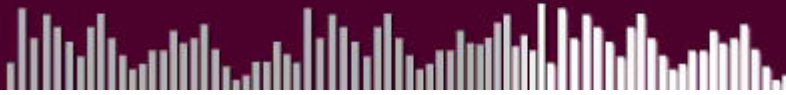


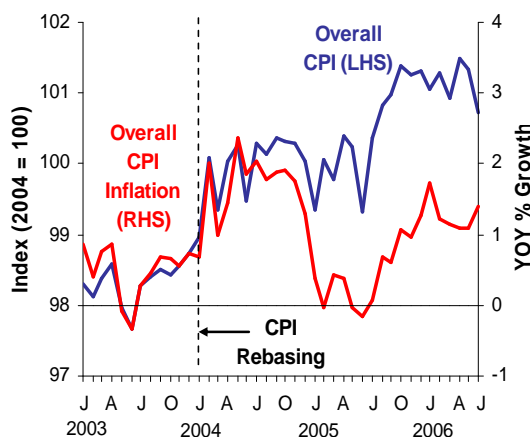
# Inflation Monthly

Jun 2006



## Domestic CPI Inflation Edged Up in June

Singapore's CPI (2004 = 100)		
% Growth/ Level	May 06	Jun 06
<b>y-o-y</b>	1.1	<b>1.4</b>
<b>m-o-m</b>	-0.1	<b>-0.6</b>
<b>Index</b>	101.3	<b>100.7</b>



- **CPI inflation picked up in many external economies**

Headline inflation in the G3 and Northeast Asian economies rose in June, with higher prices of energy-related items being one of the common drivers of inflation in these countries.

- **Singapore's headline CPI edged up to 1.4%**

At the same time, the MAS underlying inflation came in slightly higher at 1.8% in June compared with 1.7% in the previous month.

- **On a m-o-m basis, CPI fell by 0.6% due to lower costs of housing and private road transport**

Housing costs came in lower due to the rebates on HDB service & conservancy charges given out while car prices continued to fall on account of lower COE premiums.

- **Direct pass-through effects of higher oil prices could moderate in H2, while indirect effects are likely to strengthen**

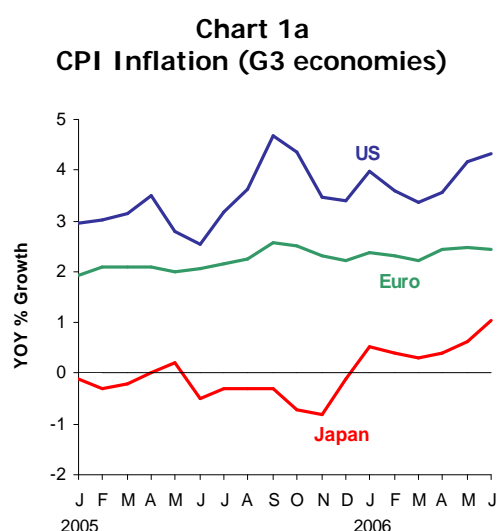
The hike in taxi fare in July will raise public road transport costs in the CPI basket. Bus and MRT operators have also sought approval from the authorities to increase fares in October 2006. Meanwhile, it appears that food operators have started to pass on higher utility costs to consumers.

## Recent Developments in External Inflation

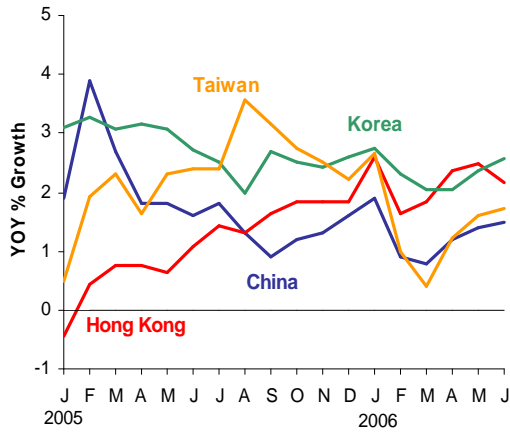
Headline CPI inflation picked up in the US and Japan in June (Chart 1a). In the US, CPI inflation rose to 4.3% year-on-year (y-o-y), propelled by energy prices and higher rentals (both homeowners' equivalent rent and actual rental inflation surged to their highest levels in nearly four years). Similarly in Japan, higher energy prices and the 19.2% y-o-y surge in fresh vegetable prices due to bad weather pushed up CPI inflation to 1% y-o-y in June, the first time it reached this level in eight years. There was also an increase in core inflation in both economies, indicating that price pressures have started to build up more broadly across various categories of consumer goods and services. In contrast to the US and Japan, CPI inflation in the Euroland remained steady at 2.5% y-o-y in June, with higher food prices offset by lower energy price inflation.

