

Inflation Monthly

June 2007

CPI	2007	
	May	June
y-o-y (%)	1.0	1.3
m-o-m (%)	0.3	-0.3
Index	102.4	102.0

- CPI inflation held generally steady in most developed and Asian economies in Q2 2007**

The exception was the US, China and Korea, where higher food and/or energy prices drove up overall inflation.

- Singapore's headline CPI inflation rose to 1.3% y-o-y in June from 1.0% in May**

The MAS underlying inflation, which excludes accommodation and private road transport costs, edged up to 1.5% in June from 1.3% in May.

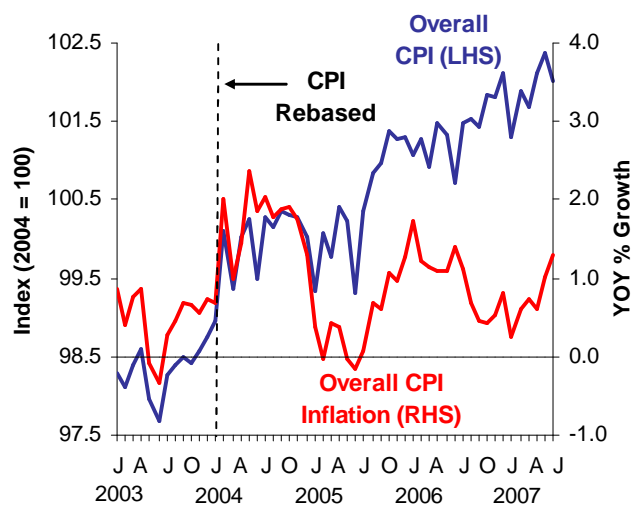
- On a m-o-m basis, Singapore's CPI fell by 0.3% due mainly to lower housing costs**

Housing costs were pulled down by rebates on Service & Conservancy Charges (S&CC) for HDB flats. Meanwhile, discounts offered by retailers during the Great Singapore Sale led to cheaper items such as clothing and footwear.

- Outlook: Oil prices to remain high amidst tight market conditions**

Market conditions are expected to remain tight, given the projection of firmer oil consumption growth, output restraint from OPEC countries and moderate supply increases from non-OPEC producers. In Singapore, energy-related items are likely to make a positive contribution to overall inflation in H2 2007, after acting as a drag in H1.

Singapore: CPI and CPI Inflation



Recent Developments in External Inflation

CPI inflation remained unchanged or fell across most of the industrialized and Asian economies in Q2 2007. While headline CPI inflation rose in the US, China and Korea, this was primarily due to higher food and/or fuel prices, with core inflation remaining well contained.

In the US, headline CPI inflation edged up to 2.7% y-o-y in Q2 2007, from 2.4% in Q1. (Chart 1a) This was largely attributed to higher food prices, which rose at the fastest pace in more than 10 years. In addition, higher gasoline prices drove up transportation costs. Nonetheless, the higher cost of food and fuel did not lead to a spike in the prices of other consumer items, with core inflation easing to 2.3% in Q2 from 2.6% in Q1.

In the Euro Area, headline inflation stayed unchanged at 1.9% y-o-y in Q2, the third consecutive quarter in which inflation came in below the ECB's target of 2%. Core inflation rose marginally to 2.0% in Q2 from 1.9% in Q1, but this was in part due to the increase in Germany's VAT.

Japan continued to experience mild deflation of 0.1% y-o-y in Q2, unchanged from the previous quarter. This was partly attributed to the price war between mobile service providers, which led to a fall in the cost of telecommunications. This, together with the continued decline in the price of household durables, helped to offset the rise in the cost of healthcare.

Inflation rose in China and Korea due to higher cost of food and/or fuel, while price pressures eased in Hong Kong and Taiwan. (Chart 1b) China's inflation shot up from 2.7% in Q1 to 3.6% in Q2 as prices of eggs and meat, especially pork, soared amidst the blue-ear disease outbreak. Apart from food, prices of most other consumer items rose modestly or fell. In Korea, headline inflation jumped from 2% in Q1 to 2.5% in Q2, but core inflation was steady at 2.3%. Higher food prices in Hong Kong was offset by lower cost of housing and clothing, with overall inflation easing to 1.3% in Q2 from 1.7% in Q1. Inflation was muted in Taiwan, at only 0.3%.

