



Inflation Monthly

July 2007

CPI	2007	
	June	July
y-o-y (%)	1.3	2.6
m-o-m (%)	-0.3	2.1
Index	102.0	104.1

- Singapore's headline CPI inflation rose to 2.6% y-o-y in July from 1.3% in June, in part reflecting the 2% GST hike**

The MAS underlying inflation, which excludes accommodation and private road transport costs, also climbed to 2.7% in July from 1.5% in the preceding month.

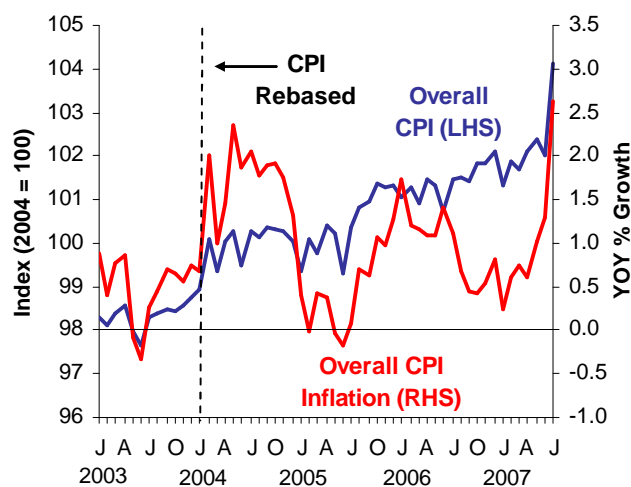
- On a m-o-m basis, the CPI increased by 2.1%**

The m-o-m increase in the CPI reflected in part the impact of the GST hike. In addition, rebates on Service & Conservancy Charges (S&CC) for HDB flats were withdrawn in July. There were also firm price increases in some components of food, health care, education and recreation & others.

- Outlook: CPI inflation to come in within 1-2% range in 2007**

Amidst a booming economy, wages and rentals increased at a faster pace in recent quarters. Against these higher business operating costs, consumer prices could remain firm. Nonetheless, abstracting from the one-off effects of the GST hike, underlying inflationary pressures remain generally well-contained at the current advanced stage of the business cycle.

Singapore: CPI and CPI Inflation



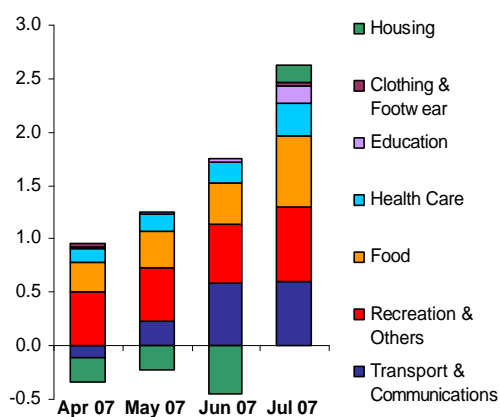
Recent Developments in Domestic CPI Inflation

Domestic headline CPI inflation rose to 2.6% y-o-y in July from 1.3% in the previous month, bringing average inflation to 1.0% for the first seven months of 2007. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – also increased to 2.7% in July from 1.5% in June. Over the period Jan-Jul 2007, it averaged 1.4%.

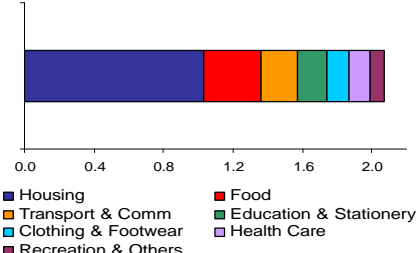
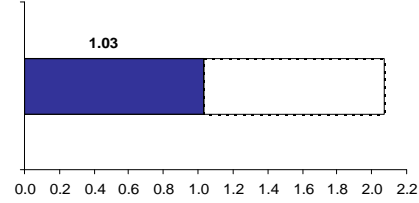
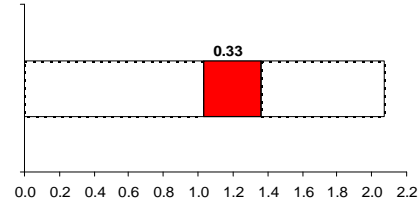
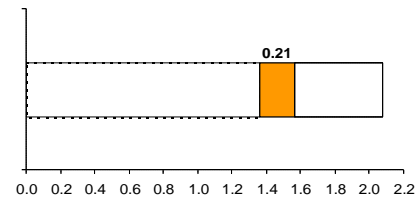
HIGHER CPI DUE TO BOTH GST AND OTHER COST INCREASES

