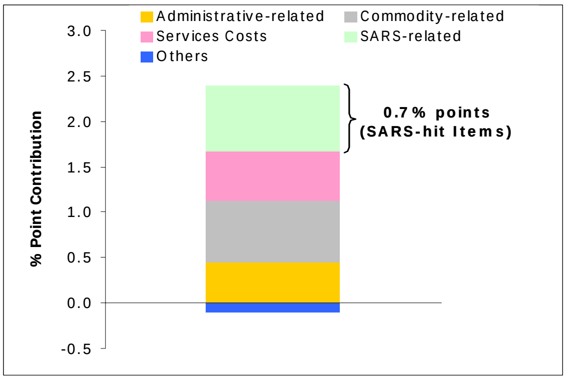
HIGHLIGHTS & OUTLOOK

A BREATHER FROM SUPPLY-SIDE PRESSURES

HEADLINE INFLATION NUMBER CONTINUED TO REFLECT Y-O-Y BOOST FROM SARS

Headline CPI inflation rose to 2.3% year-on-year (y-o-y) in June, up from 2.0% in May. This brought average inflation for the first half of this year to 1.6%. The MAS underlying inflation – which excludes private road transport costs and accommodation – also trended up further, from 2.3% to 2.7% in June. Although this was the second consecutive month that the inflation rate had breached the 2% mark (on a year-ago basis), the inflation outcome was in line with both EPD's and market expectations.[1]

Chart 1
% Point Contribution to y-o-y CPI Inflation, June 2004



As shown in Chart 1, our estimates suggest that almost one-third of June's y-o-y headline figure was contributed by consumer goods and services that were adversely hit by Sars a year ago.[2] The effects of earlier increases in administrative charges, consumer-related services and commodity-related items were also reflected in this month's inflation number.

PRICE INCREASES OF MOST MAJOR CPI CATEGORIES WERE FAIRLY SUBDUED

On a month-on-month, seasonally adjusted (m-o-m SA) basis, the pace of consumer price increases slowed in June, with the index remaining unchanged after rising by 0.2% in the previous month. Several supply-side influences that underpinned the price movements since the beginning of the year appeared to have taken a temporary respite in June. Apart from some price increases in food, price developments in the other major categories were fairly subdued during the month.

The continued rise in food prices reflected more expensive non-cooked food. Although world food commodity prices have abated in recent months, the rise in non-cooked food prices could be largely attributed to supply shortages. In particular, the supplies of seafood were reportedly reduced by some 40%, due to strong sea currents in nearby waters. This was further exacerbated by the Agri-food Veterinary Authority of Singapore's (AVA) decision to destroy nine batches of seafood from Malaysia, Thailand and Indonesia that were found to contain cancer-causing agents.[3]

---

1 The median forecast of a Reuters poll was at 2.3% y-o-y for June's CPI inflation.

2 The contribution of the SARS-hit items (including travel- and retail-related items as well as cooked food) was estimated to be approximately 0.7% points.

3 Source: Channel NewsAsia on 21 June 2004, "AVA destroys seafood found to contain cancer-causing agents".

PRICES OF OIL-RELATED ITEMS ROSE MARGINALLY WITH WORLD OIL PRICES SUSTAINED AT HIGH LEVELS

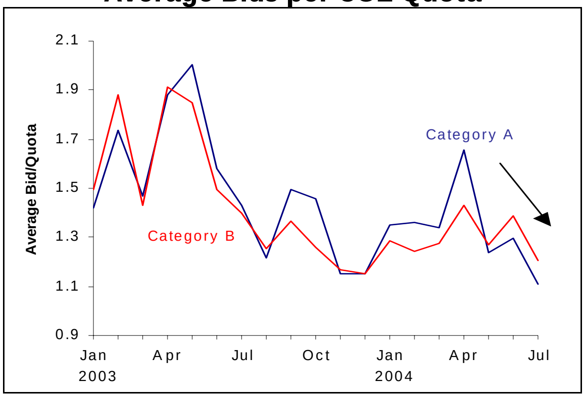
World oil prices remained generally strong, although prices subsided somewhat from their earlier highs of US$36 in May to around US$34 in early June. Concomitantly, domestic pump operators passed on some of these cost savings to consumers. Retail pump prices were reduced by three cents in early June for the first time after experiencing four upward adjustments over the past few months. Despite the price reduction, petrol prices were on average still marginally higher in June, reflecting the earlier price increase in mid-May. Liquefied petroleum gas (LPG) prices were raised, following an earlier hike in February. In response to the generally high global oil prices, some airlines including SIA and SilkAir have imposed a fuel surcharge on air tickets, thereby contributing to higher airfares.[4]