CPI inflation also picked up in the Northeast Asian economies on account of higher food and energy prices (Chart 1b). In China, headline CPI inflation edged up to 1.5% y-o-y because of increases in the price of fresh fruits and grains as well as higher transport fares. CPI inflation continued to rise in Taiwan, as vegetable prices soared due to flooding, and state-run energy companies rolled back subsidies (Chinese Petroleum Corporation raised gasoline prices thrice this year, while Taiwan Power Corporation raised electricity prices for the first time in 23 years). Higher food and utilities prices, along with higher housing rents and maintenance cost, also underpinned inflation in South Korea. CPI inflation in Hong Kong remained steady at 2.1% y-o-y in June.

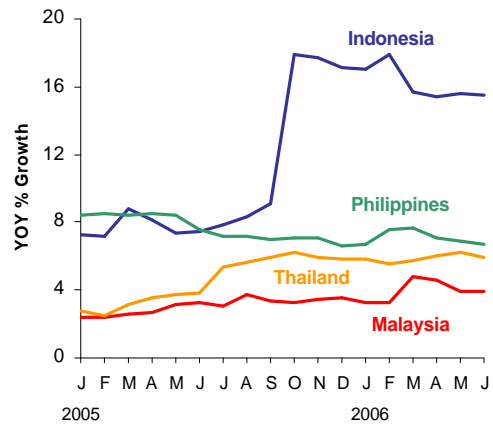
In Southeast Asia, CPI inflation moderated in June, in part reflecting the appreciation of the regional currencies against the US dollar of between 3.4-6.7% compared to a year ago. In addition, there were country-specific factors which helped to mute inflation. In Thailand, CPI inflation receded to 5.9% y-o-y mainly because of a smaller rise in food prices. Indonesia's CPI inflation inched slightly lower as higher food inflation was offset by a smaller increase in the cost of clothing. In the Philippines, inflation eased across a range of consumer goods and services in June, while headline CPI Inflation remained steady at 3.9% y-o-y in Malaysia as higher utilities charges were mitigated by the lower cost of other personal effects.



**Chart 1b**  
CPI Inflation (Northeast Asia)



**Chart 1c**  
CPI Inflation (Southeast Asia)



**Table 1**  
External Inflation Indicator

	Overall Inflation	Food & Beverages	Clothing	Transport	Housing	Medical Care	Communications	Recreation	Education
USA	Red	Red	Yellow	Red	Red	Yellow	Red	Yellow	Yellow
EU	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Japan	Red	Red	Red	Red	Red	Yellow	Yellow	Yellow	Yellow
China	Red	Red	Red	Red	Red	Red	No data available		
Hong Kong	Yellow	Red	Yellow	Green	Green	No data available			
Taiwan	Red	Red	Yellow	Red	Green	Green	Red	Red	Red
Korea	Red	Red	Green	Green	Red	Green	Green	Green	Red
Malaysia	Yellow	Yellow	Yellow	Yellow	Red	Yellow	Yellow	Yellow	Yellow
Thailand	Green	Green	Yellow	Green	Red	Red	Green	Yellow	Yellow
Indonesia	Green	Red	Green	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Philippines	Green	Green	Yellow	Green	Yellow	Green	Green	Green	Red

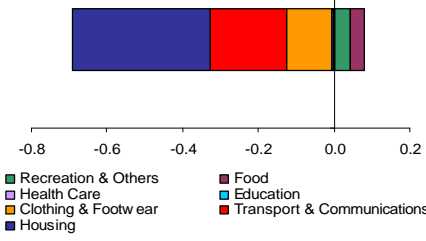
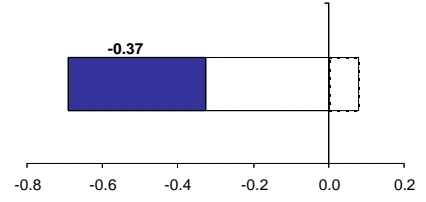
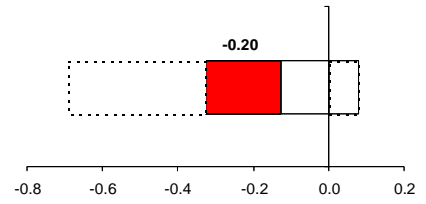
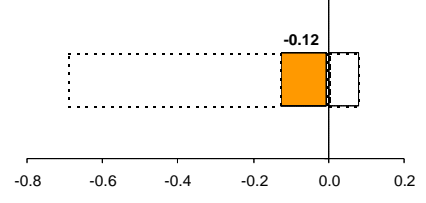
**Interpretation of Colour Codes:**

The indicator is based on the change over the past month in percentage-point contribution of individual factors to overall CPI inflation.

