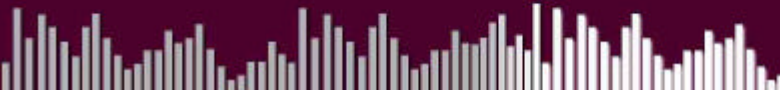


Inflation Monthly

January 2007



Highlights:

- **Singapore's headline CPI inflation eased to 0.3% y-o-y in January, from 0.8% in the previous month**

The MAS underlying inflation also dropped from 1.6% in Dec 2006 to 0.9% in Jan 2007.

- **On a y-o-y basis, inflation moderated largely due to lower electricity tariffs**

Electricity tariffs for Q1 2007 are determined by forward fuel prices and exchange rates quoted in October 2006. Although forward fuel prices in US\$ terms were higher in October 2006 compared to a year earlier, the stronger S\$ translated into a decline in forward fuel prices in local currency terms. Accordingly, electricity tariffs in Q1 2007 were significantly lower on a y-o-y basis.

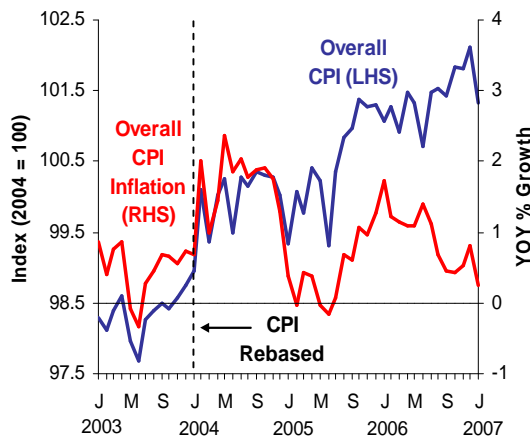
- **On a m-o-m basis, the CPI was dragged down by accommodation and transport costs**

S&CC rebates and lower electricity tariffs contributed to the bulk of the fall in the CPI. Cars and holiday travels were also cheaper.

- **Outlook: Modest wage growth suggests limited price pressures ahead**

Job creation is expected to moderate somewhat in 2007. Wage growth is also expected to remain modest for the year.

Singapore's CPI (2004 = 100)		
% Growth/ Level	Dec 06	Jan 07
y-o-y	0.8	0.3
m-o-m	0.3	-0.8
Index	102.1	101.3



Recent Developments in Domestic CPI Inflation¹

Domestic headline CPI inflation moderated to 0.3% y-o-y in January from 0.8% in the previous month. Meanwhile, the MAS underlying inflation measure – which excludes accommodation and private road transport costs – also came in lower at 0.9% in January, compared to 1.6% in December 2006.

As shown in Chart 1 below, the fall in the CPI inflation was largely attributed to the decline in housing costs which, in turn, was mainly due to the 4.8% y-o-y downward adjustment in electricity tariffs for Q1 2007. Tariffs for Q1 2007 were pegged to forward fuel prices in October 2006, which were 0.2% higher in US\$ terms but 6.5% lower in S\$ terms compared to a year ago. (Table 1)

Chart 1
% Point Contribution to CPI Change (y-o-y),
Dec 2006 vs. Jan 2007

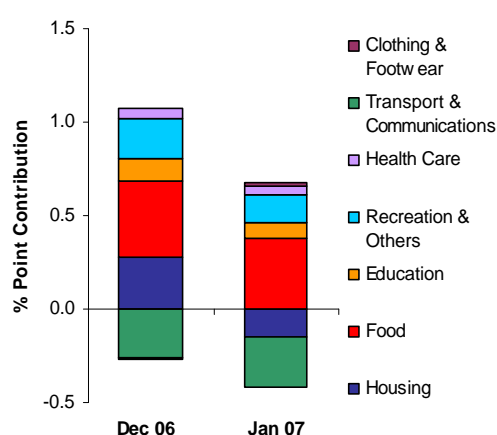
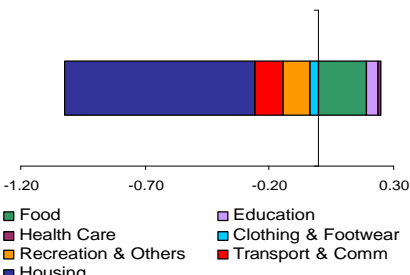
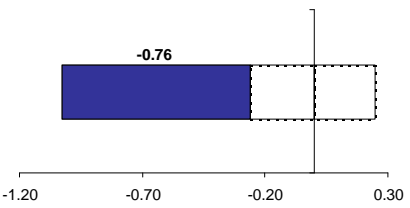
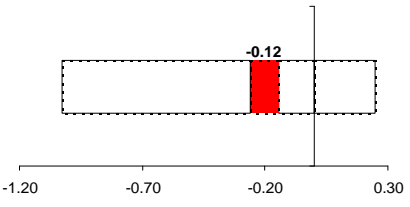
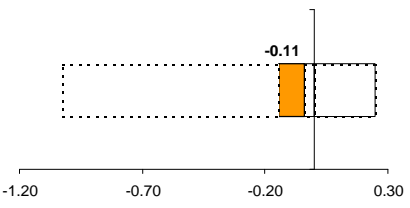


