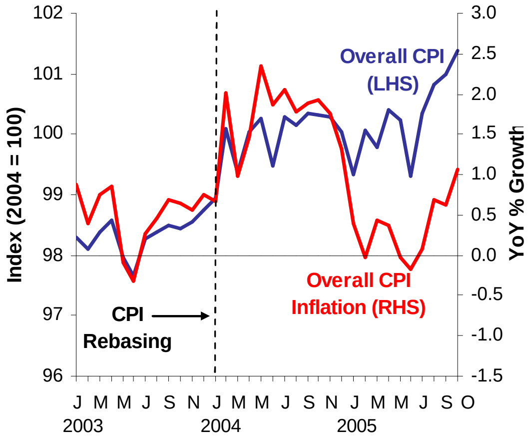
Inflation Monthly
Oct 2005

Broad-based Price Pressures Pushed Inflation Higher

CPI (2004 = 100)		
% Growth/ Level	Sep 05	Oct 05
y-o-y	0.6	**1.1**
m-o-m	0.1	**0.4**
Index	101.0	**101.4**



- **Headline CPI inflation rose to 1.1% in October**
  The MAS underlying inflation came in at 1.7%, up from 1.2% a month ago.

- **On a m-o-m basis, CPI increased by 0.4%**
  With the exception of Transport & Communications, inflationary pressures were evident in all other major categories of the CPI basket. In particular, the largest contribution came from housing costs, which were lifted by higher electricity tariffs and the absence of Service & Conservancy (S&C) rebates during the month.

- **Transport costs muted by cheaper cars and petrol**
  Car prices continue to fall on account of lower COE premiums. Retail petrol prices also came in softer as petrol companies reduce pump quotes following the easing of global oil prices.

- **Outlook: Some Price Pressures Remain**
  Oil prices are likely to stay elevated in the short term while non-oil commodity prices such as industrial and precious metals have breached record levels. Meanwhile, costs of services such as education and holiday packages are expected to see greater upward pressures.

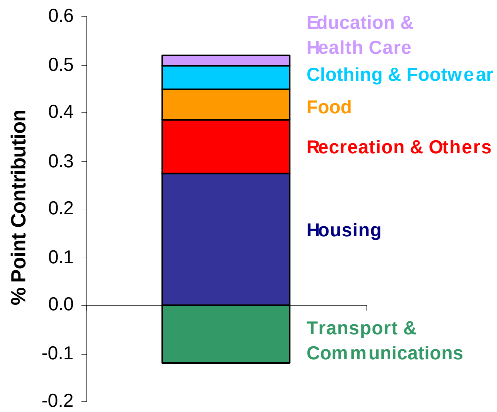
Recent Developments

Broad-based Price Pressures Pushed Headline Inflation Higher

Headline CPI inflation rose to 1.1% year-on-year (y-o-y) in October, after coming in at 0.6% in September, marking the fastest pace of price increase this year. This brought average inflation for the first ten months of the year to 0.3%. The MAS underlying inflation measure – which excludes private road transport and accommodation costs – came in at 1.7% y-o-y, up from 1.2% in the previous month. It averaged 1.1% over the period Jan-Oct 2005.

On a month-on-month (m-o-m) basis, the CPI rose by 0.4% in October. Price increases were fairly broad-based across all the major categories of the CPI basket, with the exception of Transport & Communications. (Chart 1)

Chart 1
% Point Contribution to CPI Change (m-o-m), Oct 2005



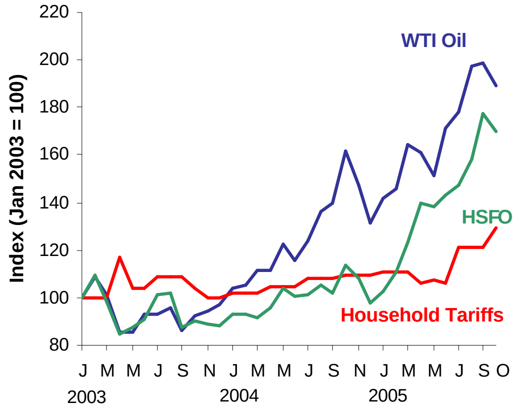
Housing Costs Lifted by Higher Electricity Tariffs