Red	Increase
Yellow	No change
Green	Decrease

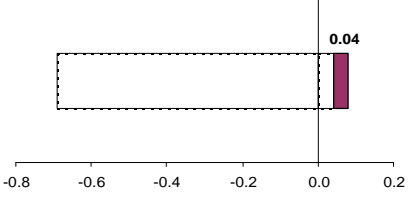
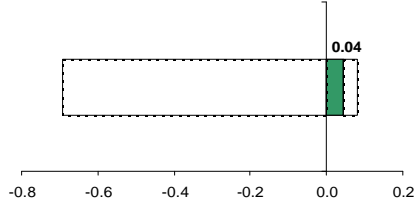
## Recent Developments in Domestic CPI Inflation

Headline CPI inflation in Singapore edged up to 1.4% y-o-y in June from 1.1% in May. This brought average inflation for the first half of 2006 to 1.3%. Meanwhile, the MAS underlying inflation measure – which excludes accommodation and private road transport costs – came in slightly higher at 1.8%, from 1.7% in the previous month. Over the period January-June 2006, it averaged 1.9%.

% Point Contribution, June 2006	Group	
 <p>Legend:</p> <ul style="list-style-type: none"> <li>Recreation &amp; Others</li> <li>Health Care</li> <li>Clothing &amp; Footwear</li> <li>Housing</li> <li>Food</li> <li>Education</li> <li>Transport &amp; Communications</li> </ul>	<b>Overall (m-o-m)</b>	<p>On a m-o-m basis, CPI fell by 0.6% in June, led by a drop in the costs of housing, transport &amp; communications and clothing &amp; footwear. These price declines more than offset the mild increases in food prices and costs of recreation &amp; others.</p>
	<b>Housing</b>	<p>Housing costs went down by 1.7% and contributed to the bulk of the price decrease in June, due mainly to the rebates for service &amp; conservancy (S&amp;C) charges and HDB flat rental<sup>1</sup>. At the same time, costs of environmental services (e.g. refuse removal and sewer fees) and prices of household durables also came in lower.</p>
	<b>Transport &amp; Communications</b>	<p>Private road transport costs continued to decline as COE premiums for cars plunged during the first bidding exercise in May<sup>2</sup>. The COE premiums for Category A cars plummeted to \$10,003 from \$11,901 in the previous month while premiums for Category B cars plunged by \$1,582 to \$11,519.</p>
	<b>Clothing &amp; Footwear</b>	<p>With the Great Singapore Sale (GSS) spanning the whole month of June, prices of clothing &amp; footwear fell by 3.4% in June, after a 1.1% decrease in the previous month.</p>

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

<sup>2</sup> 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 delivered.

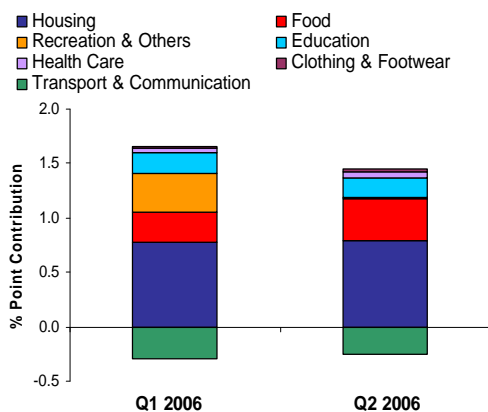
% Point Contribution, June 2006	Group	
	<b>Food</b>	<p>Meanwhile, overall food prices went up marginally on account of more expensive cooked food, seafood and non-alcoholic beverages. In particular, prices of non-alcoholic beverages rose by 1.5% during the month, compared to an average price increase of 0.1% in the last three years. This could reflect an increased pass-through of the higher costs of sugar<sup>3</sup> - sugar prices have gone up by more than 110% since the beginning of 2002.</p>
	<b>Re-creation &amp; others</b>	<p>While prices of personal effects (e.g. jewellery &amp; watches) fell due to the GSS, costs of holiday expenses edged up. At the same time, there was an increase in the price of cigarettes.</p>

