

HIGHLIGHTS & OUTLOOK

HIGHER IMPORT PRICES TRICKLING INTO CPI

OVERALL CPI INFLATION HELD STEADY IN NOVEMBER

Headline CPI inflation came in at **0.6%** year-on-year (y-o-y) in November 2003, unchanged from the previous month. The headline inflation rate was in line with both MAS' as well as private analysts' expectations.¹ This brought average inflation for the eleven months of the year to 0.5%. The MAS underlying inflation measure – which excludes accommodation and private road transport – came in slightly lower at 1.0% y-o-y in November, as compared to 1.1% a month ago.

On a seasonally adjusted, month-on-month (m-o-m, SA) basis, the index edged up by 0.1% in November, after remaining unchanged in the earlier month. The slight increase in the overall index was largely attributed to more expensive retail prices as well as some transport cost increases. There was some pass-through of higher imported inflation into prices of consumer items.

PRE-GST AND FESTIVE BOOST TO RETAIL ITEMS

On a seasonally adjusted basis, the increase in clothing prices, which has been observed since October, continued to pick up pace in November, growing by a fairly strong 1.4%. Big-ticket retail items, specifically household durables and recreational items, also saw price increases, which the Singapore Retailers' Association has attributed to the frontloading of expenditure before the 1%-GST increase in Jan 2004, and increased festive spending underpinned by some improvement in consumer sentiment.

Prices of "other miscellaneous" items (comprising largely holiday & tour packages) inched up, its fourth straight month of increases in November, reflecting the continued travelling demand among Singaporeans during the year-end holidays. Nonetheless, stiff competition among local tour agencies moderated the price increases of packaged tours, and the "tourism-related" price indices remained below its pre-SARS level.

CAR PRICES REMAIN WEAK DESPITE SLIGHT PICKUP

Private road transport costs edged up as well in November, as car prices rose with the slight increase in COE premiums. The appreciating Japanese yen may also have forced some Japanese cars distributors to raise their prices. The increase in COE premiums in Nov appears to be a temporary phenomenon, and we have seen COE prices subsequently declining in December.

In fact, COE prices have been coming down since August, reflecting weaker consumer sentiments due to rising job insecurity, CPF cuts and prospects of rising interest rates. Car dealers noticed a 'trading down' syndrome as well, where car buyers substituted more expensive cars for cheaper ones. The general weakness more recently could also partly be attributed to the unexpected increase in the number of COEs, as Land Transport Authority (LTA) adjusted the COE quota upwards to make up for the earlier underestimation of the number of cars scrapped in the quota year 2003.²

¹ A recent Reuters poll found that the median forecast of 10 private sector analysts for November's CPI was 0.6%. Source: The Straits Times on 20 December 2003, "CPI seen up in November but flat in 2004".

² LTA announced in September that it would release 11,500 or 30 per cent more COE premiums over the remaining six months of the quota year beginning in April 2003. This was because it had significantly underestimated the number of cars that would be scrapped, which is a determinant factor of each year's COE quota.

SOME UPWARD PRESSURE FROM HIGHER IMPORT PRICES

Import prices continued to increase during the month, although the increase has been confined to selected commodities and have generally remained modest. The overall import price index (IPI) rose by 0.5% m-o-m in November, after coming in at 0.3% m-o-m in October and -0.9% in September. As mentioned in the October issue of the Inflation Monthly, local food prices have generally been rising since early this year, boosted by higher import prices of food commodities in world markets. This continued to be the case in November, with dearer meat & poultry, rice and vegetables, although the pace of increases in overall non-cooked food prices has slowed down.

Apart from food, the effects of higher global oil prices were also felt somewhat in domestic petrol prices. Although there was another round of discounts in early November at the Bukit Timah area, retail pump prices on the whole edged up during the month, as petrol kiosks in other parts of Singapore could have unwound some of the earlier discounts. However, electricity tariffs were cut again the second time in the space of two months, by 3.4%.