As anticipated, overall housing costs went up by 1.3%, boosted by the hike in electricity tariffs and the withdrawal of the service and conservancy (S&C) rebates[1] in October. Electricity tariffs were revised upwards by another 7% for the period Oct-Dec 2005 following a 13.7% increase in the previous quarter. Tariffs for Q4 largely reflected the higher sulphur fuel oil (HSFO) forward price of US$43.34 per barrel (compared to US$39.32 in the preceding quarter), as global oil prices continued to rally strongly in July[2] on the back of refinery outages and geopolitical developments in the Middle East. (Chart 2) With the latest revision in the Q4 tariff rate, electricity charges would have gone up by more than 10% for the full year, the largest price increase since year 2000.

[1] For 2005, S&C rebates are given out in the months of January, March, June, September and December.

[2] Electricity tariffs are revised on a quarterly basis to reflect the forward price of 180-centistoke high sulphur fuel oil (180-CST HSFO) for the quarter. The Energy Market Authority uses the forward prices transacted or quoted at Intercontinental Exchange (ICE) in the first month (July) of the preceding quarter (Q3) to determine tariffs in the forthcoming quarter (Q4).

Chart 2
WTI Oil, HSFO and Household Electricity Tariffs



HOLIDAY EXPENSES ROSE ON THE BACK OF STRONG TOURISM DEMAND

Costs of holiday travel rose further in October, by another 2.6%, after having climbed 3.6% in the first three quarters of the year. The increase in October, and more generally over the course of the year, has been driven by two key factors. First, prices of non-packaged holidays (comprising mainly hotel accommodation costs) increased as overseas hotel room rates rose on the back of strong international tourism demand. For instance, Smith Travel Research estimated that hotel room rates in the US went up by an average 3.6% (y-o-y) in October, after registering a robust gain of 5.6% in Q3.

Second, prices of packaged tours offered by local travel agents also strengthened due to strong consumer demand ahead of the "Deepa-Raya" long weekend[3]. Indeed, feedback from travel agencies revealed impressive sales in October for tour packages held during this festive period. For example, Chan Brothers Travel reported a 20-30% surge in bookings for Asian destinations, while Atrium Eco Travel said it sold 10-20 times more packages compared to normal times. In addition, there was an additional $50-$100 levy imposed by airlines on flights during long weekends, which could have contributed to higher prices of travel packages.

FOOD PRICE INFLATION BOOSTED BY DEARER IMPORTS

During the month, there were also some moderate price pressures from food items in the CPI basket. Prices of non-cooked food were up 0.3%, on account of more expensive fresh pork, vegetables and seafood. The dearer vegetable prices faced by domestic consumers could partly reflect the surge in vegetable prices from Thailand in the run-up to a local Thai festival in October. Vegetable prices were reported to have jumped 25-50% as Thailand prepared to celebrate the "Kin Jay" Festival in the first two weeks of the month[4]. The devastation of croplands in China and Taiwan by tropical typhoons in recent months could also have contributed to the tighter food supply conditions in the region.

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[3] This year, the Deepavali and the Hari Raya public holidays came nearly back-to-back with both holidays occurring one day apart from each other in early November.

[4] The "Kin Jay" Festival, which falls on 3-12 October this year, is a time when the Thais abstain from eating meat and restricting their diet to vegetarian food.