Inflation moderated in Southeast Asia, helped in part by stronger local currencies. (Chart 1c) In Malaysia, inflation slowed from 2.6% in Q1 to 1.5% in Q2 due to smaller increases in the cost of electricity and transportation, following the hike in fuel prices in March last year. In Indonesia, inflation slowed to 6.0% in Q2, with improvement seen in almost all the broad CPI categories. In Thailand, inflation decelerated from 6.0% in Q2 2006 to 1.9% in Q2 2007, reflecting weak consumer sentiment – household spending growth in Q1 was the weakest since the Asian Financial Crisis. Inflation was muted in the Philippines, reaching a 20-year low of 2.4% in Q2.

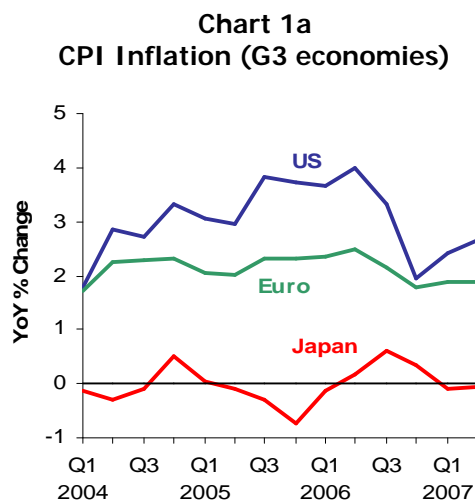


Chart 1b
CPI Inflation (Northeast Asia)

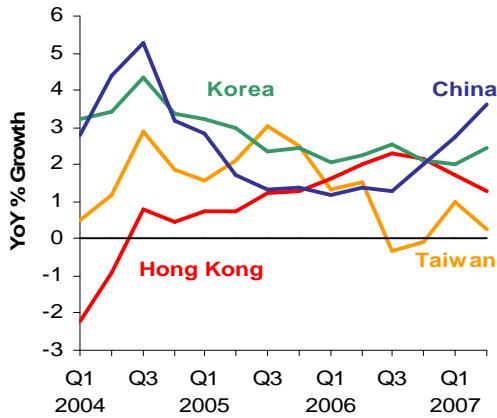


Chart 1c
CPI Inflation (Southeast Asia)

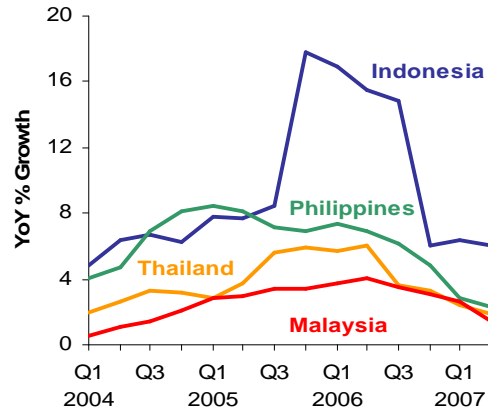


Table 1
External Inflation Indicator

	Overall Inflation	Food & Beverages	Clothing	Transport & Communication	Housing	Medical Care	Recreation	Education	Miscellaneous
USA	Red	Red	Green	Red	Red	Green	Green	Green	Red
Euro Area	Yellow	Yellow	Red	Red	Green	Green	Green	Red	Green
Japan	Yellow	Yellow	Red	Red	Green	Red	Green	Yellow	Yellow
China	Red	Red	Green	Red	Red	Red	Red	Red	Green
Hong Kong	Green	Green	Green	Green	Green	Red	Red	Red	Green
Taiwan	Green	Green	Green	Green	Red	Red	Green	Red	Green
Korea	Red	Red	Green	Red	Red	Yellow	Yellow	Red	Green
Malaysia	Green	Green	Green	Green	Green	Yellow	Red	Green	Green
Thailand	Green	Green	Red	Green	Green	Green	Red	Green	Green
Indonesia	Green	Green	Green	Yellow	Green	Green	Green	Red	Green
Philippines	Green	Green	Green	Green	Green	Green	Green	Green	Green
Singapore	Red	Green	Yellow	Red	Green	Red	Red	Green	Red

Interpretation of Colour Codes:

The indicator is based on the change in inflation over the past quarter of individual components in y-o-y terms.