FLU SCARE MAY HAVE PUSHED UP HEALTHCARE COSTS

Meanwhile, healthcare costs rose by 0.3% in November on the back of more expensive proprietary medicines & supplies. This may be due to the surge in demand for vitamins and flu vaccines recently³, with Singaporeans stepping up precautionary measures against the recent Fujian flu scare, especially with the pickup in overseas travel during the school holidays. Education costs also continued on their secular uptrend.

NO MAJOR UPSETS EXPECTED FOR THE REST OF 2003

With one month of data left for 2003, CPI inflation is expected to come in at around **0.5%** for 2003 as a whole. For December, prices of several retail items are likely to continue to see some support from the pre-GST boost and festive cheer. Anecdotal evidence suggests healthy year-end sales at department stores and other retail outlets. Nonetheless, the festive discounts at several major department stores during the month to entice shoppers may hold down the price increases to some extent.

With global oil prices rising to US\$29 per barrel in mid-December, domestic petrol prices have seen a corresponding upward adjustment as well in the month, as pump operators pass on some of these higher costs to consumers.

MODERATE COMMODITY PRICE PRESSURES GOING FORWARD INTO 2004...

Going forward into 2004, the forecast for CPI inflation is between **0.5-1.5%**. Commodity price movements are likely to be a key factor for the new year, and with that, signs of imported inflation. Several commodity-related developments that may have an impact on CPI inflation in the next few months include: First, the recent discovery of mad cow disease in US, which has prompted the Singapore Agri-food and veterinary authority (AVA) to impose a six year ban on US beef imports.⁴ The shortage in beef imports in the interim could lead to some price increases in the near term. With Australia being a key source of beef imports for Singapore, movements in the bilateral S\$-A\$ rate would also contribute to some degree of first stage imported inflation pressures. Second, the disruption of gas supplies from Indonesia to Singapore arising from a recent pipeline leak may have an impact on domestic gas prices in the

³ Source: The Straits Times on 10 December 2003, "No need to panic or rush for flu shots".

⁴ Source: The Straits Times on 25 December 2003, "Singapore: Slaps a six-year ban".

coming months.⁵ Third, with global oil prices sustained at high levels, we expect the island-wide petrol price discounts, which have already been reduced lately, to taper off further in the coming months. Oil companies have already admitted that the discounts have been hurting them financially, and it is unlikely that they can hold out indefinitely with the higher costs.

...WITH ONE-OFF GST INCREASE AND DEMAND PRESSURES PICKING UP ALONGSIDE THE ECONOMIC RECOVERY

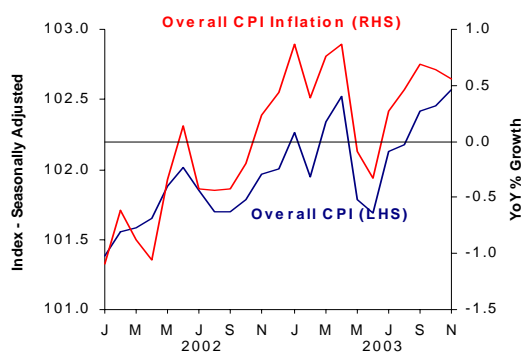
On the domestic front, with the economic outlook brightening, consumer confidence has also turned more optimistic. The anticipated economic recovery may exert some demand-side inflationary pressures. CPI inflation will also be boosted by the second phase of the GST increase from 1 Jan 2004. Similar to the first phase in 2003, the pass-through of the GST increase to consumer prices is likely to be staggered. Already, NTUC Fairprice has assured that it will absorb the 1% GST increase for the first six months on a basket of 400 essential food items. Cold Storage, Courts and Ikea have similarly announced that there will be some temporary absorption of the GST increase. At the same time, some retailers including Tangs have indicated that due to the busy holiday season, not all their prices will be updated in time for the new GST rate on 1 Jan 2004.

