



## Inflation Monthly

January 2008

### Singapore's Consumer Price Index

	December 2007	January 2008
y-o-y (%)	4.4	6.6
m-o-m (%)	0.5	1.3
Index	106.6	111.5

- Singapore's headline CPI inflation rose to 6.6% y-o-y in January 2008 from 4.4% in December 2007**

The MAS underlying inflation measure, which excludes accommodation and private road transport costs, increased to 5.0% in January from 3.7% in the preceding month.

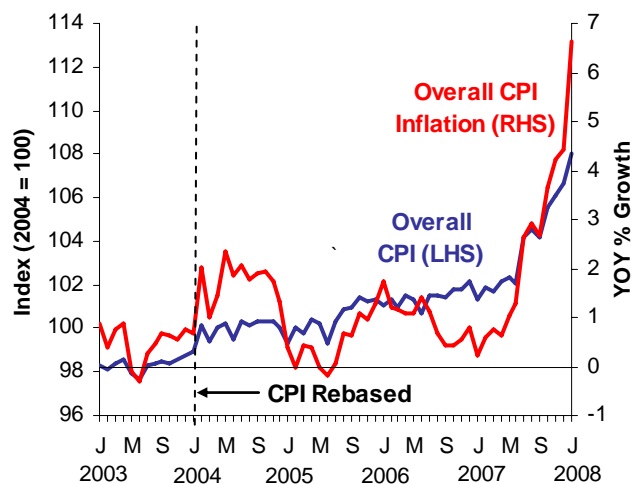
- On a m-o-m basis, Singapore's CPI increased by 1.3%**

Almost all major categories of the CPI increased during the month. The main contributor to inflation was housing costs, which rose by 1.1%, mainly due to the withdrawal of S&CC rebates. Domestic food prices also rose sharply ahead of Chinese New Year in early February, as well as on account of the sustained increase in global food prices.

- Changes in government policy will affect private transport cost in 2008**

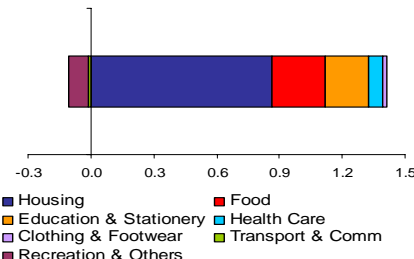
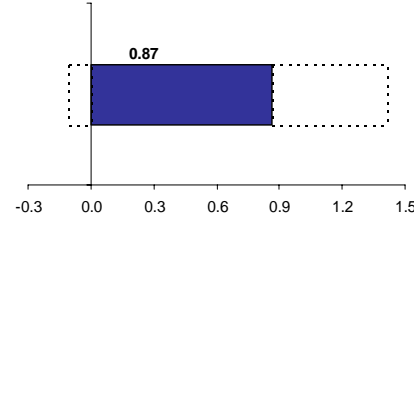
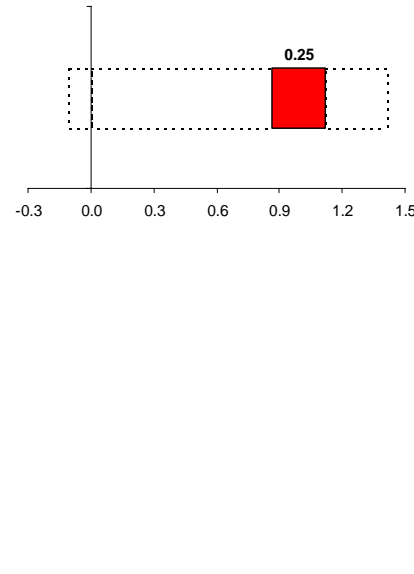
A number of policy changes relating to the cost of car purchase/usage were announced recently. While the road tax and ARF were cut, ERP charges will be raised and COE supply was reduced.

### Singapore: CPI and CPI Inflation



## Recent Developments in Domestic CPI Inflation

Domestic headline CPI inflation rose to 6.6% year-on-year (y-o-y) in January 2008 from 4.4% in the previous month, bringing average inflation to 2.6% in the last 12 months. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – increased to 5.0% in January 2008 from 3.7% in the preceding month. For the past 12 months, it averaged 2.5%.

