

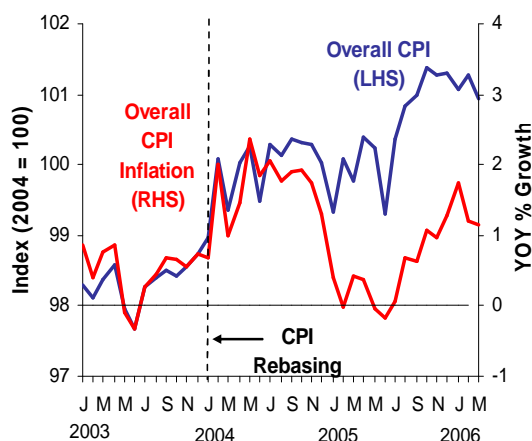
Inflation Monthly

Mar 2006



CPI Inflation Held Steady in March

CPI (2004 = 100)		
% Growth/ Level	Feb 06	Mar 06
y-o-y	1.2	1.2
m-o-m	0.2	-0.3
Index	101.3	100.9



- **Headline CPI inflation remained unchanged at 1.2% in March**

In contrast, the MAS underlying inflation came in lower at 1.8%, down from 2.0% in the previous month.

- **On a m-o-m basis, CPI rose by 0.3%, mainly due to lower housing costs**

Housing costs was lowered by the service & conservancy rebates given out during the month. With the exception of clothing & footwear, prices of all the major CPI categories either declined or remained unchanged from the previous month.

- **Domestic underlying inflationary pressures are expected to be well-contained**

Energy-related items contributed more than half of the 1.4% inflation rate in Q1. Abstracting from oil and policy-related factors, underlying price pressures remained relatively benign.

- **Inflationary risk from oil prices have somewhat evolved**

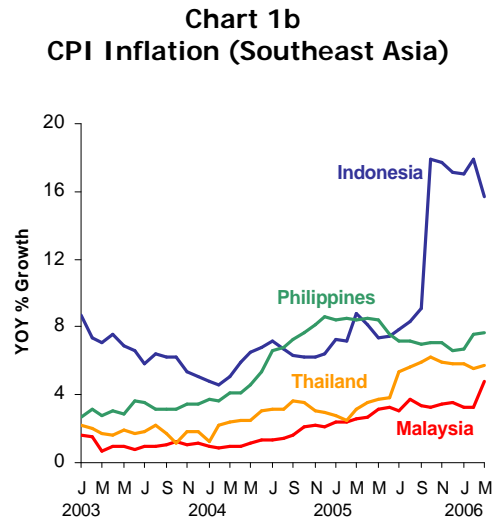
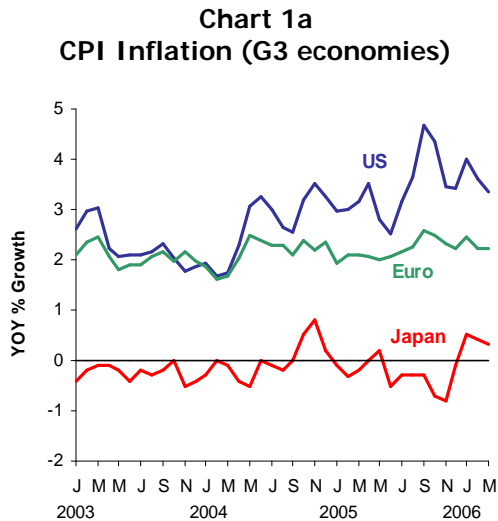
The recent surge in oil prices could be traced more to supply-side shocks, as against strong demand-side pressures in the past few years. As such, the consequences on growth and inflation remain to be seen.

Recent Developments in External Inflation

Energy prices dominated monthly inflation developments in the external economies for the month of March. In the G3 economies, headline inflation on a year-on-year basis (y-o-y) receded slightly as energy prices increased at a much slower pace in March compared to last year. (Chart 1a) Core inflation remained stable in Japan and the EU, but increased slightly in the US, due partly to higher rents.