HOWEVER, COMPETITION WILL CONTINUE TO CAP OVERALL PRICE INCREASES

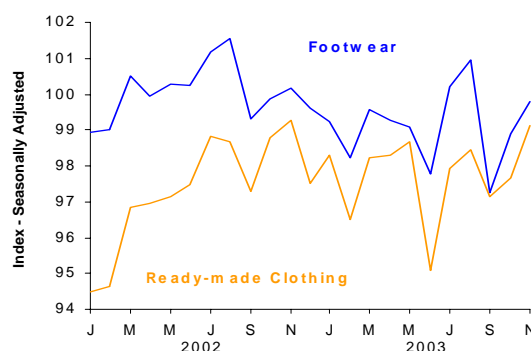
While demand for travel services are expected to continue to be strong going into the Chinese New Year week in late-January 2004, competition among tour operators are likely to moderate the extent of the price increases. In the longer term, travel costs could be shaped by the arrival of regional budget airlines and no-frills carriers. While it is still unclear if incumbent players like Singapore Airlines, Cathay Pacific and Malaysia Airlines will also offer more attractive airfares in a bid to retain some of their more price-conscious passengers, the entrance of these new players can only exert downward pressure on these consumer items.

Similarly, the power industry will be liberalized at the retail level starting 1 Jan 2004, breaking the monopoly currently enjoyed by SP Services. With more players in the market, the increased competition could bring about lower electricity tariffs in the future.

Headline CPI inflation came in at 0.6% y-o-y in November, unchanged from October. The seasonally adjusted index edged up by 0.1%.

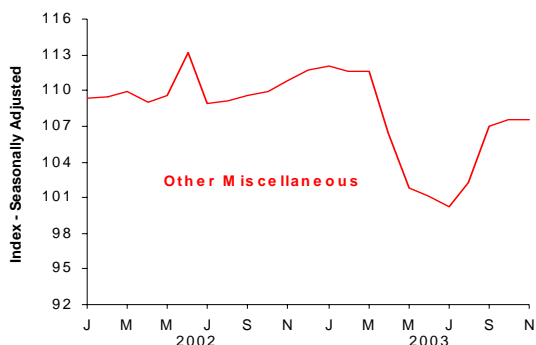


Prices of several retail-related items including ready-made clothing and footwear, rose in November, with the rate of increase picking up as well.

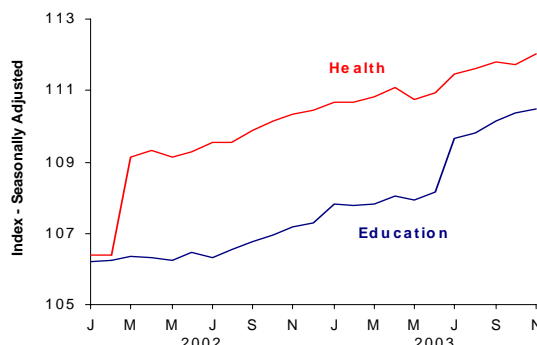


⁵ Wholesale power prices had been pushed up by some 27-40% following the glitch in Indonesian gas supplies to Singapore. Source: The Straits Times on 19 November 2003, "Pipeline leak likely to hit retail power prices".

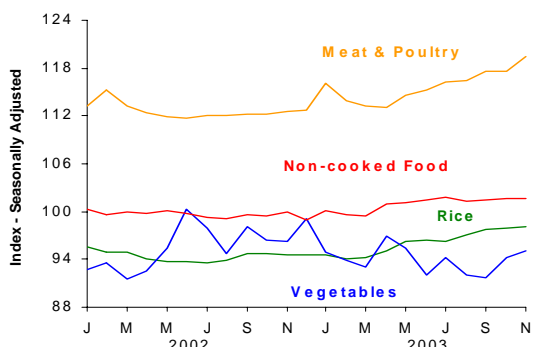
Prices of "other miscellaneous" items (comprising mainly packaged tours) continued to recover in November, although they still remained below their pre-SARS levels.



