

HIGHLIGHTS & OUTLOOK

WEAKNESS IN PRICES OF BIG-TICKET ITEMS: SUPPLY-SIDE FACTORS IN PLAY

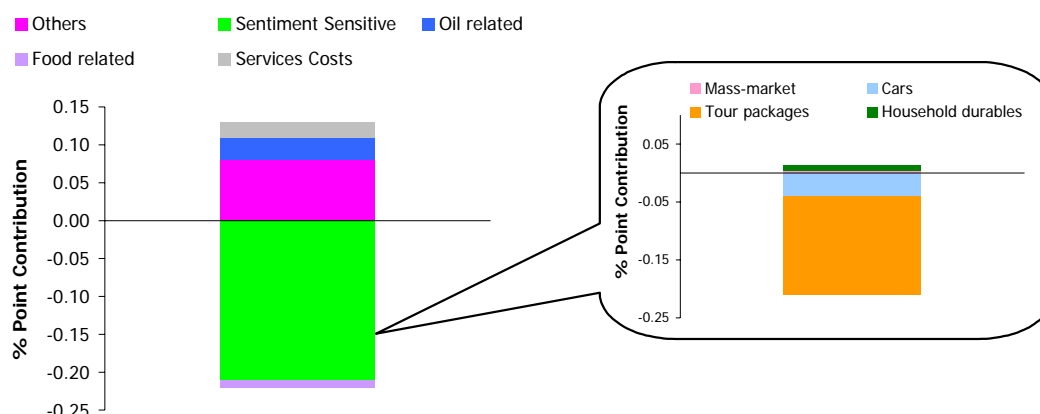
% Growth	2004		
	Sep	Oct	Nov
y-o-y	2.0	1.9	1.7
m-o-m SA	0.5	0.0	-0.1

HEADLINE CPI INFLATION DRIFTED LOWER TO 1.7% IN NOVEMBER

Headline CPI inflation trended down to **1.7%** year-on-year (y-o-y) in November, after coming in at 1.9% in October. This brought average inflation for the first eleven months of the year to 1.7%. The MAS underlying inflation – which excludes private road transport and accommodation costs – also fell to 2.0% in November, from 2.2% a month ago.

On a month-on-month, seasonally adjusted (m-o-m, SA) basis, consumer prices edged lower as well, by 0.1% in November, after remaining unchanged in the previous month. The sequential fall in the overall CPI mainly reflected the weakness in prices of big-ticket items (including tour packages and cars), even as prices of other mass-market retail items remained generally muted during the month. (Chart 1)

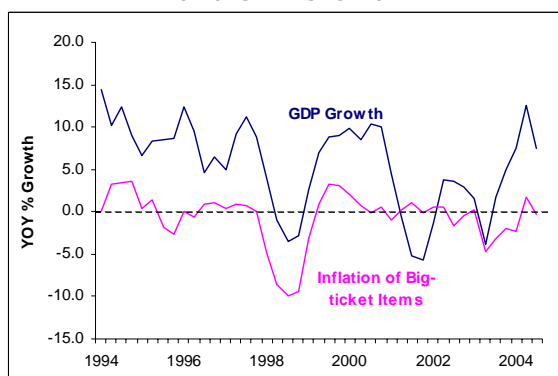
Chart 1
% Point Contribution to CPI
Changes (m-o-m SA) in November



FALL IN PRICES OF BIG-TICKET ITEMS NOT NECESSARILY REFLECTIVE OF DEMAND CONDITIONS

Although the prices of big-ticket expenditure items tend to be somewhat cyclically sensitive, their recent decline was not necessarily a reflection of demand weakness and should be viewed in perspective. (Chart 2) Prices in the travel industry, for example, have been influenced by the entry of more low-cost carriers (LCCs), while lower car prices have reflected to some extent policy-driven measures. In fact, the lower prices have benefited consumers, and have generally helped to spur demand for these items.

