

## HIGHLIGHTS & OUTLOOK

### SOME RESPITE FOR CONSUMER PRICE PRESSURES

**Headline CPI inflation** came in slightly lower at 1.3% year-on-year (y-o-y) in March, as compared to 1.5% in February. This was fairly in line with both MAS' as well as private analysts' expectations. The MAS underlying inflation – which excludes accommodation and private road transport – also edged down to 1.9% y-o-y in March, following the 2% recorded in the previous month. For the first quarter of this year, CPI inflation averaged 1.4%.

### CONSUMER PRICES LIFTED BY IMPACT OF ADMINISTRATIVE TAX HIKE

On a seasonally adjusted basis, the CPI rose by 0.2% in March, after a temporary decline of a similar magnitude in February. The sequential increase in consumer prices largely reflected the hike in taxes on alcoholic drinks & tobacco, which accounted for around 75% of the increase. However, this was counterbalanced somewhat by a reduction in car taxes, which lowered final car prices. Abstracting from the effects of these administrative changes, consumer prices were relatively unchanged for the month. Commodity-related price pressures eased off somewhat in March, as did prices of retail items.

### CHANGE IN TAX POLICY LED TO HIGHER CIGARETTE PRICES

Prices of alcoholic drinks & tobacco saw a one-off sequential increase of almost 9% in March, reflecting the hike in excise duties on these items. (Our January issue of the Inflation Monthly had included a discussion on the impact of such indirect taxes on consumer prices.) This was higher than the usual 5-7% m-o-m increase in the earlier years, when comparable tobacco tax hikes of between 15-20% were implemented (with the exception of last year which saw firms attempting to recoup lost margins incurred during an earlier price war).

The higher price increase this time round reflected a stronger pass-through relationship of tobacco tax hikes into consumer prices. In view of the emergence of several low-priced brands with slightly lower tobacco content, the government changed the tax policy in July 2003 to tax cigarettes by the stick rather than by weight. This translated into a heavier tax burden, which probably led firms to pass on these cost increases to consumers. If not for the price war reported in some housing estates, with discounts of up to eighty cents per pack, cigarette prices could possibly been higher.

### ON THE FLIP SIDE, UPFRONT TAXES ON CARS WERE REDUCED

As part of the FY2004 Budget measures, upfront taxes on cars were lowered by 20% points. Car dealers promptly revised their prices by as much as 10% for some of the higher-end models. However, most car dealers did not reduce prices to match the tax cut, as there were concerns that the higher demand may push up COE premiums, and thus offset some of the tax savings. Moreover, the impact of the rising Euro may also have limited the pass-through of the tax reductions.<sup>1</sup>

### MOMENTARY RELIEF FROM COMMODITY-INDUCED PRICE PRESSURES

Abstracting from the effects of the administrative tax changes, underlying consumer prices were fairly contained in the month, with some respite from commodity-related price pressures. Most non-cooked food items, with the exception of seafood, registered milder increases compared to the previous month, while cooked food prices remained stable.

<sup>1</sup> Source : The Straits Times, 1 March 2004, "Car dealers cut prices after drop in vehicle tax".

Turning to oil-related items, prices of liquefied petroleum gas (LPG) saw a slight increase. Petrol prices, which increased fairly rapidly in the last few months – there were three rounds of price hikes since December – took a breather as well in March. Current domestic petrol prices remained lower compared to earlier episodes of high global oil prices such as in 2000, capped by the continuing discounts offered by pump operators of around 6%.

### GST HIKE BITES FOR RETAIL ITEMS

After a one-off increase early this year due to the GST hike, prices of some retail items, including ready-made clothing and personal effects, retreated in March. Several retailers reported a cutback in consumer spending following the tax hike in January, particularly for the big-ticket discretionary items such as household durables and personal effects (including watches, jewellery etc).<sup>2</sup> This could have prompted some retailers to subsequently adjust their ex-GST prices downwards. The somewhat weaker consumer demand could also partly reflect the adjustment to the front-loading of spending prior to the tax hike.