## Outlook

### INDIRECT PASS-THROUGH EFFECTS OF HIGHER OIL PRICES TO STRENGTHEN IN H2

After averaging 1.4% in the first quarter of 2006, domestic headline CPI inflation came in milder at 1.2% in Q2 2006. The moderation of CPI inflation in Q2 was largely due to the lower costs of recreation & others (Chart 2a). This reflected first, the fall in the costs of holiday travel due to cheaper overseas accommodation rates. Second, on a year ago basis, the decline picked up the dissipation of the low-base effects from tobacco products in Q2 2006 as taxes were raised in February last year. (Chart 2b)

**Chart 2a**  
% Point Contribution (y-o-y) to Domestic CPI Inflation, Q2 2006 vs. Q1 2006



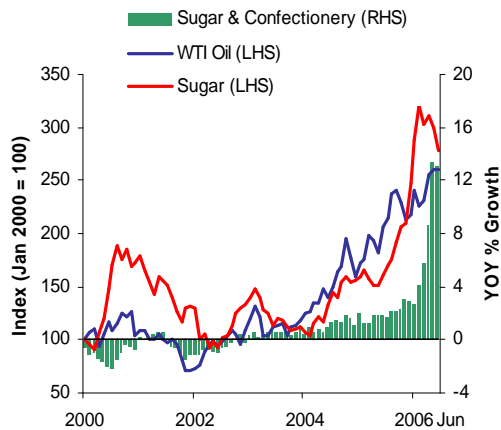
**Chart 2b**  
Alcoholic Drinks & Tobacco and Holiday Expenses CPI



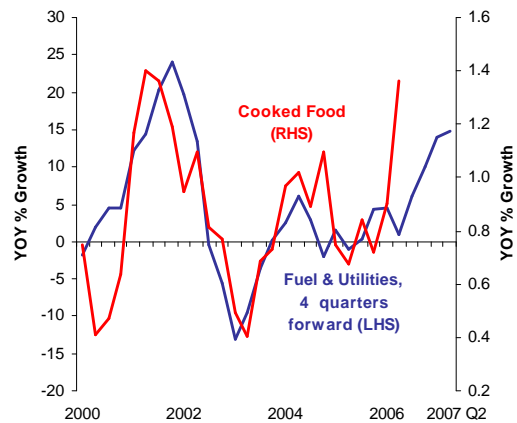
<sup>3</sup> The increase in oil prices has led to a greater use of ethanol fuel globally. This has driven up prices of sugar which is one of the major feedstock crops for ethanol fuel production.

In Q2 2006, the bulk of the price pressures continued to come from the housing component, as costs of electricity, LPG and gas remained substantially higher than that in the same period last year due to rising global oil prices<sup>4</sup>. At the same time, the contribution of food items to domestic inflation increased slightly, partly reflecting dearer imports as well as the influence of higher oil prices on sugar prices<sup>5</sup> (Chart 3a) and operating costs for cooked food operators. As prices of cooked food items tend to respond to changes in costs of fuel and utilities with a lag, the recent price increases could be an indication that food operators have started to pass-on the cumulative costs pressures from rising energy prices (Chart 3b).

**Chart 3a**  
WTI Oil prices, CSCE\* Sugar Prices and  
Sugar & Confectionery CPI



**Chart 3b**  
Fuel & Utilities and Cooked Food CPI



\*Coffee, Sugar and Cocoa Exchange (CSCE), US.

Looking ahead, energy-related items in the CPI basket are likely to remain one of the main sources of inflationary pressures for the rest of 2006. Global oil prices continued to rise in July, with the prices of the benchmark WTI oil averaging US\$74.40 per barrel compared to US\$70.47 in Q2. The geopolitical situation in the Middle East remains unpredictable, and any escalation of the conflict could lead to supply disruptions from key export countries in that region. In addition, there are fears of oil production facilities at the Gulf of Mexico being damaged during the current hurricane season. These factors, together with Iran's nuclear ambitions and militants' sabotage of oil production infrastructure in Nigeria, have further heightened the risks of supply-side shocks to global oil prices.

For the rest of the year, prices of direct energy-related items in the CPI basket (petrol, electricity tariffs, LPG and gas) are thus likely to continue to inch up, albeit at a slower rate than in H1. On a y-o-y basis, the effect of these items on the domestic CPI is not expected to increase significantly due to high base effects.

In comparison, the indirect pass-through effects of oil prices are expected to strengthen in H2. In particular, the recent hike in taxi fares on account of dearer diesel prices will raise public road transport costs in the CPI basket. Meanwhile, public transport operators, SBS Transit and SMRT Corporation, have applied to the Public Transport Council (PTC) for approval to raise fares on bus and train rides by 1.7%<sup>6</sup> in October 2006 on the back of higher fuel and

<sup>4</sup> In addition, accommodation costs (subsumed under housing) also came in higher due to the lower amount of S&C rebates given out by the government this year compared to 2005.