PRICES OF CLOTHING ITEMS TICKED-UP

Unlike previous years when clothing prices declined during the month of October, ready-made garments bucked the trend to post a price increase of 1.9% this year. (Chart 3a) This could reflect some increase in the capacity of retailers to pass on cost pressures arising from higher rental charges, utilities bills and wages, as domestic demand strengthened on the back of the continued improvement in the labour market. (Chart 3b)

Chart 3a
Monthly Price Changes in Ready-Made Clothing

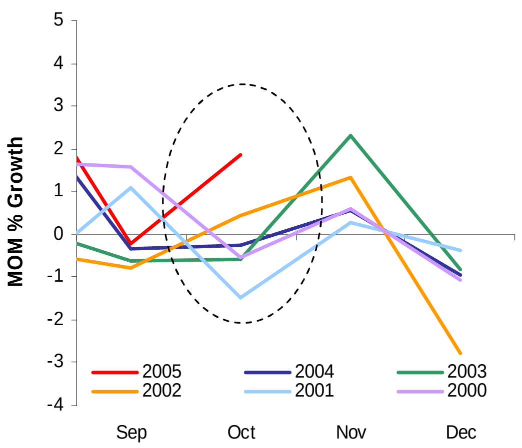
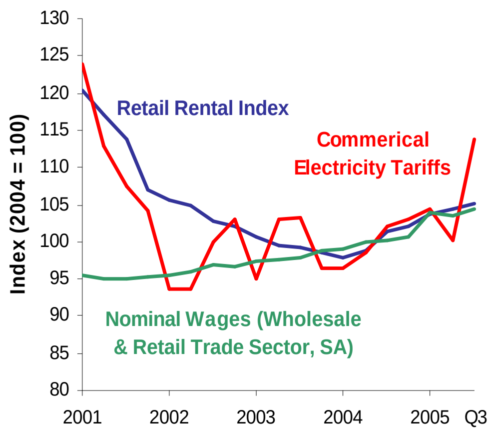


Chart 3b
Selected Cost Components of the Retail Sector



FOREIGN UNIVERSITY FEE HIKES LIFTED EDUCATION COSTS

Overall education costs firmed slightly due to dearer tuition fees charged by foreign universities as well as more expensive textbooks and reference books. Costs of overseas education have risen steadily in the past year, as universities in countries such as the US and Australia sought to raise fees to help offset increasing operating costs. Various universities in the US including Cornell, Princeton and Pennsylvania, hiked fees ranging from 4.3-5.5% for the new academic year (starting September 2005), bringing annual tuition charges to more than US$40,000. Meanwhile, medical costs also increased, as some hospitals and Chinese physicians raised charges for treatments.

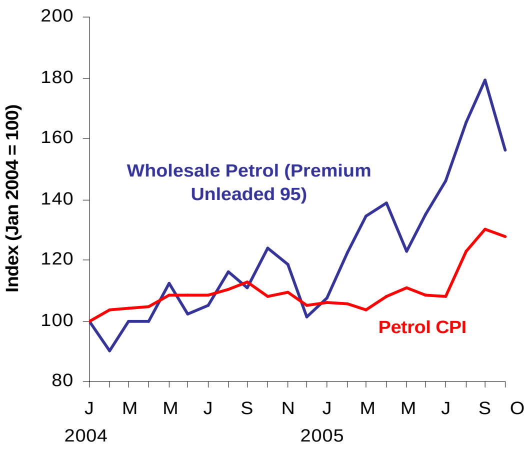
PRIVATE ROAD TRANSPORT COSTS MUTED BY CHEAPER CARS AND PETROL

While price pressures were evident in most major categories of the CPI basket, the continual fall in car prices weighed down private road transport costs. In September, the Category A and B COE premiums plunged $1,000 and $2,000 respectively during the second round of COE bidding exercise, prompting dealers to slash car prices in tandem[5]. The sharp decline in COE premiums likely reflected a temporary pull-back of purchases as buyers adopted a “wait-and-see” attitude in anticipation of lower prices, following LTA’s decision to increase the monthly quota of COEs by an average 18% for the period Oct 2005-Mar 2006.

5 COE premiums in a particular month tend to be reflected in private road transport costs in the following month, given that car dealers need to secure the certificates before the cars are eventually delivered.