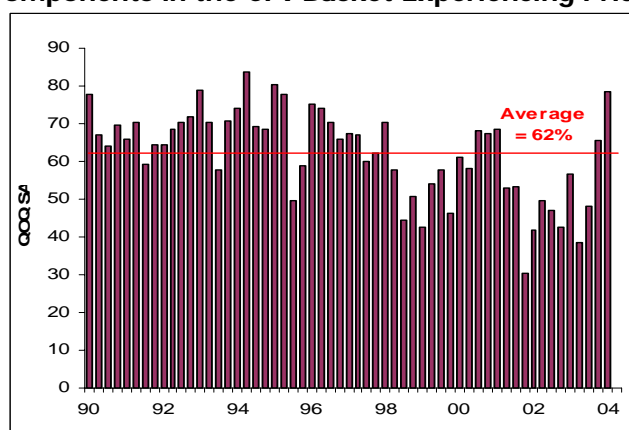
## CONSUMER PRICES TO CONTINUE GAINING GROUND

### A REVIEW OF RECENT PRICE DEVELOPMENTS INDICATES SOME PRICE MOMENTUM

Reviewing consumer price developments over the past quarter, prices saw a sharp jump in January on the back of the hike in GST, although some retail prices retreated later in the quarter. Other administrative price hikes in the quarter include the recent upward revision in alcoholic drinks & tobacco duties. Meanwhile, prices of domestic commodity-related items (especially oil and food) picked up pace, with world commodity prices climbing. There were fairly rapid gains in services costs as well, reflecting the lagged impact of earlier labour cost increases as well as rising production costs over the years. For Q1 2004 as a whole, the index saw a jump by 0.9% - the sharpest increase since Q2 1994 when the GST was first introduced.

Despite the underlying price momentum slowing somewhat most recently in March, this is likely to be a temporary respite. As highlighted in Chart 1, the proportion of items in the CPI basket that has been registering increases on a quarter-on-quarter seasonally adjusted (q-o-q SA) basis has been rising steadily to close to 80% in Q1 2004.

**Chart 1**  
**Share of Components in the CPI Basket Experiencing Price Increases**



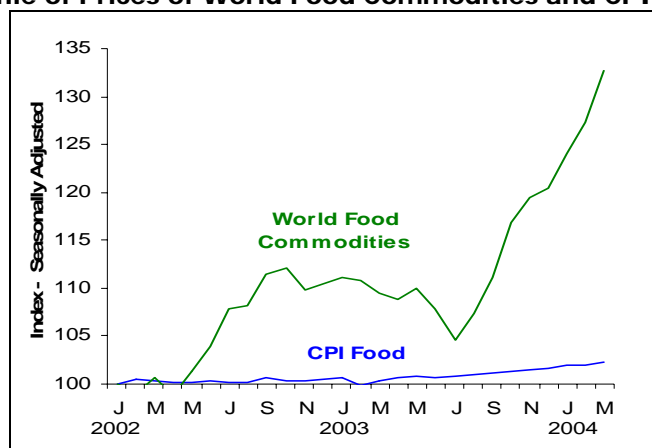
### COMMODITY PRICES COULD SEE FURTHER INCREASES

Going forward, commodity-induced price increases are likely to continue exerting upward pressures on consumer prices in the near term. Apart from supply constraints,

<sup>2</sup> Source : The Straits Times, 16 March 2004, "4-month retail boom ends as GST hike bites".

the global recovery, rising Chinese demand as well as the weak US Dollar have also contributed to commodity price rises. OPEC oil prices have been sustained at around US\$32 per barrel in Mar-Apr. Earlier expectations of an eventual resumption of Iraqi exports into world markets took a setback after an attack at the Basra terminal, which accounts for 90% of the country's oil exports. More recently, another attack at an oil facility in Saudi Arabia – the world's biggest oil exporter – added further jitters to oil markets. Reflecting high global oil prices, both petrol prices and electricity tariffs will see upward adjustments in April, although the latter could be partially offset by the cut in electricity transmission rates by 1.2% later in May. Domestic food prices, which have been rising for much of last year, could continue to see further increases on the back of rising food commodity prices, although the increase is not expected to be too significant. (Chart 2.)

