainties due to geopolitical instability are likely to continue to influence oil prices for the remainder of this year.

The International Energy Agency (IEA) projects oil demand to increase to 1.47 million barrels per day (bpd) in 2006, compared to 1.05 million bpd in 2005. With fairly modest additions on the supply side, and OPEC spare production capacity at near historical lows, global oil prices will be highly susceptible to shocks. Indeed, global oil prices have since ricocheted upwards to exceed US\$70 could in part be attributed to a slew of unfavourable geopolitical events, which have either reduced production or raised uncertainty in the oil market. The price of the WTI crude oil spiked to an all-time peak of US\$72.17 on 19 April on concerns that the standoff over Iran's nuclear program may lead to a cut of exports from the world's fourth-largest producer. Other disruptions to oil production include militant attacks in Nigeria, the world's eight largest oil producer, and damage to Iraq's northern pipeline.

With oil prices expected to remain high, the pass-through effects into direct energy-related consumer items will provide a firm uplift to overall CPI inflation in 2006, particularly in H1. This partly reflects a comparatively lower "base effect" in the first half of last year as well as sustained high oil prices. Although electricity tariffs for Q2 2006 have been reduced by 2.5%, they are still 27% higher when compared to the same period last year. Meanwhile, petrol prices increased by an average of 12% in Jan-Feb 2006 (Chart 2a); pump quotes were raised by another six cents at the end of March.

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 eventually delivered.

Chart 2a
Electricity and Petrol CPI

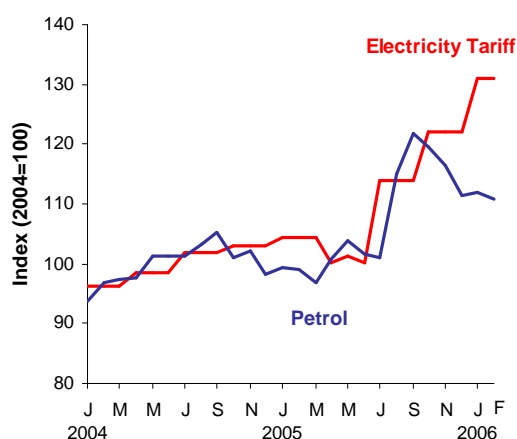
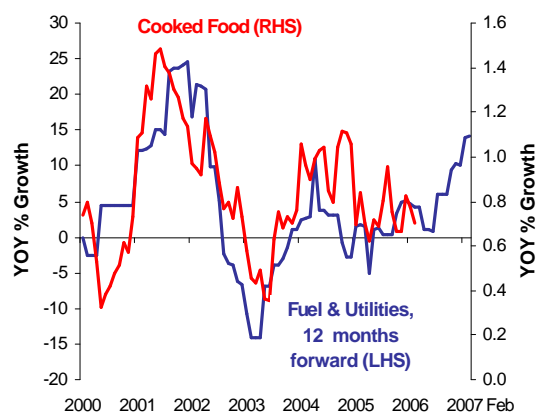


Chart 2b
Fuel & Utilities and Cooked Food CPI



The indirect oil pass-through effects will also continue to contribute to CPI inflation. For instance, diesel prices, which rose by an average of 29% in 2005, were raised further in the beginning of April to a record high of \$1.27 per litre on the back of higher product costs as well as the requirement for the use of costlier ultra-low sulphur diesel. As service providers continue to grapple with increased transportation and electricity costs, they could progressively pass on more of the cost increase to consumers. In addition, the gradual lifting of fuel subsidies in several Asian economies could lead to dearer imports from the region. Already, transport vehicle owners delivering goods from Malaysia to Singapore have raised service charges by some 40% in March this year, following another 23% hike in diesel prices in Malaysia. Coupled with cost increases from the recent rise in gas prices and electricity bills, this could result in more expensive cooked food items in restaurants and hawker centres. (Chart 2b)

EXTERNAL INFLUENCES WOULD NOT BE CONFINED ONLY TO OIL PRICES

Apart from oil prices, other external developments could also influence domestic consumer prices. In particular, domestic food prices can be susceptible to shocks and other external influences at our import sources. For instance, following the avian flu outbreak in Perak which led to a suspension of imports from the Malaysian State in March, domestic duck prices were reported to have jumped by nearly 30% from \$3.50 to about \$4.50 at one point. In addition, the strong demand for oil products such as alcohol fuel ethanol has also driven up sugar prices, as ethanol is derived from sugarcane. Coupled with more expensive coffee beans and higher operating costs, some heartland coffee shops have started to pass on some of the costs pressure by raising the prices of coffee beverages by 10 cents.

DOMESTIC WAGE PRESSURES ARE EXPECTED TO REMAIN WELL CONTAINED

Overall, headline wage growth is likely to remain generally well contained. With the job market expected to remain healthy, nominal wages (including employers' CPF contributions) are likely to see steady growth this year, coming in at an estimated 3-3.5%, compared to 3.5% last year. Along with sustained growth in productivity, unit labour costs are likely to remain fairly subdued, following a decline of 1.5% in 2005.

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

Taking all factors into consideration, including the greater volatility surrounding global oil prices, 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
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 Mar | 99.8 | 100.8 | 101.7 | 99.2 | 96.9 | 101.4 | 100.1 | 101.6 |
| Apr | 100.4 | 101.0 | 102.5 | 100.5 | 98.0 | 101.4 | 100.3 | 101.6 |
| 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 |

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 | | | | |
| 2005 Mar | 0.4 | 1.1 | 4.2 | 9.6 | 53.6 |
| Apr | 0.4 | 1.0 | 5.6 | 6.8 | 53.4 |
| 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 | 16.1 | 44.1 |
| Feb | 1.2 | 2.0 | 7.0 | 16.1 | 34.1 |

Source: Singapore Department of Statistics, IMF and Bloomberg