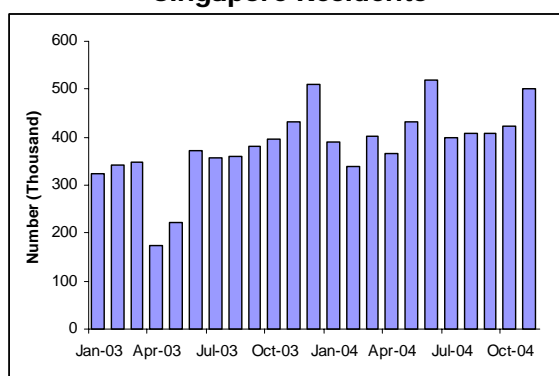
Chart 2
Inflation of Big-ticket Items
and GDP Growth



Tour packages: Competitive pressures

After holding up for the past two months, prices of tour packages dropped by 3.2% in November. However, travel demand remained strong, with feedback from several travel agents indicating brisk business. Indeed, the latest data from the Monthly Digest of Statistics also showed that the number of outbound trips made by Singapore residents rose significantly by about 15% y-o-y in November, after rising by an average of 7% in Sep-Oct. (Chart 3) The sequential dip in tour package prices was due to the lower airfares offered to tour operators, which account for almost 70% of the overall package cost.

Chart 3
Number of Outbound Trips by
Singapore Residents



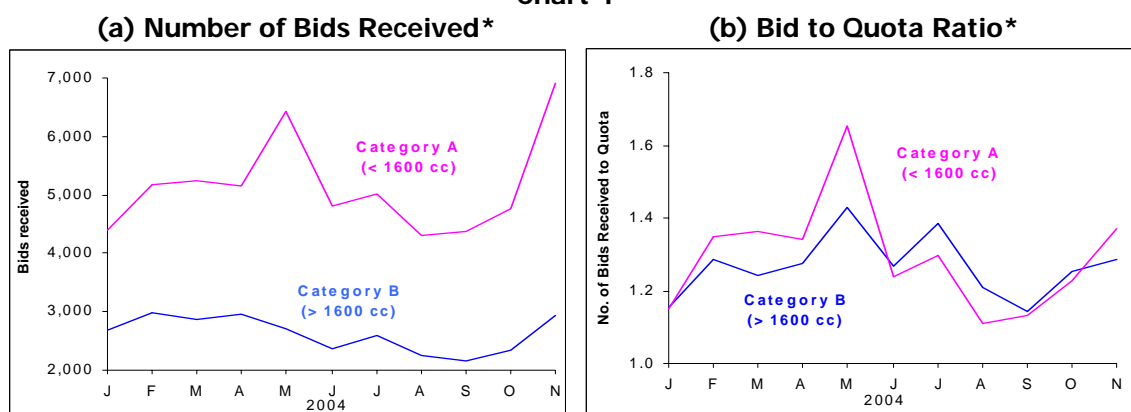
Source: Immigration & Checkpoints Authority

While air ticket prices have largely been declining over the past few months, tour package prices had remained fairly strong up till October. To understand the different trends between the two, several plausible factors have been identified. Given that travel agents usually tie up with full-service carriers instead of LCCs for the airfare component of the tour packages, the rock-bottom prices offered by the latter do not directly filter through to tour package prices. Although some full-service carriers have also slashed air ticket prices in response to the rising competition, travel agents may not benefit from these lower fares either. This is because airlines typically segment these two markets, with different pricing strategies for packaged tours and direct air ticket purchases. Nonetheless, according to feedback from travel agents, although airlines are able to practise some form of differential pricing, price developments in the two market segments are expected to move in the same direction over the longer term.

Cars: Large increase in supply of COEs

Car prices skidded lower in November, with COE premiums falling by more than \$2,000 in October, when quotas were increased by up to 28% per month for the rest of the quota year till March 2005, following the September mid-quota year review.¹ Spurred by the decline in car prices, there was a surge in the number of bids received during October – Category A (models with engine capacity below 1,600 cc) and Category B (above 1,600 cc) recorded an increase in bids of 45% and 25% respectively. (Chart 4a) The bid to quota ratio also remained firm, and even rose slightly for Category A. (Chart 4b) In effect, the increase in COE quotas and the consequent fall in car prices had induced some increase in demand from consumers.

Chart 4



Source: Land Transport Authority

* Data series as shown in the charts were adjusted forward by a month, as car price developments typically reflect results of the earlier month's bidding exercises.