LOW RETAIL PRICES BOOSTED CONSUMER SPENDING

Prices of several mass-market retail items fell sequentially on the back of more attractive discounts offered during the Great Singapore Sale (GSS). Prices of these items declined by an average of 0.1%, as compared to mild increases of up to 0.2% in previous years.[5] The low prices seemed to have boosted consumer spending considerably. Indeed, Orchard Road retailers, who took part in the GSS revealed that businesses shot up by as much as 45% during this period.[6] In addition, credit card spending surged into the first two weeks of June.[7]

Car prices rose further, with COE premiums sustaining at above S$27,000 in June. However, some levelling off in demand for cars seemed to have emerged more recently, with the ratio of the number of bids per COE quota falling slightly to around 1.2 in July, from 1.5 in April. (Chart 2)

Chart 2
Average Bids per COE Quota



SUPPLY-SIDE FORCES TO PERSIST

OIL PRICES CONTINUE TO BE A KEY CONCERN EVEN AS NON-OIL COMMODITY PRICES SEEMED TO HAVE SOFTENED SOMEWHAT

Going forward, commodity-related price pressures will continue to have a significant impact on domestic consumer prices. The rise in soft commodity prices appeared to have plateaued recently, and this could possibly lead to more moderate increases in domestic food prices in the coming months. There is also further relief for food prices,

---

4 Fuel costs typically account for around 16% of an airline's operating bill. Source: The Straits Times on 2 June 2004, "SIA and SilkAir slap US$5 surcharge on tickets".

5 These figures are an average between 2000-2002, but do not include 2003 due to the outbreak of SARS.

6 Source: Channel NewsAsia on 24 July 2004, "Great Singapore Sales boost business at Orchard Road by 45%".

7 Feedback from several local banks suggests that credit card billings in June might reach December's all time high of S$1.38 million. Source: The Business Times on 14 June 2004, "Credit cards are flashing in Great Singapore Sale".

with NTUC FairPrice recently announcing that it would continue to absorb the 2% increase in GST for 400 essential items for the rest of this year (they had earlier only committed to absorbing the tax increase for the first half of 2004).

Oil-related items in the CPI basket are, however, likely to see more upside, with global oil prices expected to remain high in the near term. After some moderation in June, global oil prices have spiked up again more recently, with the NYMEX West Texas Intermediate (WTI) crude oil futures rising to as high as US$44 per barrel at one point. This recent spike reflected fears of possible terror attacks on global financial institutions. In addition, there are rising concerns over oil supplies, which were threatened by a legal battle between Russia's government and the country's biggest oil exporter Yukos. Furthermore, OPEC is already pumping at 95% capacity, with little room for manoeuvre in the event of an emergency.