	Inflation accelerating
	No change in inflation
	Inflation decelerating

Recent Developments in Domestic CPI Inflation

Domestic headline CPI inflation rose to 1.3% y-o-y in June from 1.0% in the previous month. This brought average inflation to 0.8% for the first six months of 2007. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – edged up to 1.5% in June from 1.3% in May. Over the period Jan-Jun 2007, it averaged 1.2%.

The higher inflation in June was largely attributed to the rise in transport costs, which in turn was due to higher COE premiums for cars in May¹ (reflected in the transport & communications category in Chart 2a). Indeed, average COE premiums for Category A and B cars have risen sharply from below \$10,000 in February 2007 to above \$17,000 in June. This followed announcements from the Land Transport Authority that the COE quota for cars in the new Quota Year (May 2007 to April 2008) would be reduced by 9.3%. (Chart 2b) Consequently, the contribution to overall inflation from transport costs has strengthened significantly in recent months.

Chart 2a
% Point Contribution
to CPI Inflation (y-o-y)

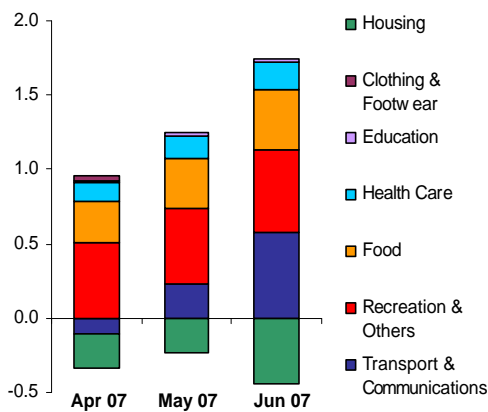
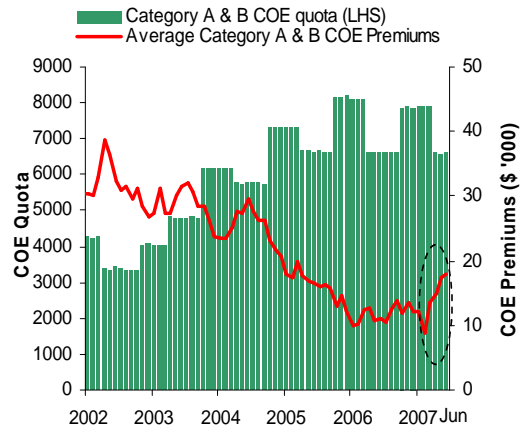
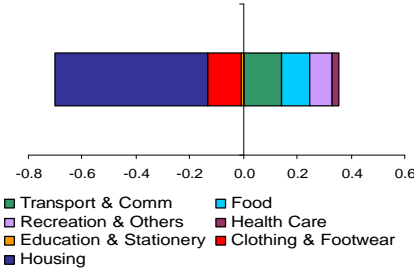
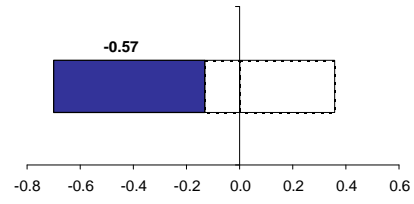
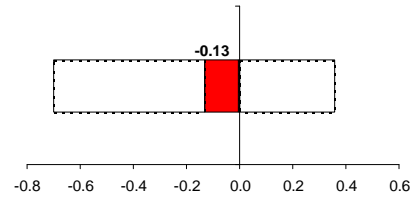
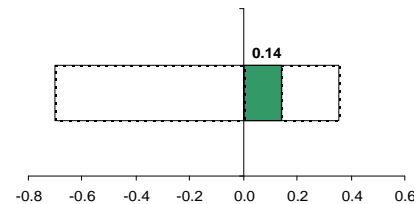
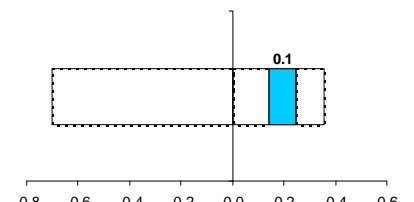