SOME DOWNWARD PRESSURE ON SENTIMENT-SENSITIVE PRICES COULD PERSIST

Going forward, the recent developments that have led to falling prices of big-ticket items could continue to exert downward pressure on overall consumer prices. Competition is expected to intensify in the airline industry with Jetstar Asia beginning operations in December. With the reach of budget airlines also widening to more destinations, including Taipei, Pattaya and Perth, full service-carriers have responded aggressively by sometimes undercutting these budget upstarts to retain market share. For example, SIA recently offered return airfares to major cities such as Taiwan, Bangkok, Hong Kong and Jakarta at \$98. The low airfare environment is likely to bring down prices of tour packages, even as demand for travel continues to hold up. The impact of the recent tsunami disaster that hit several parts of Asia on travel plans appears to be fairly limited. Although many Singaporeans cancelled their holiday trips to these destinations, travel agents reported that most had switched their travel plans to other locations instead.

Meanwhile, car prices are expected to trend down further, with COE premiums in the recent tender exercise in January 2005 plunging to \$18,000 for Category A, its lowest since June 2001. Some developments within the car market in Singapore could continue to exert downward pressure on prices going forward.

In comparison, prices of other mass-market retail items could strengthen somewhat as consumer spending improves. As compared to the run-up to Christmas last year, several retailers in Orchard Road have reported significantly higher takings at end-2004, on the back of a better economic performance and improvement in the labour market.

¹ During its mid-quota year review in September 2004, LTA adjusted the number of COEs to be released into the market for the rest of the quota year, taking into account the discrepancies between the actual number of car deregistrations and its earlier estimates at the beginning of the year.

WINTER SEASON HEATS UP OIL MARKET AGAIN

After receding closer to the US\$40 mark in early December, the West Texas Intermediate (WTI) oil prices have soared again to settle at around the US\$45 level by the end of December. A combination of factors contributed to the rally, including renewed attacks on Middle East oil installations, expectations of cold weather in North America and the Russian oil giant Yukos affair.

Oil prices were driven up as weather conditions turned colder. This was compounded by data showing that US commercial inventories of crude oil and distillates, such as heating oil, were dwindling. The threat posed by terrorists also raised doubts about the continued flow of export oil from the oil-rich Middle East region, particularly Iraq and Saudi Arabia. In addition, authorities in Moscow re-nationalised the main production unit of privately held Yukos, and also arranged an auction to cover part of the company's alleged unpaid tax bill of \$28 billion. This could have exerted some upward pressure on prices amidst concerns that production may be disrupted.

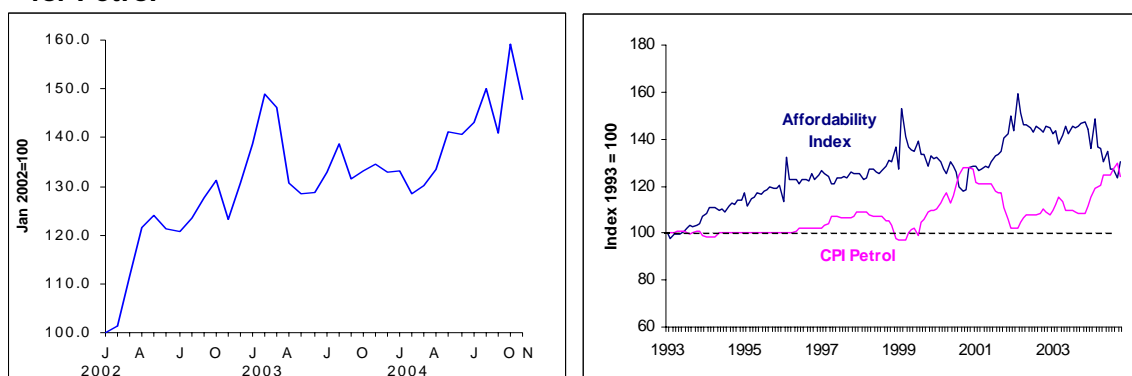
While oil prices are likely to continue to remain volatile in the near term, many analysts expect prices to moderate going forward, as world oil demand is likely to slow in 2005 with moderating global economic growth. Demand growth is expected to ease to around 1.5 million barrels a day (bpd) in 2005, as compared to 2.5 million bpd in 2004. Cambridge Energy Research Associates (CERA) also projected that spare oil-production capacity could climb from 1-1.2 million bpd to a more normal three million bpd by mid-2005. In addition, it is likely that the earlier speculative positions that had contributed to higher oil prices during the most part of 2004 have been unwinding recently, taking off some pressure on oil prices.