BUILD-UP OF EARLIER COST INCREASES MAY BE PASSED THROUGH INTO CPI

With the economic recovery firmly on track, consumer prices are likely to experience the pass-through of some "pent-up" cost increases, which have built up during the earlier years of economic weakness. For example, conservancy and service charges for HDB flats will be raised in September 2004 by between 2-7% – the first increase since 1997, on the back of rising maintenance and operational costs over the years.[8] The revision in these charges will also have an impact on commercial premises and market/food stalls, and this may lead to some second-round price increases if operators were to pass them on to consumers. School miscellaneous fees, which cover teaching materials and printing costs, will also be revised upwards by about 5% in January 2005 – the first upward adjustment by the Ministry of Education since 1991. Reasons cited for the revision were the significant rise in education costs over the years, with primary and secondary schools seeing some 70-80% increase, while junior colleges and centralised institutes recording nearly 100% increase.[9]

INCREASED COMPETITION MAY HOLD DOWN CONSUMER PRICES

Alongside the continued improvement in consumer sentiment, prices of retail items could strengthen somewhat in the coming months, although this is not likely to take place until the GSS ends in July. While the surge in consumer spending during the recent GSS was encouraging, it remains to be seen whether this is sustainable going forward. In fact, the recovery in retail prices have not been as robust as expected thus far, partly due to the increasing retail competition from countries in the region – which have also been marketing similar nationwide sales.

Indeed, regional competition is heating up even for the services sector. In response to the growing number of Singaporeans heading overseas for "medical tours" especially Lasik, some domestic private eye surgeons have decided to slash fees to attract people seeking such lower-priced operations.[10] This could help to dampen rising healthcare costs.

Taking into account all the above factors, the headline CPI inflation forecast for 2004 remains unchanged at **1.5-2.0%**.

---

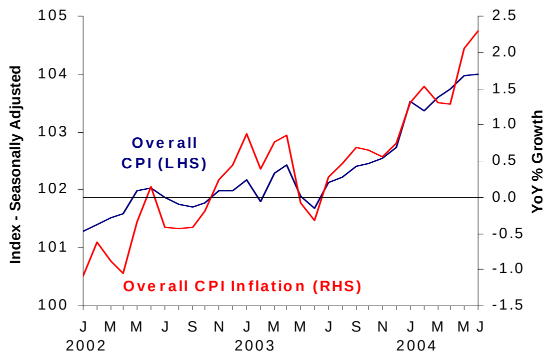
8 A check with eight out of the 14 People's Action Party town councils show that most four-room flats will pay around $1 to $2.50 more from September. Source: The Straits Times on 20 July 2004 "Town council charges go up slightly in September".

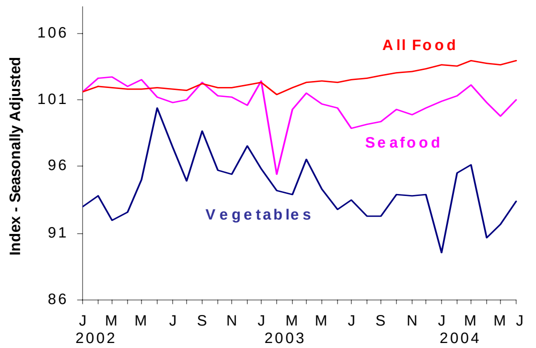
9 Source: The Straits Times on 17 July 2004, "Students pay more miscellaneous fees from next year."

10 Source: Streats on 30 July 2004, "Eye doctors set sights on slashing fees".

Headline CPI inflation rose further to 2.3% in June, from 2.0% in May. The seasonally adjusted index, however, remained unchanged from the previous month.

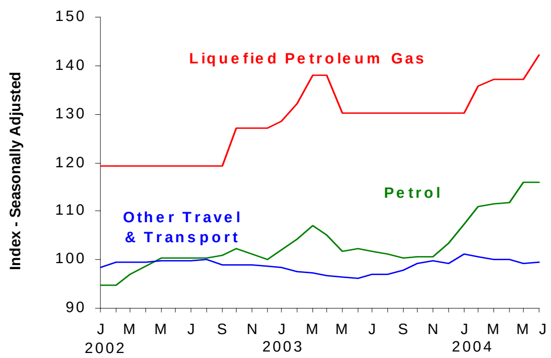
The rise in overall food prices could be attributed to more expensive non-cooked food such as seafood and vegetables.

