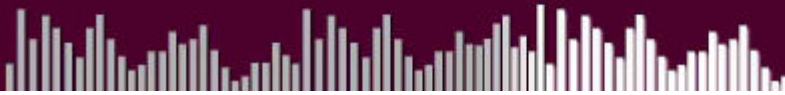


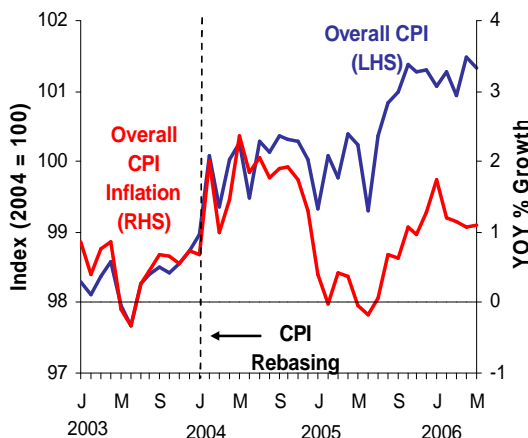
# Inflation Monthly

May 2006



## CPI Inflation Stayed Contained in May

Singapore's CPI (2004 = 100)		
% Growth/ Level	Apr 06	May 06
<b>y-o-y</b>	1.1	<b>1.1</b>
<b>m-o-m</b>	0.5	<b>-0.1</b>
<b>Index</b>	101.5	<b>101.3</b>



- **CPI inflation picked up in most external economies in May**

Headline inflation in the G3 economies edged higher in May, with housing and oil prices continuing to be the major contributing factors.

- **Singapore's headline CPI inflation remained unchanged at 1.1% in May**

Meanwhile, the MAS underlying inflation eased to 1.7% in May from 1.8% in the previous month.

- **On a m-o-m basis, CPI fell by 0.1%, mainly due to lower costs of recreation and cheaper clothing & footwear**

Costs of holiday expenses continued to decline for the fifth consecutive month, dragging down recreation costs. The launch of the Great Singapore Sale also led to a decline in prices of retail sales items.

- **Outlook: Pass-through effects of higher oil prices to continue**

Recent geopolitical tensions have sent oil prices higher, touching a record level of above US\$78 per barrel. With oil prices expected to stay high and volatile going forward, the pass-through effects of higher oil prices will continue to filter through to CPI inflation gradually.

## Recent Developments in External Inflation

Following the initial signs of an upturn in April, inflation picked up in most of the major economies in May.

In the G3 economies, headline inflation rose in May (Chart 1a), with housing and oil prices continuing to be the major contributing factors. In the US, headline inflation surged above 4% year-on-year (y-o-y) for the first time since Nov 2005, driven by broad-based increases across nearly all categories. Notably, the motor fuel price index reached a record high, breaching the previous high set in the immediate aftermath of Hurricane Katrina. Additionally, falling natural gas prices had the perverse effect of driving up the owner equivalent rents (OER) component<sup>1</sup> which accounted for 23% of the basket in May. Similarly in Japan, prices of petroleum products went up by 11%, keeping CPI inflation positive, at 0.6% y-o-y in May, for the fifth consecutive month. In the EU, housing and transport were the major factors pushing CPI inflation up to 2.5% in May from 2.4% in April.

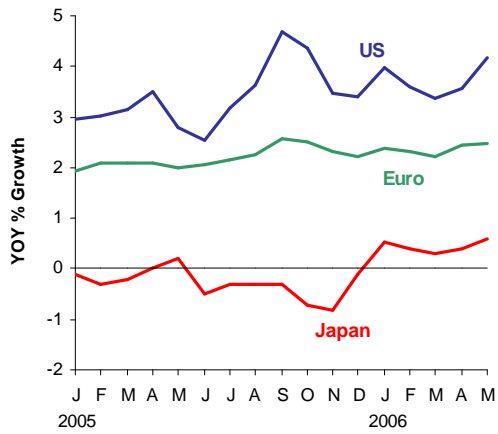
Consumer price inflation also picked up in all the Northeast Asian economies with food prices, housing and energy prices being the major contributors. (Chart 1b) In China, residential utility prices rose by 6.1% y-o-y mostly triggered by price reforms in the energy sector. In Hong Kong, CPI inflation continued to be driven by private housing rental, which was sustained by tighter labour market conditions. Headline CPI grew at the fastest pace since January in Taiwan, and a potential pass-through from a planned hike in electricity fares in July and rising import and wholesale prices could pose upside inflation risk. In South Korea, both headline and core inflation showed a significant rebound in May on the back of stronger demand arising from a consumption recovery.