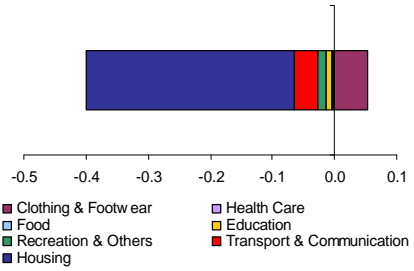
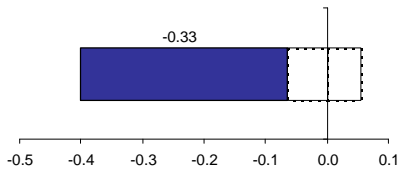
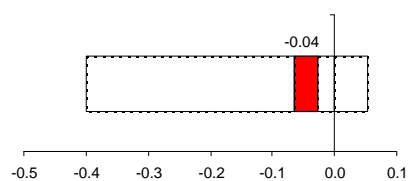
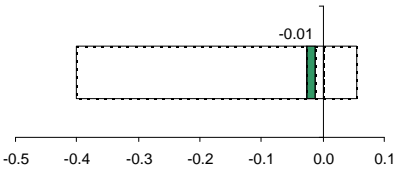
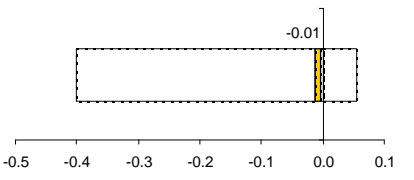
Consumer price inflation continued to slow in the Northeast Asian economies, reflecting not only the slower growth of global oil prices during the month and the limited pass-through of higher production cost, but also tepid domestic demand in Taiwan and the strong Korean won. The only outlier is Hong Kong, where inflation picked up slightly on the back of its economic recovery and higher housing rents.

In Southeast Asia, however, CPI inflation accelerated or stayed high in March. Malaysia hiked fuel prices at the end of Feb 06, pushing March inflation to a seven-year high of 4.8%. The EVAT-hike continued to stoke inflation in the Philippines, while upward adjustment in raw food prices caused inflation to rise in Thailand. Indonesia was the only exception, as the higher base, declining food prices and a stronger rupiah exerted downward pressure on inflation. (Chart 1b)



Recent Developments in Domestic CPI Inflation

Domestic headline CPI inflation remained unchanged at 1.2% in March, bringing average inflation for the first three months of 2006 to 1.4%. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – fell to 1.8%, from 2.0% in the previous month. Over the period Jan-Mar 2006, it averaged 2.1%, up from 1.9% in the last quarter of 2005.

% Pt Contribution, Mar 2006	Group	
 <p data-bbox="263 414 678 515"> ■ Clothing & Footw ear ■ Health Care ■ Food ■ Education ■ Recreation & Others ■ Transport & Communication ■ Housing </p>	<p data-bbox="710 241 884 302">Overall (m-o-m)</p>	<p data-bbox="901 241 1350 526">On a month-on-month (m-o-m) basis, CPI fell by 0.3% in March, driven by the decrease in accommodation costs (subsumed under Housing). With the exception of clothing & footwear, prices of all the major CPI categories either declined or remained unchanged from the previous month.</p>
 <p data-bbox="422 593 518 616">-0.33</p>	<p data-bbox="710 562 884 593">Housing</p>	<p data-bbox="901 562 1350 728">Housing costs fell by 1.5% and contributed to the bulk of the price decrease in March, due mainly to the rebates for service & conservancy (S&C) charges and HDB flat rental¹.</p>
 <p data-bbox="550 806 614 828">-0.04</p>	<p data-bbox="710 770 884 862">Transport & Communication</p>	<p data-bbox="901 770 1350 907">Car prices edged up, but costs of communication fell by 0.9% during the month, sharper than the average monthly decline of 0.1% in 2005.</p> <p data-bbox="901 929 1350 1265">The lower cost was due to the reductions in mobile phone subscription charges as well cheaper communication equipment such as mobile handsets. This reflected the continued improvement in telecommunication technology and competition amongst domestic telecommunication companies to capture subscriber market share.</p>
 <p data-bbox="550 1321 614 1344">-0.01</p>	<p data-bbox="710 1285 884 1355">Recreation & Others</p>	<p data-bbox="901 1285 1350 1579">In March, consumers benefited from more attractively-priced holiday packages offered during the National Association of Travel Agents Singapore (NATAS) travel fair. At the same time, prices of other recreational items such as toys and cosmetics requisites also came in lower.</p>
 <p data-bbox="550 1641 614 1664">-0.01</p>	<p data-bbox="710 1606 884 1637">Education</p>	<p data-bbox="901 1606 1350 1771">Meanwhile, education costs were dragged down by declining computer prices, which more than offset price increases of magazines and books sold.</p>