**Chart 2**  
**Profile of Prices of World Food Commodities and CPI Food**

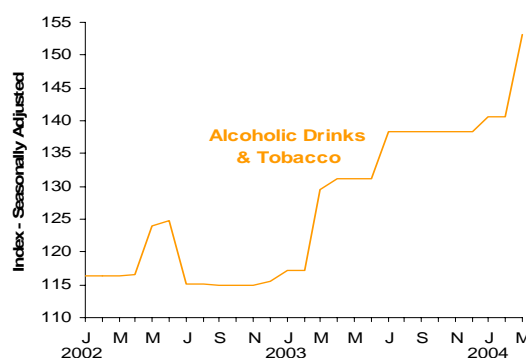
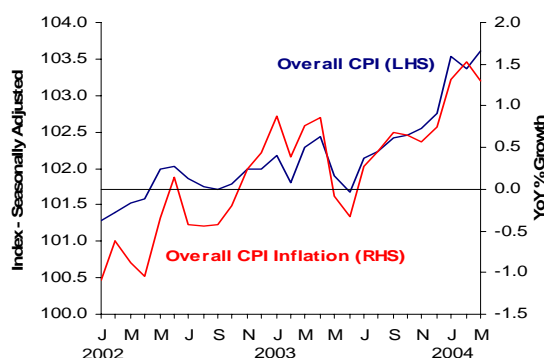


**DEMAND-INDUCED PRICES PRESSURES AS ECONOMY STRENGTHENS**

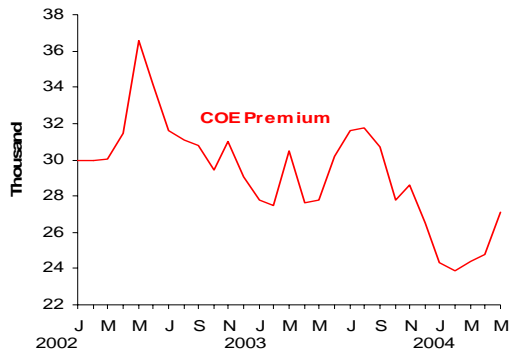
As domestic economic growth picks up pace, demand-induced inflationary pressures are likely to become more pronounced. This would be particularly so in the sentiment-sensitive retail items, which have seen fairly strong increases in the later part of 2003. For 2004 as a whole, CPI inflation is expected to come in at between 1.5-2.0%.

Headline CPI inflation came in at 1.3% y-o-y in March, down from 1.5% in the previous month. However, the seasonally adjusted index rose by 0.2% after a decline of 0.2%.

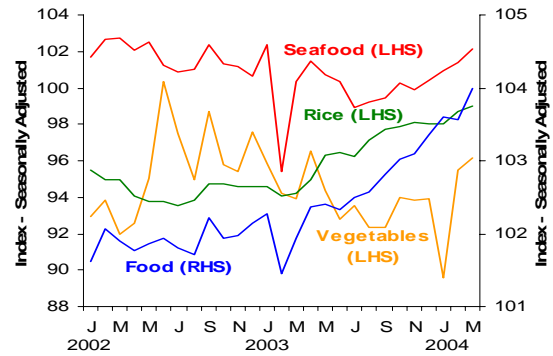
The main contributor to the sequential increase was the hike in prices of alcoholic drinks & tobacco due to the upward revision in their excise duties.



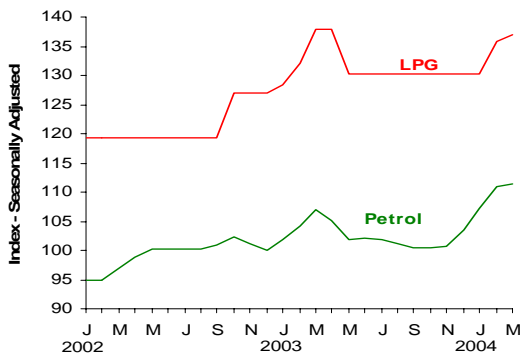
However, the reduction in car ownership taxes led to lower car prices, despite a rise in COE premiums.