In Southeast Asia, energy and food prices were the major factors behind the inflation developments. CPI inflation picked up in Thailand and Indonesia, while it moderated in Malaysia and Philippines. (Chart 1c) In Thailand, the acceleration in headline CPI in May was caused by the upward adjustment of energy prices as compared to the same period of last year. Raw food prices also continued to put upward pressure on inflation with a similar month-on-month (m-o-m) increase as in April. Indonesia's headline CPI inflation inched higher in May, the first increase in three months, with marginally higher food, clothing and energy prices adding to inflationary pressure. The moderation in the CPI in Malaysia was partly due to the result of a higher base arising from a fuel price increase in May last year. In the Philippines, inflation slowed following the oil price shocks in April. Weak domestic demand, in particular the decline in real investment, will continue to cap the inflation rate.

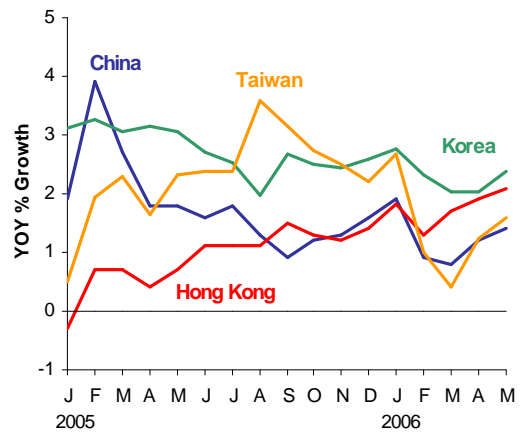
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<sup>1</sup> Natural gas prices affect utilities bills. If natural gas prices increase or decrease, utilities bills are impacted in the same direction. For the calculation of the OER, utilities bills are subtracted from rental. Thus, if natural gas prices go down, utilities prices fall and consequently OER increases.

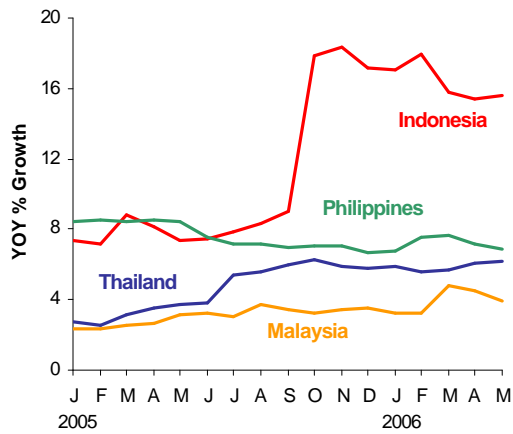
**Chart 1a**  
CPI Inflation (G3 economies)



**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									
EU									
Japan									
China							No data available		
Hong Kong						No data available			
Taiwan									
Korea									
Malaysia									
Thailand									
Indonesia									
Philippines									