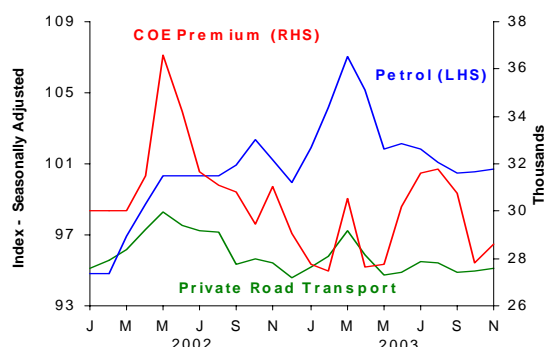
Both education and healthcare costs continued their secular rise, the latter due to more expensive proprietary medicines & supplies.



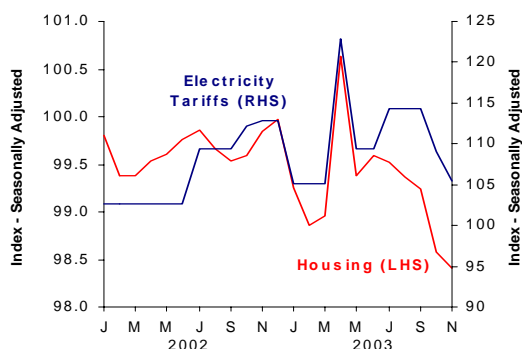
The increase in overall non-cooked food prices was largely due to higher prices of rice, meat & poultry and vegetables.



Both COE premiums and petrol prices saw small increases in the month, contributing to the mild pickup in private road transport costs.



The fall in housing prices reflected the downward adjustment in electricity tariffs in November, the second cut in two months.

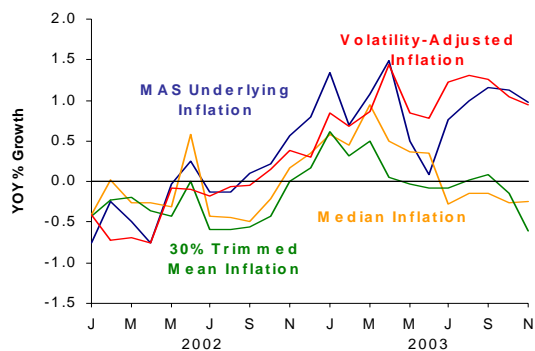


Prices of personal care and personal effects have either fallen or remained stable in November.



Most measures of core inflation registered the second consecutive decline in November.