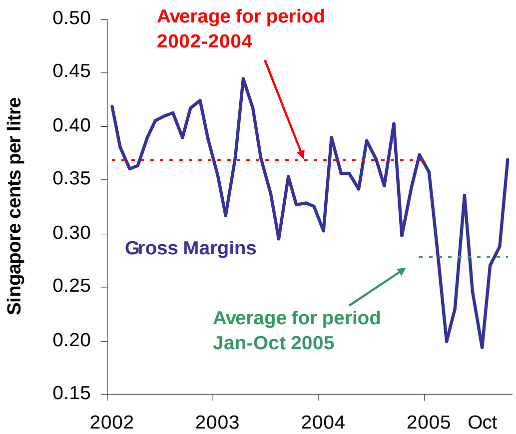
In addition, retail petrol prices retracted 2% in October, as petrol companies sought to pass on some cost savings to consumers following the easing of global oil prices since end-September. (Chart 4a) Nevertheless, the gross margins of pump operations appear to have rebounded over the past three months, although they remain below the average for the period 2002-2004. (Chart 4b)

Chart 4a
Wholesale Petrol Price and Petrol CPI



Source: International Energy Agency for wholesale petrol prices.

Chart 4b
Petrol Gross Margins



*EPD internal estimates.

Outlook

Some Price Pressures Remain

Oil Prices remained High while Metal Prices have Risen…

The significant spike in oil prices following Hurricane Katrina has receded, with the WTI oil price subsiding to levels below US$60, aided by prompt responses of the US government and the International Energy Agency (IEA), as well as an unusually warm winter in the Northern Hemisphere during the past month. Nevertheless, oil prices are unlikely to decline significantly going forward, for a couple of reasons. First, oil supply remains relatively tight. According to the US Department of Energy (DOE), a full recovery of the oil production infrastructure in the Gulf of Mexico will only occur in Q2 2006, three months later than previously envisaged. In addition, OPEC spare production capacity reached historically low levels in 2005 and is projected to only increase slightly in 2006. Second, global oil demand is expected to increase at a faster rate next year. The IEA and the US DOE expect an average demand growth of around 1.7 and 1.8 million barrels per day (mpd) respectively in 2006, compared to 1.2 and 1.1 mpd in 2005. Third, the warmer-than-expected winter in the Northern Hemisphere is likely to hit a cold spell, which has already reached the US East Coast in early December. This would drive up demand for heating oil in the short term.

Meanwhile, non-oil commodity prices, especially of some industrial and precious metals (e.g. copper, gold, silver and platinum), touched record high levels in late November and early December. Among these, copper is widely used in the IT sector to produce printed circuit boards, chips and electrical wires. (See Table 2 below, which presents some of other final and producers goods that require the use of these metals.) As such, producers of these items as well as final electronic goods such as computers could somewhat face higher input costs.

Table 2
Selected Metals and Their Common Uses

Metals	Common Uses
Gold	Jewellery, coins, circuit boards connectors and coatings.
Silver	Jewellery, coins, tableware, light-sensitive silver salts for photosensitive film and papers, electrical contacts and switches.
Platinum	Jewellery, electrical contacts, chemical catalysts and laboratory equipments.
Copper	Integrated circuits, chips, printed circuit boards, electrical wires and electromagnets.

…But Services Price Inflation likely to Outpace its Goods Counterpart

Nevertheless, the pass-through from higher metal prices to consumer electronics is likely to be subdued as material costs make up a relatively small proportion of total production costs (the bulk of which is attributed to costs of design and product development). In addition, other factors such as increasing business competition and technological advancement, would keep a lid on price inflation of these items. On the flip side, firming wages, escalating operating costs, and strengthening consumer demand are likely to push up the prices of services, sustaining the inflation gap between goods and services. (Chart 5a)