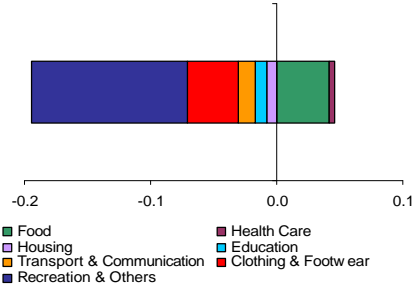
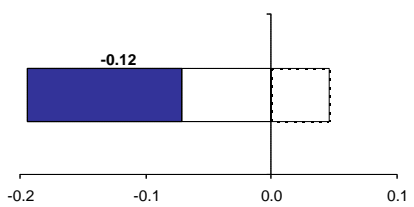
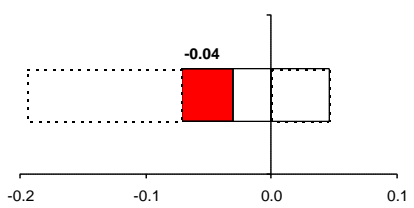
**Interpretation of Colour Codes:**

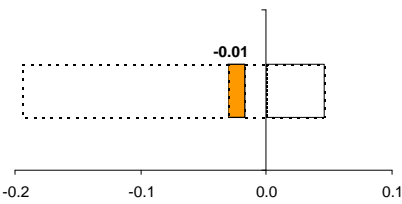
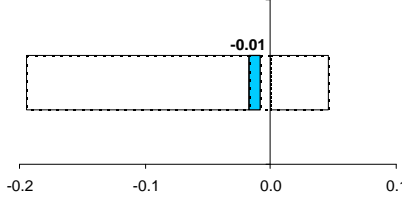
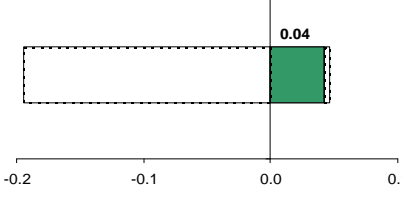
The indicator is based on the change over the past month in percentage-point contribution of individual factors to overall CPI inflation.

	Increase
	No change
	Decrease

## Recent Developments in Domestic CPI Inflation

In comparison to the general firm trend in the region, headline domestic CPI inflation remained unchanged at 1.1% in May. This brought average inflation for the first five months of 2006 to 1.3%. The MAS underlying inflation measure – which excludes accommodation and private road transport costs eased to 1.7% from 1.8% in the previous month. Over the period January-May 2006, it averaged 1.9%.

% Point Contribution, May 2006	Group	
 <p data-bbox="263 705 678 801">                     -0.2      -0.1      0.0      0.1                      ■ Food                      ■ Health Care                      ■ Housing                   ■ Education                      ■ Transport &amp; Communication   ■ Clothing &amp; Footwear                      ■ Recreation &amp; Others                 </p>	<p data-bbox="703 512 863 571"><b>Overall (m-o-m)</b></p>	<p data-bbox="868 512 1358 824">On a m-o-m basis, CPI fell by 0.1% in May, led by a fall in the costs of recreation and prices of clothing &amp; footwear, which together more than offset the increase in food prices. At the same time, price declines were recorded in other categories including transport &amp; communications, education and health care.</p>
 <p data-bbox="263 1019 678 1041">-0.2      -0.1      0.0      0.1</p>	<p data-bbox="703 831 863 920"><b>Recreation &amp; Others</b></p>	<p data-bbox="868 831 1358 1081">Costs of recreation &amp; others fell by 0.7% and contributed to the bulk of the overall m-o-m CPI decline during the month. In particular, costs of holiday travel dropped for the fifth consecutive month mainly due to cheaper overseas accommodation.</p>
 <p data-bbox="263 1276 678 1299">-0.2      -0.1      0.0      0.1</p>	<p data-bbox="703 1088 863 1178"><b>Clothing &amp; Footwear</b></p>	<p data-bbox="868 1088 1358 1594">Prices of clothing &amp; footwear came in lower by 1.1% in May. Retailers started offering discounts on retail sales items before the commencement of the Great Singapore Sale (GSS) in end May. Anecdotal reports suggested that against the backdrop of an improving economy and firm employment growth, recent sales volume was better than the same period last year. The encouraging sales outcome prompted some retailers to run promotional sales ahead of the GSS in an effort to boost revenue during this special season.</p>