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	102.5	103.1	97.4	102.7	100.8	104.1	104.7	103.8
Feb	102.2	101.5	97.6	103.1	100.5	104.1	104.7	103.4
Mar	102.5	101.9	98.0	103.0	100.9	104.2	104.9	104.5
Apr	102.7	101.9	98.0	103.4	100.7	104.7	105.5	105.0
May	102.2	101.9	98.1	101.8	100.1	104.7	105.5	105.2
Jun	101.9	101.8	97.6	102.0	98.3	104.8	105.8	105.6
Jul	102.3	101.9	99.1	101.6	99.2	105.3	106.0	106.0
Aug	102.1	101.9	97.3	101.3	99.2	105.5	106.0	106.0
Sep	102.1	101.8	97.6	101.0	98.9	105.7	106.1	106.1
Oct	102.0	101.9	97.2	100.9	98.5	105.9	106.2	105.9
Nov	101.7	102.0	96.7	100.6	98.0	106.1	106.4	105.3
Dec	101.5	101.6	97.0	100.7	97.4	106.2	106.5	105.1
2002 Jan	101.4	101.8	95.9	99.8	98.1	106.2	106.4	105.2
Feb	101.6	102.2	95.5	99.4	98.4	106.2	106.4	105.3
Mar	101.6	101.8	97.4	99.4	98.4	106.4	109.1	105.2
Apr	101.6	101.8	97.4	99.5	98.8	106.3	109.3	104.8
May	101.9	101.9	97.8	99.6	99.0	106.2	109.1	105.9
Jun	102.0	101.9	98.0	99.8	98.8	106.5	109.3	107.3
Jul	101.9	101.8	100.0	99.9	98.9	106.3	109.6	105.0
Aug	101.7	101.6	99.0	99.7	98.7	106.5	109.6	105.2
Sep	101.7	102.2	97.5	99.5	97.5	106.8	109.9	105.3
Oct	101.8	102.0	98.8	99.6	98.1	106.9	110.1	105.5
Nov	102.0	101.9	99.3	99.8	98.4	107.2	110.3	105.6
Dec	102.0	102.2	97.6	100.0	98.1	107.3	110.4	106.0
2003 Jan	102.3	102.5	98.9	99.3	99.3	107.8	110.7	106.7
Feb	102.0	101.5	96.8	98.9	99.5	107.8	110.7	106.4
Mar	102.3	101.8	98.3	99.0	99.8	107.8	110.8	107.6
Apr	102.5	102.4	98.3	100.6	98.9	108.0	111.1	106.0
May	101.8	102.5	98.7	99.4	98.0	107.9	110.7	104.5
Jun	101.7	102.2	96.9	99.6	98.4	108.2	110.9	104.5
Jul	102.1	102.5	99.2	99.5	98.2	109.7	111.5	105.2
Aug	102.2	102.4	98.7	99.4	98.1	109.8	111.6	106.0
Sep	102.4	102.9	97.0	99.2	97.5	110.1	111.8	107.3
Oct	102.5	103.1	97.8	98.6	98.0	110.4	111.7	107.7
Nov	102.6	103.1	99.1	98.4	98.4	110.5	112.0	107.6

SELECTED INFLATION INDICATORS

Period	CPI	Import Price Index	Non-fuel Primary Commodities	Opec Oil Price
	YOY% Growth			
2001 Jan	2.0	4.5	-2.1	-2.4
Feb	1.3	3.7	-2.9	-5.2
Mar	1.8	1.6	-3.0	-12.3
Apr	2.0	3.4	-2.3	7.7
May	1.9	2.6	-1.7	-2.9
Jun	1.2	1.3	-1.3	-10.5
Jul	1.3	0.3	-1.6	-14.1
Aug	0.7	-0.5	-2.1	-14.5
Sep	0.5	-2.7	-7.0	-22.7
Oct	0.2	-4.1	-9.3	-36.0
Nov	-0.2	-3.9	-7.2	-43.2
Dec	-0.6	-2.1	-8.4	-26.5
2002 Jan	-1.1	-1.7	-8.7	-24.4
Feb	-0.6	-2.1	-7.6	-25.6
Mar	-0.9	-0.7	-4.6	-4.4
Apr	-1.1	-0.9	-5.2	0.5
May	-0.3	-1.7	-6.3	-5.8
Jun	0.1	-2.8	-2.8	-8.9
Jul	-0.4	-2.0	0.2	6.0
Aug	-0.4	-0.6	1.4	5.7
Sep	-0.4	0.7	7.9	13.8
Oct	-0.2	1.5	13.5	40.2
Nov	0.2	0.8	11.1	37.2
Dec	0.4	2.2	11.3	59.6
2003 Jan	0.9	3.1	11.8	65.5
Feb	0.4	5.1	11.4	66.7
Mar	0.8	3.3	7.2	30.4
Apr	0.9	-0.3	7.1	1.9
May	-0.1	-1.5	6.8	3.6
Jun	-0.3	0.0	3.9	12.7
Jul	0.3	1.1	1.3	9.3
Aug	0.5	1.7	4.0	10.7
Sep	0.7	-0.3	3.1	-4.7
Oct	0.6	-0.7	5.6	3.8
Nov	0.6	1.4	9.3	17.4