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

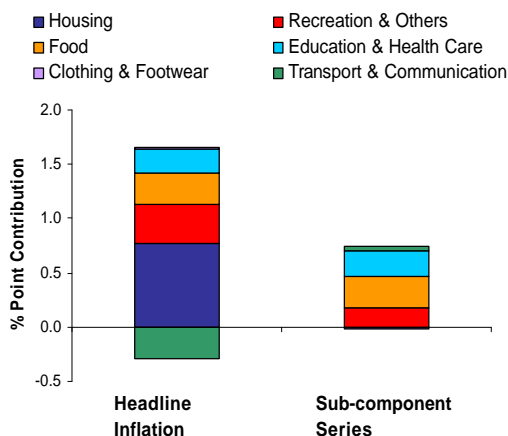
Outlook

Underlying Price Pressure to be Well-Contained Ahead

BENIGN UNDERLYING INFLATION IN Q1 SIGNAL SIMILAR TRENDS AHEAD

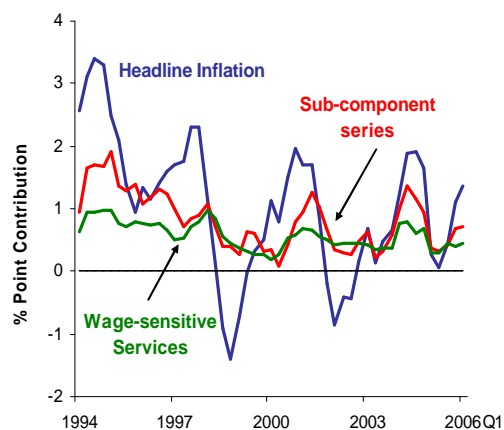
CPI inflation came in at 1.4% in Q1 2006, up from an average of 1.1% in the final quarter of 2005. A closer look at the various major categories of the CPI basket (the left bar in Chart 2a) revealed that the bulk of the price pressures came from the housing component. Such a significant increase in housing costs can largely be explained by the pass-through effects of higher oil prices, which saw service providers of electricity, LPG and gas (items subsumed under housing) hike charges considerably in H2 2005 and Q1 2006. (See *Apr 06 Macroeconomic Review* for more details on this). These energy-related items, along with petrol (subsumed under transport & communications) contributed a hefty 1.0% point to overall inflation in Q1.

Chart 2a
% Point Contribution (y-o-y), Q1 2006,
CPI Inflation vs. Sub-component Series
of the CPI *



* Headline CPI inflation excluding accommodation costs, private road transport costs, prices of energy-related items and prices of alcoholic drinks & tobacco.

Chart 2b
CPI Inflation, Sub-component Series of
the CPI and % Point Contribution from
Wage-sensitive Services*,



* Wage-related components include cooked food, public road transport, tuition & other fees, medical treatment and dental treatment.