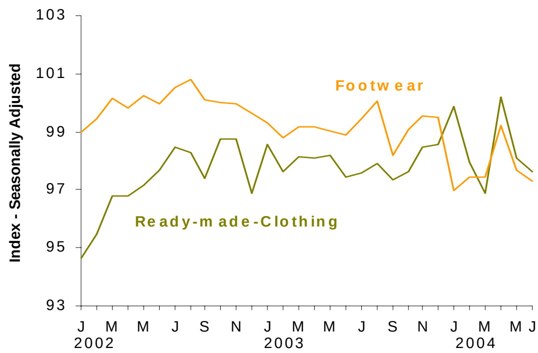




Although petrol prices were cut, they remained marginally higher as compared to May. LPG prices and airfares were hiked in response to higher oil prices.

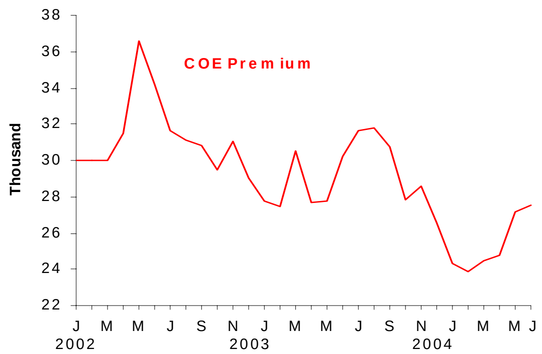
Prices of some mass-market retail items such as ready-made clothing and footwear fell on the back of attractive discounts offered during the Great Singapore Sale.

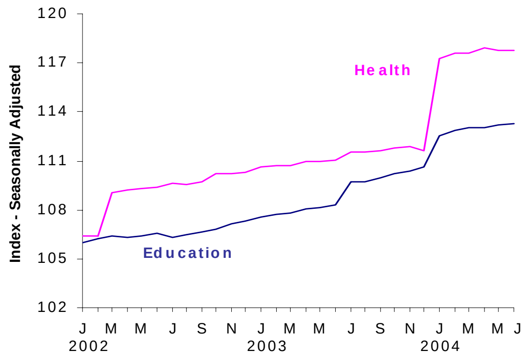




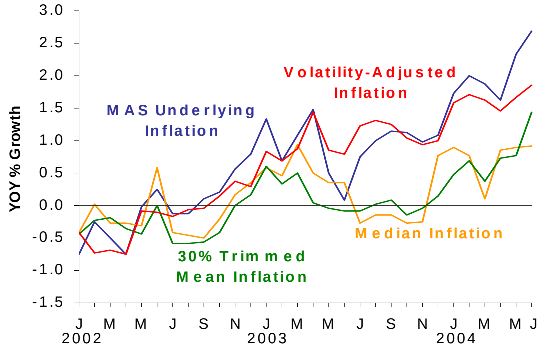
Car prices continued to trend up, with COE premiums remaining above $27,000.

Meanwhile, health and education costs remained largely stable during the month.





All other core inflation measures rose during the month, except for the median inflation which remained changed at 0.9%.



Note: CPI SA series are used only when seasonality is detected. Otherwise, non-SA series are used.