Table 1
High Sulphur Fuel Oil (HSFO) Prices, S\$/US\$ Exchange Rate
and Residential Electricity Tariffs

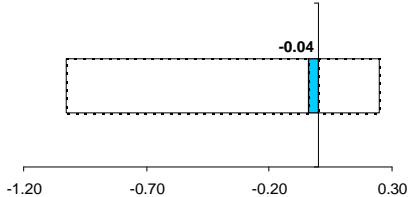
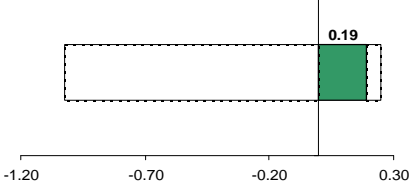
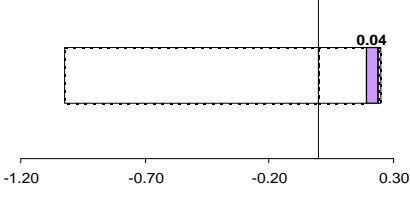
Quarter	HSFO Prices (US\$/barrel)	Exchange Rate (S\$/US\$)	HSFO Prices (S\$/barrel)	Residential Electricity Tariffs (S¢/kWh)
Q1 2005	31.74	0.5965	53.21	16.73
Q2 2005	30.55	0.6113	49.98	16.06
Q3 2005	39.32	0.6062	64.87	18.26
Q4 2005	43.34	0.5961	72.71	19.57
Q1 2006	48.07	0.5937	80.97	21.02
Q2 2006	49.86	0.6138	81.22	20.49
Q3 2006	54.80	0.6263	87.50	21.15
Q4 2006	56.12	0.6340	88.52	21.64
Q1 2007	48.16	0.6360	75.73	20.02

Source: SP Services Ltd

¹ Starting from this issue of the Inflation Monthly, the section on "Recent Developments in External Inflation" will only appear in the last issue of each quarter, i.e. March, June, September and December.

% Point Contribution, Jan 2007	Group	
 <p data-bbox="268 450 679 521"> Legend: Food (Green), Education (Purple) Health Care (Dark Blue), Clothing & Footwear (Cyan) Recreation & Others (Orange), Transport & Comm (Red) Housing (Dark Blue) </p>	<p data-bbox="708 237 858 297">Overall (m-o-m)</p>	<p data-bbox="873 237 1351 423">On a m-o-m basis, the CPI fell by a considerable 0.8% in January, led by a significant decline in housing costs. Costs of transport & communications, recreation & others and clothing & footwear also came in lower.</p>
	<p data-bbox="708 539 823 573">Housing</p>	<p data-bbox="873 539 1351 920">The sharp drop in housing costs was largely due to the administration of rebates on Service & Conservancy Charges (S&CC) in January. Rebates were offered to all HDB households regardless of flat size in January, while only selected household types were given rebates in other months. Consequently, the drag on inflation from rebates on accommodation costs tends to be larger in January than in other months.</p> <p data-bbox="873 958 1351 1084">At the same time, electricity tariffs for Q1 2007 were revised downward by 7.5% - the largest quarter-on-quarter decline since May 2003.</p>
	<p data-bbox="708 1122 847 1247">Transport & Communications</p>	<p data-bbox="873 1122 1351 1406">Private road transport costs decreased by 1.3% due to both cheaper cars and petrol. Lower COE premiums in December translated into weaker car prices in January². Domestic petrol pump prices were also reduced by five to six cents (about 3%), reflecting the 13% plunge in the benchmark WTI oil price during the month.</p>
	<p data-bbox="708 1442 820 1536">Recreation & Others</p>	<p data-bbox="873 1442 1351 1628">Following the end of the holiday season, costs of both tour packages and overseas holiday accommodation fell. Prices of personal effects (e.g. watches and jewellery) also came in lower.</p>

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.