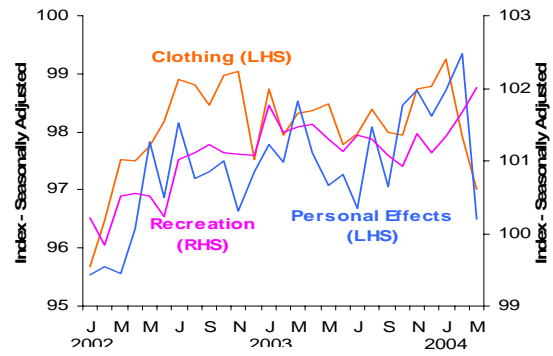
Meanwhile, food prices rose on the back of more expensive seafood. Prices of rice and vegetables increased moderately as well.



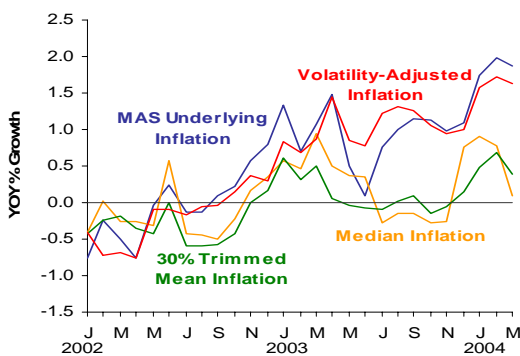
Prices of oil-related items such as LPG and petrol also saw slight increases.



Prices of several retail items such as clothing and personal effects declined, reflecting some adjustment after the GST hike. However, prices of recreation items continued to rise.



Similar to the headline inflation number, all core inflation measures took a dip in March.



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							
2001 Jan	102.4	102.9	97.2	102.7	100.1	103.9	104.7	103.6
Feb	102.0	101.4	98.3	103.1	99.8	104.0	104.8	103.3
Mar	102.5	101.9	98.1	103.1	100.4	104.2	104.8	104.4
Apr	102.7	101.9	98.1	103.2	100.5	104.7	105.4	105.0
May	102.3	101.9	98.1	101.8	100.2	104.8	105.6	105.3
Jun	101.9	101.8	98.0	102.0	98.3	104.9	105.9	105.6
Jul	102.3	101.9	98.0	101.5	99.7	105.3	106.1	106.2
Aug	102.2	102.0	97.2	101.3	99.7	105.4	106.0	106.1
Sep	102.1	101.8	98.5	101.0	99.6	105.6	106.0	106.1
Oct	102.0	101.9	97.3	101.0	98.9	105.9	106.3	105.9
Nov	101.7	102.0	96.6	100.6	97.9	106.1	106.3	105.4
Dec	101.6	101.6	97.1	100.6	97.2	106.3	106.4	105.2
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	117.6	108.3
Mar	103.6	104.0	97.0	98.7	99.3	113.1	117.6	109.5

## SELECTED INFLATION INDICATORS

Period	CPI	Import Price Index	Non-fuel Primary Commodities	Opec Oil Price
	YOY% Growth			
2001 Jan	2.0	0.9	-2.1	-2.4
Feb	1.3	0.3	-3.0	-5.2
Mar	1.8	-0.5	-3.0	-12.3
Apr	2.0	1.3	-2.3	7.7
May	1.9	1.2	-1.7	-2.9
Jun	1.2	-0.1	-1.3	-10.5
Jul	1.3	-0.9	-1.6	-14.1
Aug	0.7	-1.4	-2.1	-14.5
Sep	0.5	-3.2	-7.0	-22.7
Oct	0.2	-3.9	-9.3	-36.0
Nov	-0.2	-3.5	-7.2	-43.2
Dec	-0.6	-2.3	-8.4	-26.5
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	19.4	-6.4
Mar	1.3	-2.3	23.6	9.3