MONETARY POLICY DIVISION
ECONOMIC POLICY DEPARTMENT

CONSUMER PRICE INDEX

Period	All Items	Food	Clothing	Housing	Tpt & Comm	Education	Health	Misc
Weights	10000	2752	443	2292	1803	729	305	1676
	INDEX – SEASONALLY ADJUSTED							
2002 Jan	101.3	101.6	95.7	99.9	97.4	106.0	106.4	104.9
Feb	101.4	102.1	96.5	99.5	97.7	106.2	106.4	105.1
Mar	101.5	101.9	97.5	99.5	98.0	106.4	109.0	105.0
Apr	101.6	101.8	97.5	99.3	98.6	106.3	109.2	104.7
May	102.0	101.9	97.8	99.6	99.1	106.4	109.3	106.0
Jun	102.0	101.9	98.2	99.7	98.8	106.6	109.4	107.4
Jul	101.9	101.8	98.9	99.8	99.3	106.3	109.6	105.3
Aug	101.8	101.7	98.8	99.6	99.2	106.5	109.5	105.4
Sep	101.7	102.2	98.5	99.5	98.3	106.7	109.7	105.2
Oct	101.8	101.9	99.0	99.6	98.4	106.8	110.2	105.4
Nov	102.0	102.0	99.0	99.9	98.3	107.1	110.2	105.7
Dec	102.0	102.1	97.5	99.8	97.8	107.3	110.3	106.0
2003 Jan	102.2	102.3	98.7	99.4	98.6	107.6	110.6	106.4
Feb	101.8	101.4	97.9	99.1	98.9	107.7	110.7	106.2
Mar	102.3	101.9	98.3	99.1	99.5	107.8	110.7	107.4
Apr	102.4	102.4	98.4	100.4	98.8	108.0	111.0	105.9
May	101.9	102.4	98.5	99.4	98.1	108.1	110.9	104.6
Jun	101.7	102.3	97.8	99.5	98.3	108.3	111.1	104.6
Jul	102.1	102.5	98.0	99.4	98.5	109.7	111.6	105.6
Aug	102.2	102.6	98.4	99.3	98.6	109.7	111.6	106.2
Sep	102.4	102.8	98.0	99.2	98.3	110.0	111.6	107.1
Oct	102.4	103.0	98.0	98.6	98.3	110.2	111.8	107.5
Nov	102.6	103.1	98.7	98.4	98.2	110.4	111.9	107.7
Dec	102.7	103.4	98.8	98.3	98.3	110.6	111.6	108.0
2004 Jan	103.5	103.6	99.3	99.0	99.1	112.5	117.3	108.6
Feb	103.4	103.6	97.9	98.8	99.5	112.9	117.7	108.3
Mar	103.6	104.0	97.0	98.7	99.3	113.1	117.6	109.5
Apr	103.7	103.7	100.0	98.9	99.4	113.0	118.0	109.0
May	104.0	103.6	97.9	99.2	100.0	113.2	117.8	110.0
Jun	104.0	104.0	97.4	99.3	100.0	113.3	117.8	110.4

Source: Department of Statistics

ANNEX 2

SELECTED INFLATION INDICATORS

Period	CPI	Import Price Index	Non-fuel Primary Commodities	Opec Oil Price
	YOY% Growth			
2002 Jan	-1.1	-2.8	-8.7	-24.4
Feb	-0.6	-2.8	-7.6	-25.6
Mar	-0.9	-2.3	-4.6	-4.4
Apr	-1.1	-2.7	-5.2	0.5
May	-0.3	-3.2	-6.3	-5.8
Jun	0.1	-3.7	-2.7	-8.9
Jul	-0.4	-3.2	0.2	6.0
Aug	-0.4	-2.0	1.4	5.7
Sep	-0.4	-1.3	7.9	13.8
Oct	-0.2	-0.5	13.5	40.2
Nov	0.2	-1.1	11.3	37.2
Dec	0.4	0.0	11.4	59.6
2003 Jan	0.9	1.0	11.8	65.5
Feb	0.4	2.5	11.5	66.7
Mar	0.8	2.1	7.3	30.4
Apr	0.9	0.0	7.2	1.9
May	-0.1	-1.2	6.9	3.6
Jun	-0.3	-0.3	3.9	12.7
Jul	0.3	0.1	1.4	9.3
Aug	0.5	0.6	4.0	10.7
Sep	0.7	-0.9	3.1	-4.7
Oct	0.6	-1.0	6.8	3.8
Nov	0.6	0.4	9.6	17.4
Dec	0.7	0.2	12.2	4.8
2004 Jan	1.3	0.3	15.8	-0.3
Feb	1.5	-2.0	19.2	-6.4
Mar	1.3	-1.9	23.7	9.3
Apr	1.3	-0.3	24.7	27.8
May	2.0	2.6	21.4	41.9
Jun	2.3	2.9	21.5	28.9

Source: Department of Statistics, IMF and Bloomberg