	<p>Clothing & Footwear</p>	<p>Prices of clothing & footwear posted a 1.2% decline in January, after having fallen by a similar magnitude in the previous month.</p>
	<p>Food</p>	<p>Overall food prices rose for the tenth consecutive month, with sharp increases in the price of vegetables and seafood.</p> <p>A second wave of floods in Malaysia further disrupted food supplies to Singapore in January, resulting in a 7.6% surge in vegetable prices. This followed a substantial 3.4% rise in the previous month. The floods also raised seafood prices, which were already on the uptrend.</p> <p>Meanwhile, price increases were also recorded for meat & poultry, dairy products & eggs, cooking oils & fats and sugar, preserves & confectionery.</p>
	<p>Education</p>	<p>Education costs were lifted by the upward revision in fees at commercial institutions, nurseries and kindergartens. However, the price of personal computers continued its downward trend.</p>

Outlook

MODEST WAGE GROWTH EXPECTATION IS LIKELY TO LEAD TO BENIGN PRICE PRESSURES AHEAD

The strong performance of the domestic economy in 2006 led to a record 176,000 jobs created during the year. Notably, the job gains for locals hit a new high of 90,900 in 2006. Despite the strong economic performance and robust employment gains, overall wage growth remained modest at 3.2% in 2006. (Chart 2a) The subdued wage growth could be due to a number of reasons, including the competitive pressures posed by cheap labour in emerging economies, notably China and India. For Singapore's case, our open foreign labour policy also helped to ease the tight labour market and contain wage pressures. The subdued wage growth has, in turn, contributed in part to the benign consumer price inflation, as shown in Chart 2b.

Chart 2a
Real GDP and Nominal Wage Growth

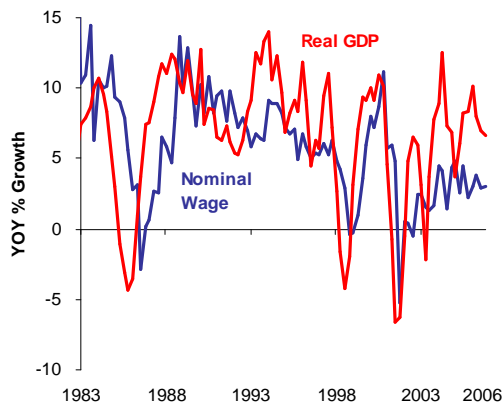
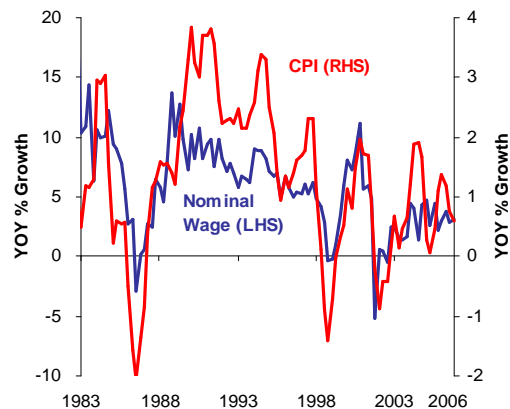


Chart 2b
Nominal Wage Growth and CPI Inflation



Looking ahead, the job creation momentum is expected to carry over into 2007, albeit at a slower pace as economic activity moderates. Wage cost is thus expected to continue to rise at a modest pace in 2007 even as the increase in employer's CPF contribution rate kicks-in on July.

INFLATIONARY PRESSURES LIKELY TO REMAIN CONTAINED

The Ministry of Finance recently unveiled Budget 2007, which includes the details of the anticipated increase in Goods and Services Tax (GST) as well as several policy changes that would have an impact on domestic price pressures. Specifically, the GST will be raised from 5% to 7% from July 2007 which would lead to higher CPI inflation in both 2007 and 2008. At the same time, however, domestic price increases could be partly mitigated by the reduction in road tax and domestic worker levy as well as the extension of rebates on S&CC and rentals.

Notwithstanding the new fiscal policy changes, price pressures in the economy are expected to be well-contained going forward. In addition to modest wage growth, the persistent fall in the prices of technology products would continue to alleviate the upward pressures on consumer prices.

MAS would be reviewing its CPI inflation forecast to incorporate the fiscal policy changes. Details would be announced in the upcoming policy review in 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 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
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

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 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	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	0.3	0.9	-3.1	22.9	-13.4

Source: Singapore Department of Statistics, IMF and Bloomberg