The higher CPI in July was partly due to the increase in the Goods and Services Tax (GST) from 5% to 7% at the beginning of the month. This was reflected in the broad based increase in prices across all categories of the CPI basket, particularly for housing, food, health care and education (Chart 1). Besides GST, other factors also contributed to the higher CPI in July. Notably, housing costs rose due to the withdrawal of the rebates on Service & Conservancy Charges¹ (S&CC) as well as the 11% upward revision of electricity tariffs for Q3. At the same time, prices of certain food products were driven up by strong global demand. The index for recreation & others also rose due to the jump in foreign maid salaries and cable vision subscription fees.

Chart 1
% Points Contribution to CPI Inflation (y-o-y)



¹ For 2007, rebates on S&C charges and HDB rentals are given out in the months of January, 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

% Point Contribution (m-o-m), July 2007	Group	
 <p>0.0 0.4 0.8 1.2 1.6 2.0</p> <ul style="list-style-type: none"> ■ Housing ■ Food ■ Transport & Comm ■ Education & Stationery ■ Clothing & Footwear ■ Health Care ■ Recreation & Others 	Overall (m-o-m)	On a m-o-m basis, the CPI rose by 2.1% in July. Prices increased in all major categories of the CPI basket.
 <p>0.0 0.2 0.4 0.6 0.8 1.0 1.2 1.4 1.6 1.8 2.0 2.2</p>	Housing	The overall costs of housing jumped by 4.9% following the withdrawal of rebates for Service & Conservancy Charges (S&CC). This also reflected to some extent costlier residential rentals amidst the buoyant property market. In addition, electricity tariffs for Q3 2007 were raised by 11% as a result of higher fuel costs and the 2% GST hike. Similarly, prices of other oil-related items, such as LPG and residential piped gas, were adjusted up due to the GST hike.
 <p>0.0 0.2 0.4 0.6 0.8 1.0 1.2 1.4 1.6 1.8 2.0 2.2</p>	Food	Overall food prices rose by 1.4%, with increases seen for all sub-components. Cooked food prices saw some upward adjustments during the month. Apart from the GST hike, the 4.1% jump in the prices of cooking oils & fats also reflected the surge in global prices of bio-fuel crops such as corn, soybean and palm oil. As a result of global shortages, prices of dairy products & eggs continued to edge up by 1.6% in July, after rising by an average of 2.1% in the previous two months.
 <p>0.0 0.2 0.4 0.6 0.8 1.0 1.2 1.4 1.6 1.8 2.0 2.2</p>	Transport & Communications	The costs of transport & communications went up by 1.0% as the higher GST lifted the costs of petrol, cars and telephone charges, amongst others.

<p>A horizontal bar chart with a dashed border. The x-axis is labeled from 0.0 to 2.2 in increments of 0.2. A green bar extends to the value 0.17 on the x-axis.</p>	Education & Stationery	<p>While public educational institutions kept fees unchanged after the GST hike, private institutions raised prices. Along with more expensive newspapers, magazines & books, the education & stationery CPI advanced by 2.1%.</p>
<p>A horizontal bar chart with a dashed border. The x-axis is labeled from 0.0 to 2.2 in increments of 0.2. A blue bar extends to the value 0.13 on the x-axis.</p>	Clothing & Footwear	<p>Prices of clothing and footwear rebounded by 3.9% in July, after declining by 3.6% in June. This was due to the withdrawal of price discount following the end of the Great Singapore Sale², as well as the higher GST.</p>
<p>A horizontal bar chart with a dashed border. The x-axis is labeled from 0.0 to 2.2 in increments of 0.2. A purple bar extends to the value 0.12 on the x-axis.</p>	Health Care	<p>The overall health care CPI moved up by 2.2% in July, with the costs of dental treatment, propriety medicines and medical treatment coming in higher.</p>
<p>A horizontal bar chart with a dashed border. The x-axis is labeled from 0.0 to 2.2 in increments of 0.2. A dark red bar extends to the value 0.08 on the x-axis.</p>	Re-Creation & Others	<p>The index for recreation & others edged up by 0.5%. While cigarette prices, foreign maid salaries and cable vision subscription fees were higher in the month, they were partially offset by lower holiday travel expenses and government levy on foreign maids.</p>