Chart 2b
Monthly COE Premiums and Quota



¹ 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 (m-o-m), Jun 2007	Group	
 <p>Legend:</p> <ul style="list-style-type: none"> Transport & Comm (Green) Food (Cyan) Recreation & Others (Purple) Health Care (Red) Education & Stationery (Orange) Clothing & Footwear (Dark Red) Housing (Dark Blue) 	Overall (m-o-m)	On a m-o-m basis, the CPI fell by 0.3% in June, largely due to lower costs of housing and clothing & footwear. The overall decline was partly offset by the higher costs of transport & communications, food and recreation & others.
	Housing	Despite some upward revision to imputed rents of private residential property in June, the overall costs of housing fell by 2.7% due to higher rebates on Service & Conservancy Charges (S&CC) ² for HDB flats. In addition, prices of household durables remained on a declining trend.
	Clothing & Footwear	With discounts offered during the Great Singapore Sale (GSS), which started in late May and spanned the whole month of June, prices of clothing & footwear fell by 3.6%, after a 1.8% decrease in May.
	Transport & Communications	Costs of transport & communications rose by 0.7% during the month, mainly on account of higher car prices. In turn, this was due to the 16% and 19% increase in COE premiums for category A and B cars respectively in May.
	Food	Meanwhile, overall food prices went up by 0.4%, with price increases seen in all sub-categories of the CPI food basket. In particular, prices of dairy products and eggs rose by 1.5% in June, after jumping by 2.8% last month due to the impact of Australia's severe drought on crops and livestock output. Prices of non-alcoholic beverages also rose by a strong 1.4%. Other sub-categories which witnessed firmer price increases include cooked food, cooking oils & fats and rice & cereal.

² 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

	<p>Re-creation & Others</p>	<p>Costlier air fares, overseas accommodation and holiday packages led to an uptick in the overall costs of holiday travel during the month.</p> <p>At the same time, costs of hiring foreign domestic workers edged up for the third consecutive month. This followed Indonesia's move in May 2007 to raise the minimum wages for Indonesian workers in Singapore from S\$280 to S\$350.</p>
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Outlook

OIL PRICES TO REMAIN HIGH AMIDST TIGHT MARKET CONDITIONS

Tight market conditions in recent months drove global oil prices to new highs. On 1 August 2007, the benchmark WTI oil price surged to a new record of US\$78.77 per barrel, surpassing the previous peak of US\$78.40 per barrel in July 2006 when Middle-Eastern geopolitical tensions exacerbated supply-side worries in a jittery market. (Chart 3)

Chart 3
WTI Oil Price



Source: Bloomberg

Global oil demand has continued to strengthen alongside robust economic growth. At the same time, supply has tightened as a result of reduced production from OPEC countries and geopolitical-related outages in Nigeria and Iraq, despite modest supply increases from non-OPEC producers. The demand-supply imbalance was exacerbated by the inflow of speculative funds, which further pushed up oil prices.

Looking ahead, the oil market is expected to remain tight, with oil prices staying elevated. The US Energy Information Administration (EIA) is projecting a larger drawdown of oil stocks in OECD countries in the second half of the year, while new supply is unlikely to increase due to OPEC's output restraint and limited spare production capacity. Meanwhile, at this stage, both the

International Energy Agency (IEA) and the US Energy Information Administration (EIA) are forecasting oil demand to increase at an even faster pace in 2008 compared to 2007.

With the recent jump in global oil prices, domestic energy-related items can be expected to witness price increases in H2 2007. Indeed, after falling by 12.8% in the first two quarters, electricity tariffs were raised by 8.8% for Q3 2007 and are likely to be revised up again in Q4. Similarly, tariffs of residential piped gas were adjusted up by 4.7% in August 2007. Meanwhile, public transport companies, SMRT Corp and SBS Transit, have applied to the Public Transport Council (PTC) to raise bus and train fares in October 2007, partly on account of higher energy expenditure in the past year. With these price increases, we expect the contribution from energy-related items to overall CPI inflation to turn positive in H2 this year, after acting as a drag in H1.