SHARP RUN-UP IN MEASURE OF COMPETITIVENESS FOR DOMESTIC PETROL

With lower global oil prices expected in the coming months, domestic prices of oil-related items could ease somewhat as well. For example, in line with the fall in international prices of refined oil, domestic petrol prices were adjusted downwards by three cents in December, reversing the earlier four-cent hike in November. Indeed, competition within the industry has intensified over the recent years. Chart 5a shows that the ratio of import prices to consumer prices for petrol has risen by almost 60% since 2002, suggesting more competitive consumer prices of petrol relative to their import prices. Nevertheless, domestic petrol prices may not see significant declines, if pump operators decide to recoup margins lost during the period of high oil prices last year.

Chart 5

(a) Ratio of Import Price to Consumer Price for Petrol (b) Ratio of CPI Petrol to Monthly Earnings for Petrol



PETROL PRICES HAVE BECOME MORE AFFORDABLE OVER THE YEARS

The increase in petrol prices over the last one year have led to some concerns over the affordability of petrol for consumers. To provide a measure of affordability, we computed a ratio of average monthly earnings to the petrol price index. A rise (fall) in the affordability index implies that petrol prices have become more (less) affordable.

As can be seen in Chart 5b, although prices have increased by about 25% since 1993, prices have actually become more affordable, as nominal earnings rose by around 60% over the same period.

Nevertheless, affordability has deteriorated somewhat over the past year, and consumers could still experience the lingering effects of high oil prices in 2005. In particular, gas tariffs were raised by 3% in December – the first increase in four years. The upward revision was due to the sharp rise in the price of naphtha and natural gas, which tend to move in line with global oil prices.² Electricity tariffs will also be adjusted upwards by an average of 1.2% from January 2005.

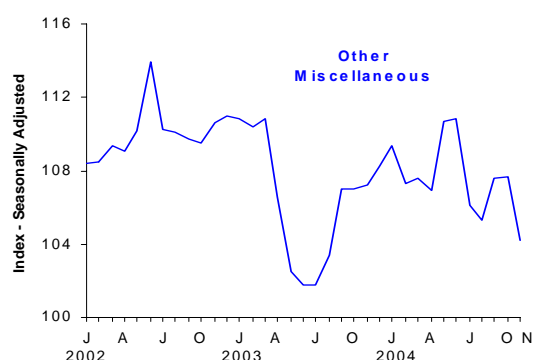
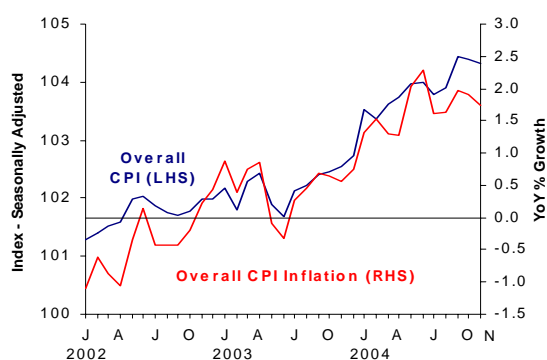
IMPACT OF TSUNAMI DISASTER ON SEAFOOD PRICES LIKELY TO BE TEMPORARY

Recently, there have been some reports that the tsunami that hit Asia had caused a shortage of seafood supplies. Although around 70% of Singapore's fresh seafood is imported from tsunami-hit countries such as Indonesia, Malaysia and Thailand, these supplies are from the South China Sea rather than the Indian Ocean. According to the Singapore Fish Merchants General Association, the recent tightness in supplies was not due to the tsunami disaster, but typical seasonal bad weather conditions, as fewer fishermen head out to sea during the monsoon season. However, there have also been reports of a fall-off in demand as consumers avoid seafood for fear that supplies could be contaminated by diseases and bacteria from the tsunami dead. Business for some fishmongers has reportedly fallen by 30%, with prices dropping by as much as half. Nevertheless, we do not expect this to have a lasting effect on demand, as the consumption of seafood is likely to resume to normal levels with the increase in consumer awareness.

Taking these factors into account, CPI inflation is expected to come in at **1.5-2.0%** for 2004, and at **1-2%** for 2005.