% Point Contribution, May 2006	Group	
	<b>Transport &amp; Communications</b>	<p>Private road transport costs fell despite the increase in COE premiums in April<sup>2</sup> and petrol prices during the month. Anecdotal reports suggest that demand for cars remained weak due to the higher interest rates on car loans and the negative equity of some existing car owners. This prevented dealers from raising car prices by the full amount of the COE increase or, in some cases, induced car dealers to reduce prices so as to sustain sales volume.</p>
	<b>Education</b>	<p>Despite the increase in tuition fees at the Institute of Technical Education (ITE), as well as more expensive books and magazines, costs of education came down as prices of computers &amp; accessories fell significantly.</p>
	<b>Food</b>	<p>Overall food prices rose by 0.2% in May due mainly to more expensive non-cooked food. In particular, meat &amp; poultry prices went up by 0.7% as the import ban on live ducks from Perak caused importers to turn to costlier alternative suppliers. Prices of sugar and confectionary went up significantly as higher oil prices continued to influence sugar prices<sup>3</sup>.</p>

## Outlook

### PASS-THROUGH EFFECTS OF HIGHER OIL PRICES TO CONTINUE

Global oil prices showed little signs of decline in the first six months of 2006. The benchmark WTI oil price continued to rise on the back of geopolitical tensions in the Middle East, touching a record high of US\$78.4 per barrel on 14 July. The average price of US\$70.5 per barrel in Q2 2006 was 11% higher than the average of US\$63.3 per barrel in Q1. Generally, oil prices are expected to stay high going forward. In particular, the US Department of Energy expects the WTI oil prices to average US\$69 in 2006 and 2007 while the futures market is projecting prices to stay near US\$80 per barrel over the same period. (Chart 2)

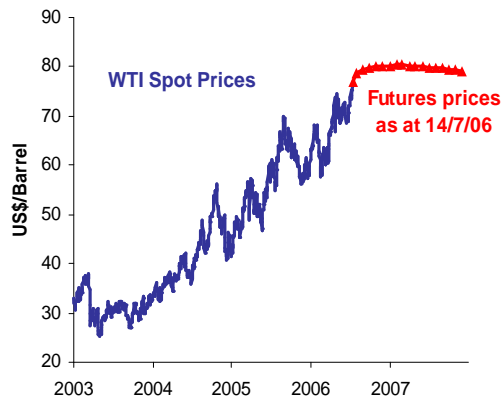
Domestically, both the direct and indirect pass-through effects of higher oil prices will continue to filter through to CPI inflation gradually. On account of more costly fuel, electricity tariffs, which have risen by 26% since the beginning of 2005, were raised again by 3.2% in

<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.

<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 crop for ethanol fuel production.

Q3 2006. More recently, some taxi operators adjusted the various components of taxi charges (flat-down rate, time-distance formula and peak hour surcharges) as a result of more expensive diesel. Going forward, as oil prices continue to mount, other service providers could also revise their charges to offset some of the costs pressures.

**Chart 2**  
**WTI Spot and Futures Prices**



#### **THE COMPETITIVE DOMESTIC BUSINESS ENVIRONMENT WILL HELP TO KEEP INFLATIONARY PRESSURES SUBDUED**

In the present global environment of high commodity prices and a general tightening of industrial capacity and labour markets, inflationary risks in the external environment remains high. Meanwhile, tighter domestic labour market conditions could lead to firmer wage growth.

Nevertheless, price pressures in the domestic economy are likely to remain contained, due in part to the highly open and competitive business environment in Singapore, which forces firms to keep costs down through improved efficiency and product and service innovation. Consequently, consumers benefit from lower pricing, more innovative products, and wider choices.

#### **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**  
**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 Jun	99.3	101.1	96.4	97.4	97.1	101.5	100.3	101.4
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

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 Jun	-0.2	0.8	5.1	8.1	49.8
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	24.6	30.5
May	1.1	1.7	6.1	35.9	39.9

Source: Singapore Department of Statistics, IMF and Bloomberg