% Point Contribution (m-o-m), January 2008	Group	
	<b>Overall (m-o-m)</b>	The CPI rose by 1.3% on a month-on-month (m-o-m) basis in January, with almost all major categories of the CPI registering price increases. The main contributors to the increase were the costs of housing, food and education & stationery.
	<b>Housing</b>	Housing costs were 1.1% higher in January due to several factors. First, there were no S&CC rebates given in January 2008 – the previous one was administered in December 2007 <sup>1</sup> . Second, electricity tariffs for Q1 2008 were raised by 5.8% (q-o-q) following the surge in global oil prices in the previous quarter, which led to higher production costs for electricity generation companies. Third, the cost of both owner-occupied and rented accommodation edged up significantly.
	<b>Food</b>	<p>Non-cooked food prices went up by 1.3% in January, led by significant price increases of seafood, meat &amp; poultry, rice &amp; other cereals and dairy products &amp; eggs. This was largely due to higher demand in the period leading up to Chinese New Year in early February.</p> <p>Domestic prices of cooking oil and fats also rose considerably, by 2.4% in January, after surging by 16% in the past year, due to the persistent increase in global prices of palm oil, soy oil and other biofuel types.</p> <p>At the same time, cooked food prices were raised in most types of eateries, including hawker centres, restaurants</p>

<sup>1</sup> For 2008, rebates on S&C charges and HDB rentals will be given out in the months of March, June, September and December. For more details on the schedule of rebates, please refer to: [http://www.mof.gov.sg/budget\\_2007/budget\\_speech/downloads/FY2007\\_Schedule\\_of\\_Rebates.pdf](http://www.mof.gov.sg/budget_2007/budget_speech/downloads/FY2007_Schedule_of_Rebates.pdf)

		and fast food outlets.
	<b>Education &amp; Stationery</b>	Costs of education & stationery were lifted by fee increases at commercial institutions and child care centres at the start of the year.
	<b>Health-care</b>	Health care costs were higher in January as private institutions raised charges for medical and dental treatment.
	<b>Recreation &amp; Others</b>	The CPI for recreation & others was dragged down by the decline in the costs of holiday travel after the year-end holiday season. The latter more than offset the price increases in personal effects, household services and recreational services.

## Changes in Government Policy Will Affect Private Transport Cost in 2008

The government recently announced some significant changes to the road transport policy. While some of these changes would help to reduce the upfront cost of car ownership, others would increase car usage costs. Below, we highlight some of these changes:

### 1. Reduction in road tax by 15%

As part of its policy to shift towards taxing vehicle usage as opposed to ownership, LTA will reduce road tax by 15% for all vehicles with effect from July. This followed from the 8% cut in September last year. Cost savings for a 1,600 cc car, for example, will amount to \$200 compared to a year ago and \$130 compared to six months ago.

### 2. Lower Additional Registration Fee (ARF) at 100% of Open Market Value (OMV)

In addition, LTA will lower the ARF from 110% to 100% of the OMV<sup>2</sup> of a car from March. The ARF is the main car tax and usually constitutes around 30% of the selling price of a car without COE. As an example, a 1,600 cc Japanese car can cost around \$2,000 less with this change.

### 3. Hike in Electronic Road Pricing (ERP) charges

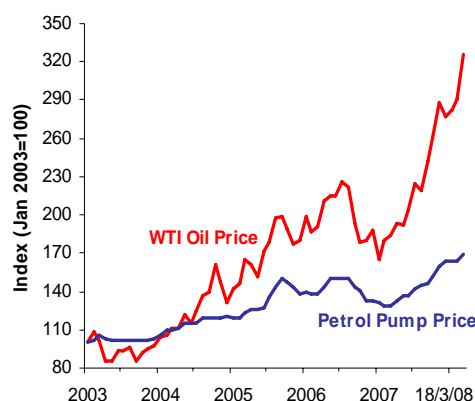
LTA announced that 16 new ERP gantries will be activated this year on a staggered timeline - five in April, five in July and the remaining six in November – bringing the total number of gantries to

<sup>2</sup> OMV is assessed by the Singapore Customs, taking into account the purchase price, freight, insurance, handling and all other charges incidental to the sale and delivery of the car from country of manufacture to Singapore.

71 by year end. Further, ERP rates will go up in increments of \$1 instead of the usual \$0.50, while the base ERP rate will be \$2 instead of \$1.

On top of higher ERP charges, car usage cost may also rise on the back of higher petrol prices this year. Since January, the WTI benchmark oil price had rallied by more than 12% to reach a record high of US\$111.80 a barrel on 14 March. In reaction to higher crude oil prices, petrol stations in Singapore raised pump prices by eight cents in March to about S\$2.086 a litre, a 33% increase from a year ago. (Chart 1)

**Chart 1**  
**WTI Oil Price and Petrol Pump Price in Singapore**



#### 4. A lower supply of Certificates of Entitlement (COE)

The total number of COEs to be released for bidding in the new quota year (April 2008 – March 2009) will be cut by 7.5%. (Table 1) In addition, the vehicle growth rate in Singapore will be lowered from the current 3% to 1.5% from 2009, in tandem with the slowdown in road growth from 1% a year in the last 15 years to 0.5% in the next 15 years. This will translate into an even lower supply of COEs from the next quota year.