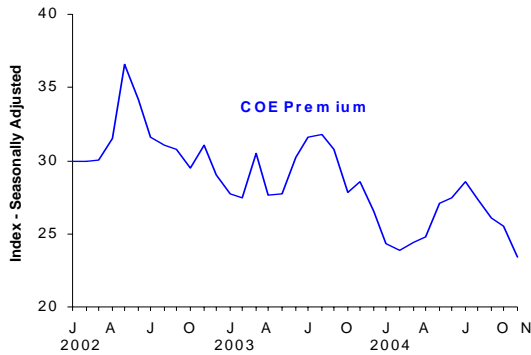
Headline CPI inflation trended lower to 1.7% y-o-y in November, from 1.9% in October. The seasonally adjusted CPI also edged down by 0.1%.

The sequential fall in consumer prices was largely due to cheaper tour packages...

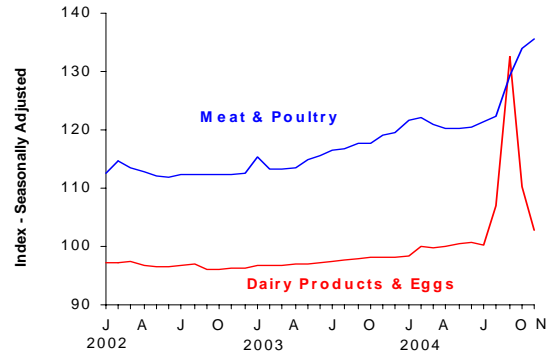


² Please refer to the October issue of the Inflation Monthly for a more detailed discussion of the relationship between crude oil and natural gas price movements.

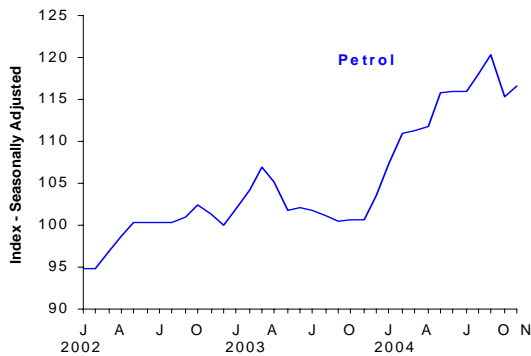
...as well as lower car prices on the back of a fall in COE premiums.



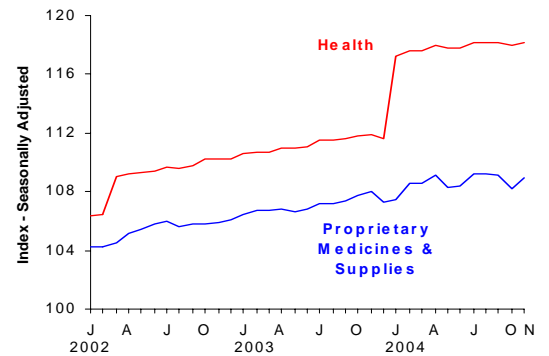
Meanwhile, the rise in meat & poultry prices continued unabated, reflecting more expensive ducks. Egg prices, however, returned to almost their pre-ban levels.



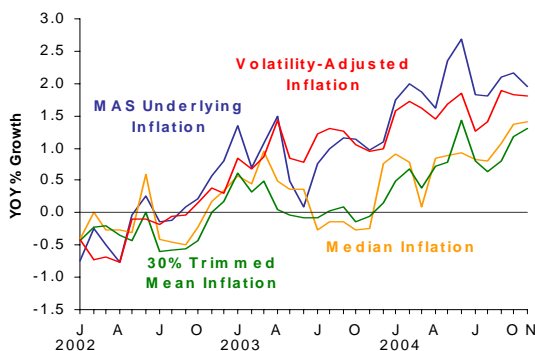
Petrol prices were hiked by four cents, as global oil prices continued to remain high.



Meanwhile, healthcare costs rose with higher prices of proprietary medicines & supplies.



While the MAS underlying inflation moderated to 2%, trimmed mean inflation edged up to 1.3%. The volatility adjusted inflation and median inflation remained unchanged from the previous month.



Note: CPI SA series are used only when seasonality is detected. Otherwise, non-SA series are used.