In particular, tuition and school fees, which have risen 2.1% since the beginning of the year, look set to continue trending upwards. For example, monthly school fees at the Hwa Chong and Raffles junior colleges will go up from the current $26 to $225 and $28 to $250 respectively next year, as both independent institutions intend to strengthen teaching resources to provide better quality courses for their Integrated Programme (IP). Subsequently in 2007, fees at Hwa Chong JC will increase $25 annually to reach $300 in 2009, while Raffles JC will raise its fees by another $50. Private kindergartens and child-care centres could also raise charges on account of rising wages following the Ministry of Education's new qualification requirements for teachers and principals (as discussed in the September 2005 issue of the *Inflation Monthly*). Meanwhile, various foreign universities in Australia, UK and US have announced higher fees for the coming academic year. For instance, numerous public-funded universities in Australia will be increasing their charges by the maximum allowable 25% next year, while British undergraduates will pay fees that will be up to 160% higher.

Prices of sentiment-sensitive services items such as holiday travel are also likely to face upward pressures on the back of the continued improvement in labour market and wage growth. Anecdotal feedback suggests that tour agencies are expecting strong sales of tour packages during the Chinese New Year long weekend in January next year, as well as six other stretched weekends throughout the year. Globally, the world's largest travel agent American Express Business Travel foresees hotel room rates rising by 1-3% at mid-scale hotels and 3-5% at upscale properties in 2006. International airfares are also projected to go up by about 3-6%. Indeed, costs of holiday travel have been climbing steadily in the aftermath of the SARS outbreak in 2003, alongside the economic recovery domestically and regionally. (Chart 5b)

Chart 5a
Core Services Price Inflation* vs. Goods Price Inflation*

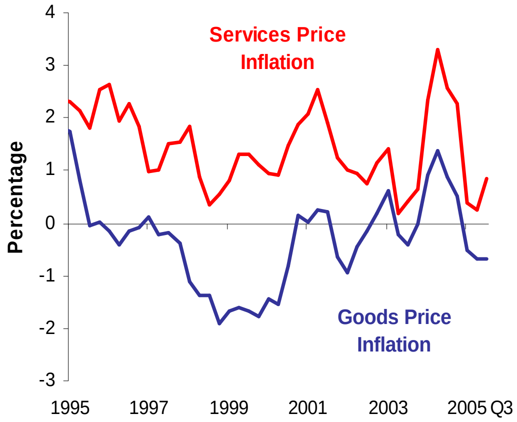
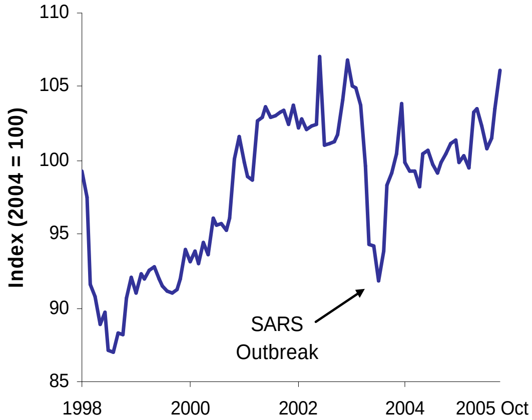


Chart 5b
Holiday Travel CPI



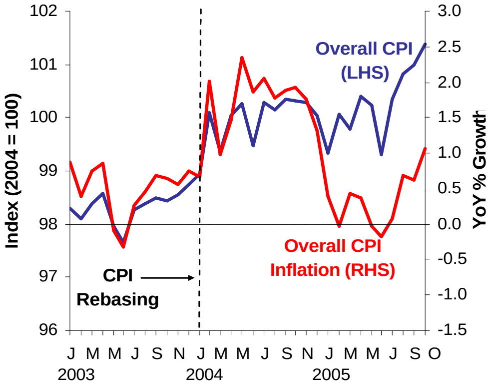
*Excluding policy-induced items such as accommodation, alcoholic drinks & tobacco and private road transport components. Commodity-related items like energy components and non-cooked food are also excluded.