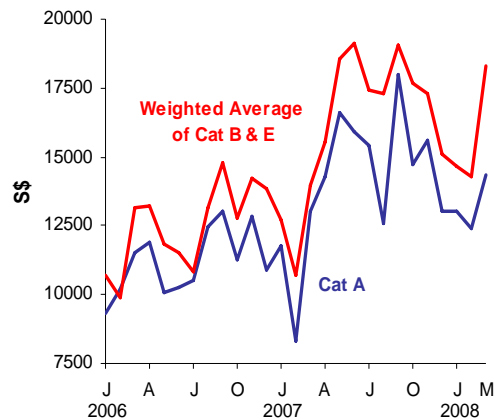
**Table 1**  
**COE Quota for Quota Year (QY) 2007 and 2008**

	QY 2007	QY 2008	% decrease
Category A	51,803	48,847	5.7
Category B	26,995	26,376	2.3
Category C	94,741	9,049	4.5
Category D	11,000	10,684	2.9
Category E	26,084	20,990	19.5
Total	125,353	115,946	7.5

Source: LTA

At the most recent bidding exercise in March, expectations of a cut in the COE quota in the next QY and the reduction in the ARF led to stronger car demand and, consequently, a 15% m-o-m and 28% m-o-m jump in COE premiums for small cars and bigger cars respectively. (Chart 2) Nevertheless, demand could moderate in the months ahead if consumers become more circumspect about purchasing big-ticket items in the face of uncertain economic conditions and slump in stock market.

**Chart 2**  
**COE Premiums for Category A, B and E**



Source: LTA

### HEADLINE CPI INFLATION TO COME IN AT 4.5-5.5% IN 2008

Following from last year, the sustained increase in wages and rentals of commercial space would continue to exert upward pressure on domestic costs. IRAS' revision of the HDB Annual Values would also push up the cost of owner-occupied accommodation.

Despite growing concerns over the US economy, global oil prices remained high and are likely to lead to continued pass-through to domestic inflation. At the same time, the rapid increase in global food prices since Q3 2007 has not seen any abatement amid strong demand, supply constraints and tight inventory levels.

Taking into account these factors, CPI inflation is expected to come in at 4.5-5.5% in 2008.

**Table A.1**  
**Consumer Price Index**

	All Items	Food	Clothing & Footwear	Housing	Tpt & Comm	Educat- ion & Stationery	Health Care	Recreation & Others
Weights	10000	2338	357	2126	2176	819	525	1659
	INDEX (2004 = 100)							
2007 Feb	101.9	104.8	100.7	103.2	94.9	105	102.5	103.7
Mar	101.7	103.8	102.8	103.2	94.4	104.9	102.7	104.1
Apr	102.1	103.7	102.8	102.7	96.3	103.9	103.7	105.3
May	102.4	104.1	100.9	102.6	97.8	103.9	104.4	104.5
Jun	102.0	104.6	97.3	99.9	98.5	103.8	104.9	105.0
Jul	104.1	106.0	101.1	104.8	99.4	106.0	107.2	105.6
Aug	104.5	106.4	102.5	105.1	99.9	105.9	107.4	105.9
Sep	104.2	106.9	101.6	103.9	98.7	106.3	107.4	106.3
Oct	105.5	107.5	101.1	106.6	101.0	106.3	107.8	107.2
Nov	106.1	108.6	102.9	107.3	101.1	106.3	108.0	107.8
Dec	106.6	109.3	102.3	107.3	102.3	106.2	108.1	108.3
2008 Jan	108.0	110.5	103.0	111.7	102.2	108.9	109.5	107.7

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				
2007 Feb	0.6	1.3	-4.5	20.6	-3.7
Mar	0.7	1.2	-3.5	21.7	1.5
Apr	0.6	1.2	-4.0	19.8	-1.9
May	1.0	1.3	-3.2	11.7	-1.1
Jun	1.3	1.5	-3.4	14.5	3.1
Jul	2.6	2.7	-3.5	12.3	4.0
Aug	2.9	2.8	-3.1	8.5	-0.6
Sep	2.7	3.0	-0.2	12.8	24.3
Oct	3.6	3.2	0.6	11.5	43.6
Nov	4.2	3.5	3.4	9.5	60.6
Dec	4.4	3.7	3.6	7.7	50.4
2008 Jan	6.6	5.0	4.7	12.1	74.8

Source: Singapore Department of Statistics, IMF and Bloomberg