<sup>5</sup> Please see footnote 3 above for an explanation on the relationship between oil and sugar prices.

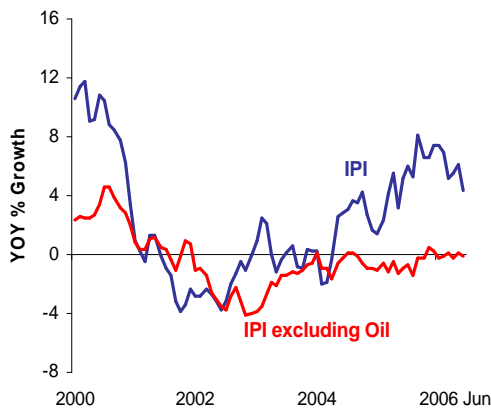
<sup>6</sup> Maximum permissible fare adjustment is calculated using the formula:  $0.5CPI + 0.5WI - 0.3$ . CPI and WI refer to the change in Consumer Price Index and Average Monthly Earnings (Annual National Average)

wage costs. Some airlines have also recently increased fuel surcharges on selected flights. Other service providers could also continue to pass on energy-related costs and raise retail prices going forward.

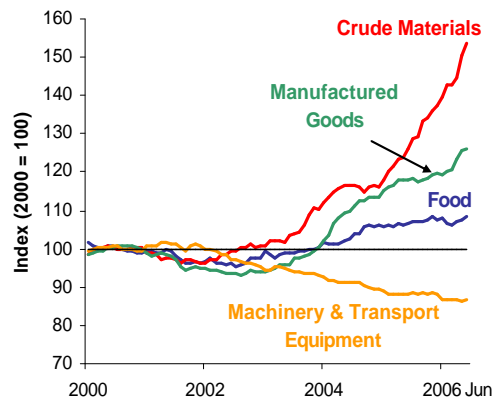
**NON-OIL IMPORT PRICE INFLATION IS EXPECTED TO BE BENIGN DESPITE SPIKE IN (NON-OIL) COMMODITIES**

Domestic import price inflation (excluding oil prices) has largely stayed negative over the period 2002-2005 (Chart 4a) because of the decline in the prices of machinery & transport equipment, which accounts for 65% of Singapore's imports. However, it has crept up to positive territory in recent months due to the sharp increase in prices of commodities such as rubber, wooden materials and metals (under crude materials), manufactured materials of metallic content (under manufactured products), as well as food (Chart 4b).

**Chart 4a  
Import Price Index (IPI)**



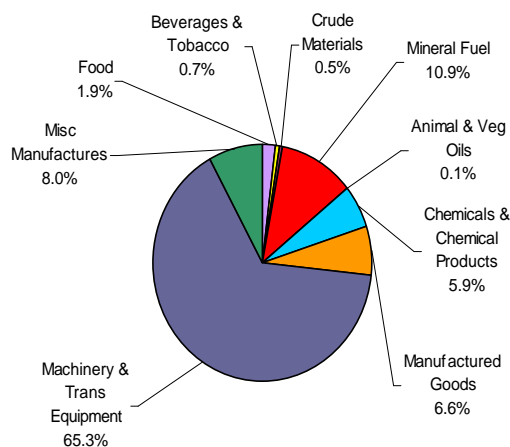
**Chart 4b  
Import Prices of Selected Product Categories**



Going forward, the rapid expansion in emerging economies, such as China and India, could continue to exert upward price pressure on crude materials and manufactured goods. However, the share of these products in Singapore's total imports is fairly low at about 7% in total, suggesting that their impact on overall import price inflation is likely to remain fairly benign. (Chart 4c)

over the preceding year respectively. The 0.3% is the productivity extraction to be used from 2005 to 2007. In the current review by PTC, the CPI and the WI is 0.5% and 3.5% respectively.

**Chart 4c**  
**Share of Singapore's Imports, 2005**



### **SINGAPORE'S HEADLINE CPI INFLATION TO COME IN AT 1-2% IN 2006**

Taking all factors into consideration, headline CPI inflation is expected to remain in the 1-2% range in 2006, before moderating somewhat in 2007. 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**  
**Singapore 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)							
2005 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
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

Source: Singapore Department of Statistics

**Table A.2**  
**Selected Singapore's Inflation Indicators**

	CPI	MAS Underlying Index	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH				
2005 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	17.5	44.1
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	36.3	39.9
Jun	1.4	1.8	4.4	28.8	25.3

Source: Singapore Department of Statistics, IMF and Bloomberg