Headline Inflation Projected to Come In Around 0-0.5% for 2005 and 0.5-1.5% Next Year

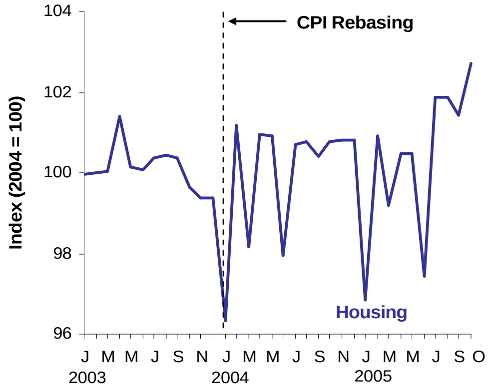
Taking all factors into consideration, headline CPI inflation is forecast to be around 0-0.5% for the year as a whole before rising to 0.5-1.5% next year. Meanwhile, the MAS underlying inflation measure is projected to come in at around 1% this year and 1.5-2.0% in 2006.

Summary of Recent Domestic Price Developments

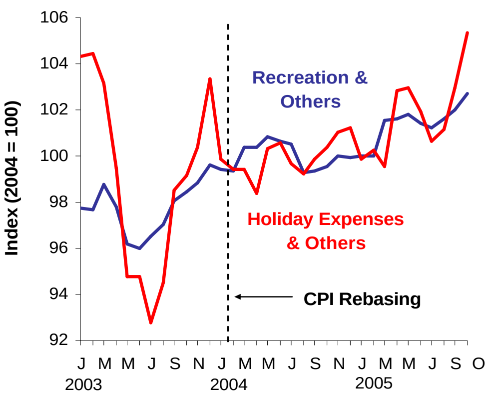
Headline CPI inflation rose to 1.1% y-o-y in October, from 0.6% in September. On a m-o-m basis, the CPI went up 0.4%.



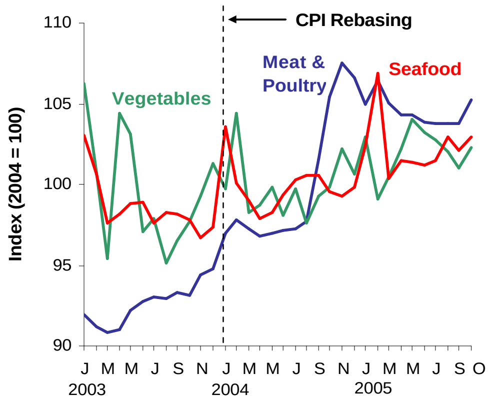
The withdrawal of service & conservancy (S&C) charges rebates and the hike in electricity tariffs led to higher housing costs.



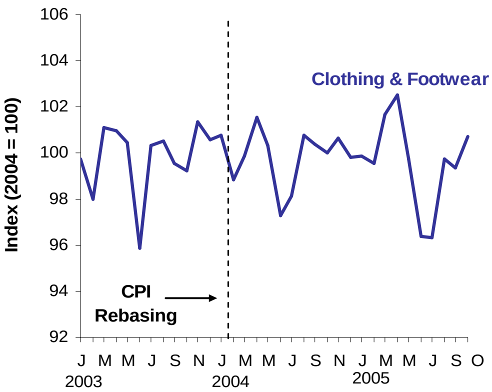
Recreation costs rose 0.7% on account of dearer holiday expenses.



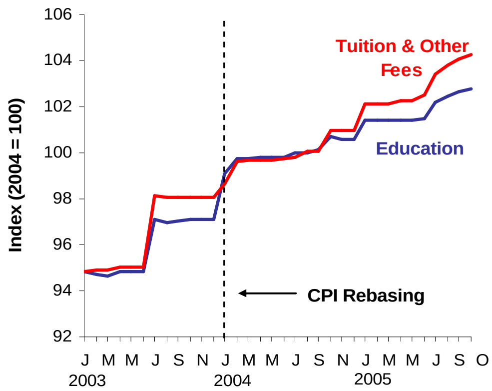
Meanwhile, prices of food items strengthened due to more expensive poultry, vegetables and seafood.