Indeed soaring oil prices over the past few years have dominated developments in the CPI, and will continue to be an important influence on overall CPI inflation going forward. Nevertheless, it would be useful to take stock of the price behaviour of the other non oil-related and non policy-influenced items in the CPI basket, to obtain a better idea of the underlying price pressures in the economy. To examine this, the contribution of components driven by exogenous factors such as the direct energy-related items, along with other policy-influenced items such as alcoholic drinks and tobacco prices, accommodation costs and private road transport costs² are excluded from the headline CPI inflation to form a sub-component series.

As shown in Chart 2a, this sub-components series of the CPI came in at 0.7%, compared to 1.4% for the headline inflation. Taking a longer term perspective, the series appears to be relatively well-contained in Q1 2006 and remained lower than the historical average of 0.8% over the period 1994–2005. (Chart 2b) In comparison, it measured 1.4% during its most

² Accommodation costs, alcoholic drinks & tobacco and private road transport costs are considered policy-influenced components for the following reasons: Accommodation costs are influenced by the administration of rebates on S&C charges and HDB rentals while changes in the government's tax policy tend to affect prices of alcoholic drinks & tobacco. Meanwhile, changes in car prices can in part to be attributed to changes in the supply of COEs.

recent peak in Q2 2004 during the post-SARS economic recovery, as well as during the strong growth years of 1994-96 prior to the Asian financial crisis.

Against the backdrop of an improving economy and strong job creation last year, there have been concerns about wage pressures translating into higher consumer price inflation. To examine this, the inflation contribution of some of the wage-sensitive services items in the CPI basket, such as cooked food, public road transport, tuition & other fees, medical treatment and dental treatment are computed. As shown in Chart 2b, wage-sensitive services in the CPI basket contributed about 0.4% points to inflation in both Q1 2006 and 2005 as a whole. This is relatively mild compared to the recent peak of 0.8% points in Q2 2004, as well as for the period 1994-1996.

Looking ahead, the growth momentum and job creation in the economy is expected to remain buoyant. As such, the underlying price pressure in the economy could pick up somewhat on the back of firming consumer and business demand, rising operating costs and moderate wage growth. Nevertheless, as suggested by the recent trends in the sub-components series of the CPI, domestic inflationary pressures are likely to be well-contained, as the effects of globalisation and business competition moderate some of the costs pressures.

INFLATIONARY RISK FROM OIL PRICES HAS SOMEWHAT EVOLVED

In February's *Inflation Monthly* as well as our semi-annual *Macroeconomic Review of April 2006*, we highlighted the upside risks to oil prices, underpinned by strong oil demand, low excess production capacity and geopolitical influences. Indeed, global oil prices continued to surge in April, with WTI oil prices surpassing US\$75 on the back of political tensions surrounding Iran's nuclear ambitions and continued disruption to Nigeria's oil exports. In addition, speculative trading in commodities has also fuelled the surge.

Meanwhile, spare capacity at OPEC, which has fallen to less than two million barrels a day from about six million barrels in 2002, now accounts for only about 2% of world demand. With a small buffer production capacity and shortage of refinery, the International Energy Agency (IEA) recently reported that oil prices is expected to be sustained at high levels for the next four to five years.

However, it remains to be seen if the current spurt in oil prices would have a negative impact on global economic growth, or would its impact be reflected largely as inflationary consequences. While the global economy proved resilient to the increase in oil prices last year, this reflected in part strong demand-side pressures, particularly from the US and China. In comparison, the current surge in oil prices could be traced more to supply-side shocks, and as such, the consequences on growth and inflation could be somewhat different.

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

Taking all factors into consideration, including the upside risks from global oil, headline CPI inflation is expected to come in at 1-2% in 2006. 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 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
Mar	100.9	102.1	102.3	102.4	95.8	103.6	100.9	102.5

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					
2005 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
Mar	1.2	1.8	5.2	11.4	16.3

Source: Singapore Department of Statistics, IMF and Bloomberg