Outlook

PRICE PRESSURES FROM FIRMER RENTAL AND WAGE GROWTH

The domestic economy continued to expand robustly in Q2 2007, marking its 16th quarter of uninterrupted growth (on a seasonally-adjusted annualised basis). In line with the booming economy, job creation reached a record high, while wage growth strengthened to 8.5% (y-o-y) in Q2 2007 from 3.8% in the same period last year (Chart 2a). Shop space rentals have also picked up due to strong demand on the back of buoyant consumer sentiments. (Chart 2b) July's higher CPI data suggest that retailers have sought to cover some of these costs.

² This year's Great Singapore Sale was held over the period 25 May - 22 July.

Chart 2a
Average Monthly Nominal Earnings
Growth and CPI Inflation

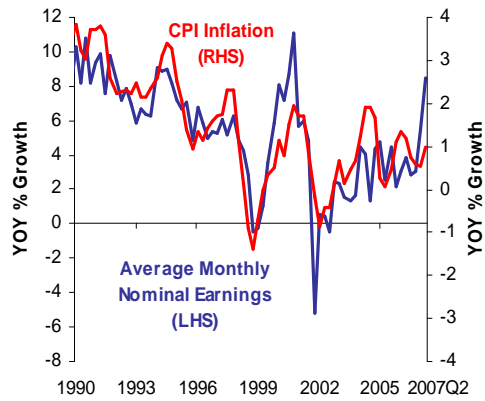
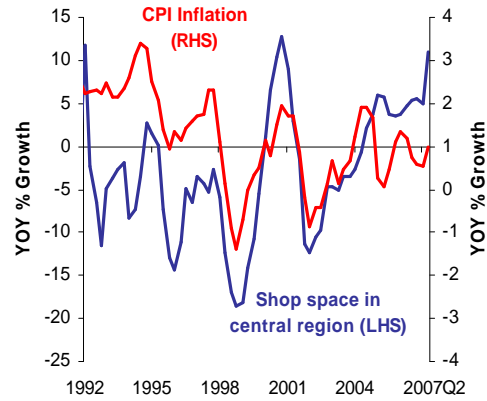


Chart 2b
Rentals of Shop Space in Central Region
and CPI Inflation



HEADLINE CPI INFLATION FORECAST REVISED TO 1-2% FOR THE WHOLE OF 2007

Going forward, there are upward pressures to headline inflation stemming from the risks of further rise in oil/food prices and the pass-through of higher business costs associated with rising wage growth and rentals. As such, the CPI inflation forecast for 2007 has been revised to 1-2%, from 0.5-1.5% previously. Nonetheless, abstracting from the one-off effects of the GST hike, underlying inflationary pressures remain generally well-contained at the current advanced stage of the business cycle. MAS will continue to monitor closely the price and cost developments in the economy.

Table A.1
Consumer Price Index

	All Items	Food	Clothing & Footwear	Housing	Tpt & Comm	Educational & Stationery	Health Care	Recreation & Others
Weights	10000	2338	357	2126	2176	819	525	1659
	INDEX (2004 = 100)							
2006 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
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

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 Aug	0.7	1.6	2.7	33.1	19.3
Sep	0.4	1.5	-1.0	31.7	2.8
Oct	0.4	1.3	-2.4	34.1	0.9
Nov	0.5	1.4	-2.4	34.7	8.5
Dec	0.8	1.6	-2.0	31.2	10.1
2007 Jan	0.2	0.9	-5.4	23.7	-13.4
Feb	0.6	1.3	-4.5	22.5	-3.7
Mar	0.7	1.2	-3.5	25.2	1.5
Apr	0.6	1.2	-4.0	24.1	-1.9
May	1.0	1.3	-3.2	15.2	-1.1
Jun	1.3	1.5	-3.4	19.4	3.1
Jul	2.6	2.7	-3.5	16.2	4.0

Source: Singapore Department of Statistics, IMF and Bloomberg