The overall clothing & footwear CPI rose 1.3%, as costlier ready-made clothing items more than offset cheaper footwear.

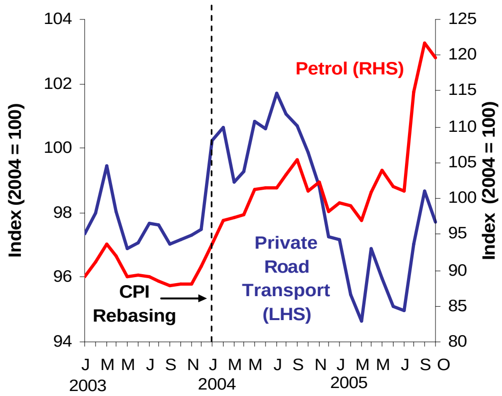


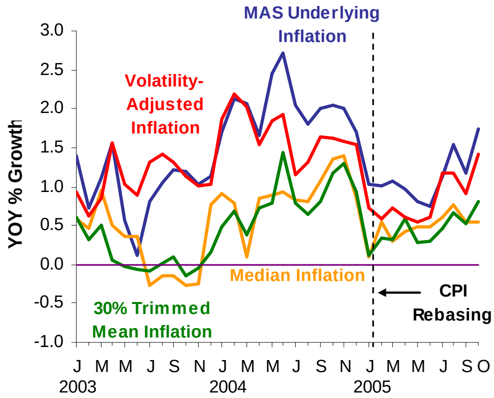
At the same time, education costs were lifted up by higher tuition fees charged by foreign universities.



With prices of car and petrol coming in lower during the month, private road transport costs declined.

Except for the median inflation, all other measures of core inflation rose further in October. The MAS underlying inflation measure increased to 1.7% (y-o-y), from 1.2% in the previous month.





Statistical Appendix

Table A.1
Consumer Price Index

	All Items	Food	Clothing & Footwear	Housing	Tpt & Comm	Education & Stationery	Health Care	Recreation & Others
Weights	10000	2338	357	2126	2176	819	525	1659
	INDEX (2004 = 100)							
2004 Oct	100.3	100.8	100.0	100.8	99.9	100.7	100.0	99.6
Nov	100.3	100.8	100.7	100.8	99.3	100.6	100.1	100.0
Dec	100.0	100.7	99.8	100.8	98.4	100.6	100.1	99.9
2005 Jan	99.3	101.0	99.9	96.9	98.4	101.4	100.2	100.0
Feb	100.1	101.5	99.6	100.9	97.4	101.4	100.2	100.0
Mar	99.8	100.8	101.7	99.2	96.9	101.4	100.1	101.6
Apr	100.4	101.0	102.5	100.5	98.0	101.4	100.3	101.6
May	100.2	101.1	99.8	100.5	97.5	101.4	100.2	101.8
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	102.6	100.6	102.0
Oct	101.4	101.5	100.7	102.7	98.7	102.8	100.8	102.7

Source: Singapore Department of Statistics

Table A.2
Selected Inflation Indicators

	CPI	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH			
2004 Oct	1.9	4.3	12.5	59.0
Nov	1.8	2.8	10.6	35.5
Dec	1.3	1.6	8.9	21.2
2005 Jan	0.4	1.4	8.7	33.9
Feb	0.0	2.3	8.0	42.4
Mar	0.4	4.2	9.6	53.6
Apr	0.4	5.6	6.8	53.4
May	0.0	3.2	7.2	28.1
Jun	-0.2	5.1	8.1	49.8
Jul	0.1	5.9	7.7	46.2
Aug	0.7	5.3	11.5	43.1
Sep	0.6	8.1	12.9	44.3
Oct	1.1	6.6	12.8	20.8

Source: Singapore Department of Statistics, IMF and Bloomberg