ECONOMIC POLICY DEPARTMENT

CONSUMER PRICE INDEX (November 1997 – October 1998 = 100)								
Period	All Items	Food	Clothing	Housing	Tpt & Comm	Education	Health	Misc
Weights	10000	2752	443	2292	1803	729	305	1676
	INDEX – SEASONALLY ADJUSTED							
2002 Jan	101.3	101.6	95.7	99.9	97.9	106.0	106.4	104.9
Feb	101.4	102.1	96.5	99.5	98.1	106.2	106.5	105.1
Mar	101.5	101.9	97.5	99.5	98.3	106.4	109.1	105.0
Apr	101.6	101.8	97.5	99.3	98.6	106.3	109.1	104.7
May	102.0	101.9	97.8	99.6	99.0	106.4	109.1	106.0
Jun	102.0	101.9	98.2	99.7	98.7	106.6	109.3	107.4
Jul	101.9	101.8	98.9	99.8	98.8	106.3	109.5	105.3
Aug	101.8	101.7	98.8	99.6	98.7	106.5	109.5	105.4
Sep	101.7	102.2	98.5	99.5	97.9	106.7	109.8	105.2
Oct	101.8	101.9	99.0	99.6	98.2	106.8	110.2	105.4
Nov	102.0	102.0	99.0	99.9	98.5	107.1	110.4	105.7
Dec	102.0	102.1	97.5	99.8	98.4	107.3	110.6	106.0
2003 Jan	102.2	102.3	98.7	99.4	99.1	107.6	110.7	106.4
Feb	101.8	101.4	97.9	99.1	99.2	107.7	110.8	106.2
Mar	102.3	101.9	98.3	99.1	99.6	107.8	110.8	107.4
Apr	102.4	102.4	98.4	100.4	98.7	108.0	110.8	105.9
May	101.9	102.4	98.5	99.4	98.0	108.1	110.8	104.6
Jun	101.7	102.3	97.8	99.5	98.2	108.3	111.0	104.6
Jul	102.1	102.5	98.0	99.4	98.1	109.7	111.4	105.6
Aug	102.2	102.6	98.4	99.3	98.1	109.7	111.5	106.2
Sep	102.4	102.8	98.0	99.2	98.0	110.0	111.7	107.1
Oct	102.4	103.0	98.0	98.6	98.2	110.2	111.7	107.5
Nov	102.6	103.1	98.7	98.4	98.5	110.4	112.0	107.7
Dec	102.7	103.4	98.8	98.3	98.9	110.6	112.0	108.0
2004 Jan	103.5	103.6	99.3	99.0	99.5	112.5	117.3	108.6
Feb	103.4	103.6	97.9	98.8	99.8	112.9	117.7	108.3
Mar	103.6	104.0	97.0	98.7	99.4	113.1	117.6	109.5
Apr	103.8	103.7	100.0	98.9	99.2	113.0	117.7	109.0
May	104.0	103.6	97.9	99.2	99.9	113.2	117.6	110.0
Jun	104.0	104.0	97.4	99.3	99.9	113.3	117.7	110.4
Jul	103.8	104.3	95.6	99.1	99.6	114.0	118.0	108.9
Aug	103.9	104.4	98.3	98.9	99.8	113.9	118.2	108.9
Sep	104.4	106.2	99.0	99.0	100.1	114.2	118.2	108.3
Oct	104.4	106.0	99.1	99.3	99.5	114.5	117.9	108.8
Nov	104.3	106.0	98.9	99.3	99.9	114.6	118.3	107.8

Source: Department of Statistics

SELECTED INFLATION INDICATORS				
Period	CPI	Import Price Index	Non-fuel Primary Commodities	Opec Oil Price
	YOY% Growth			
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	19.2	-6.4
Mar	1.3	-1.9	23.7	9.3
Apr	1.3	-0.3	24.7	27.8
May	2.0	2.6	21.8	41.9
Jun	2.3	2.9	22.2	28.9
Jul	1.6	3.0	22.9	32.0
Aug	1.6	3.6	19.7	40.9
Sep	2.0	3.5	17.7	53.5
Oct	1.9	4.3	12.0	59.0
Nov	1.7	2.8	10.8	35.5

Source: Department of Statistics, IMF and Bloomberg