DOMESTIC PRICES OF MOST FOOD ITEMS COULD STAY ELEVATED IN H2

Since the Sep 06 issue of the *Inflation Monthly*, we have regularly highlighted the upside risks to domestic food prices due to unfavourable climatic developments and growing food demand from some developing countries as a result of rising income. Indeed, food prices emerged as the main contributor to CPI inflation in H1 2007. (Chart 4a) In particular, diminished stocks in the European Union and the prolonged drought in Australia have contributed to the sharp increase in the international price of milk and other dairy products since end-2006. This has inevitably translated into higher imported and consumer prices of these products domestically. (Chart 4b)

Chart 4a
Contribution to CPI Inflation, H1 2007

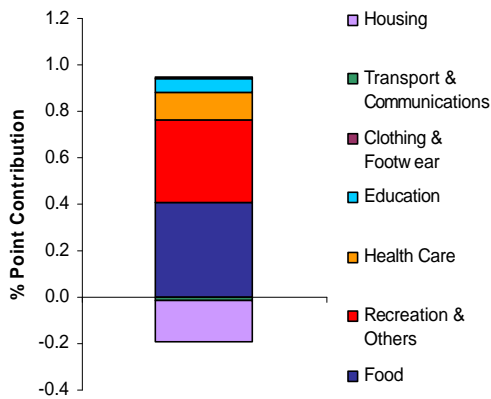
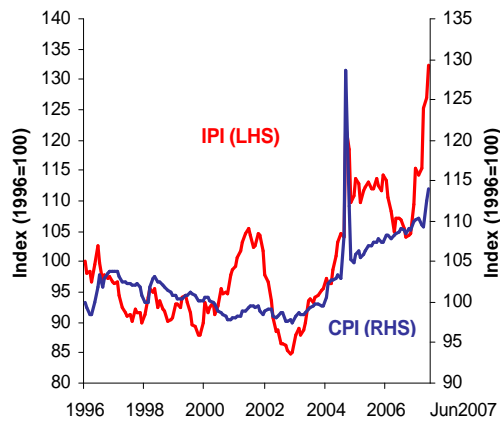


Chart 4b
Import and Consumer Prices of Eggs & Dairy Products



For the remainder of the year, food prices are likely to stay elevated. Limited export supply of rice, growing demand for bio-fuel crops such as wheat, corn and soybean, and continued rapid income growth in developing countries are some fundamental factors which are likely to support food prices in the coming months. Prices of milk and other dairy products could, however, soften in H2 2007. The Food and Agriculture Organisation (FAO) expects the higher prices currently to encourage greater exports from producing countries, thus alleviating some of the market tightness³.

³ See FAO's June 2007 issue of the *Food Outlook* for more details.

HEADLINE CPI INFLATION TO COME IN AT 0.5-1.5% FOR THE WHOLE OF 2007

We expect CPI inflation to rise in H2 2007 relative to H1, due to higher prices of cars, energy-related items and food, as well as the effect of the 2% GST hike. Overall inflation is projected to come in at the upper half of our forecast range of 0.5-1.5% in 2007. The MAS underlying inflation, which excludes accommodation and private road transport costs, is expected to be in the range of 1-2% in 2007.

Statistical Appendix

Table A.1
Singapore's 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 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
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

Source: Singapore Department of Statistics

Table A.2
Selected Inflation Indicators for Singapore

	CPI	MAS Underlying Index	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH				
2006 Jul	1.1	1.7	3.4	34.5	29.8
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	22.6	-3.7
Mar	0.7	1.2	-3.5	25.3	1.5
Apr	0.6	1.2	-4.0	24.0	-1.9
May	1.0	1.3	-3.2	15.2	-1.1
Jun	1.3	1.5	-3.4	20.2	3.1

Source: Singapore Department of Statistics, IMF and Bloomberg