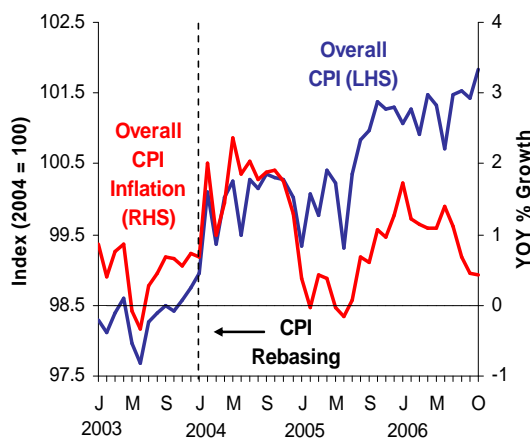


## Domestic CPI Inflation Unchanged in October

Singapore's CPI (2004 = 100)		
% Growth/ Level	Sep 06	Oct 06
<b>y-o-y</b>	0.4	<b>0.4</b>
<b>m-o-m</b>	-0.1	<b>0.4</b>
<b>Index</b>	101.4	<b>101.8</b>



- **CPI inflation continued to ease in most external economies in October**

The pullback in energy prices was a major contributing factor to the lower inflation in most external economies.

- **Singapore's headline CPI inflation remained unchanged at 0.4%**

The MAS underlying inflation, however, eased from 1.5% in September to 1.3% in October.

- **On a m-o-m basis, the CPI rose by 0.4% due to a broad-based increase in prices**

Price increases were seen in all major categories of the CPI basket. In particular, the withdrawal of S&C rebates and higher electricity tariffs lifted housing costs, while higher holiday expenses raised costs of recreation & others.

- **Outlook: Upward price pressures on imported food could intensify**

Soaring global wheat and corn prices have led to costlier animal feeds and thus higher import prices of pork, poultry and eggs. While importers and retailers have absorbed some of the increased costs, a stronger pass-through is anticipated ahead of the festive season.

## Recent Developments in External Inflation

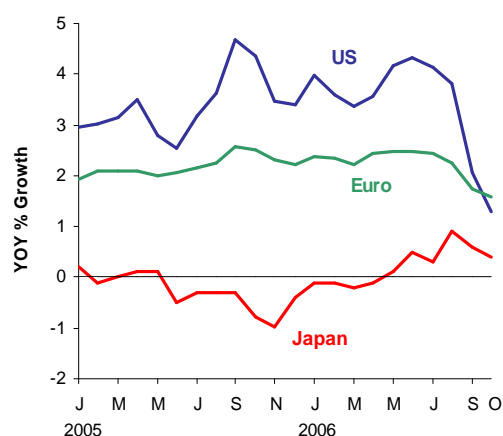
In the month of October, inflation eased in all major economies with the exception of Thailand and Taiwan.

Falling energy prices continued to lower headline inflation in all G3 economies. (Chart 1a) In the US, headline inflation dipped below 2.0% y-o-y for the first time in two and a half years. Gasoline prices fell by 18% y-o-y while home fuel and natural gas prices declined as well, by an average of 5.5% and 24%. However, core CPI inflation remained elevated at 2.7% y-o-y in October, albeit slightly lower than the 2.9% in September. This could be attributed to stronger increase of 4.0% and 4.1% in rentals and owner's equivalent rent respectively, even as clothing and durables prices saw smaller gains. In the EU, headline inflation edged down to 1.6% y-o-y in October from 1.7% in September, with transport and energy price inflation treading into negative territory. Headline inflation also moderated in Japan to 0.4% y-o-y in October from 0.6% in September, helped by slowing food and energy price inflation.

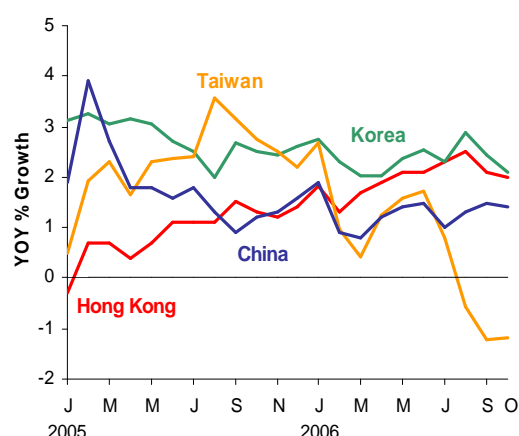
Among the Northeast Asian economies, Taiwan continued to experience deflation while inflation moderated in the rest of the economies. (Chart 1b) Taiwan saw consumer prices fall for the third straight month, by 1.2% y-o-y in October. Even though there was a mild pickup in transport and housing inflation, prices of vegetables and fruit prices dropped sharply in the month. In Hong Kong, the increase in composite CPI eased slightly to 2.0% y-o-y from 2.1% in September, as lower inflation in housing and transportation prices offset the pick up in inflation for all other major categories. In Korea, headline inflation receded to 2.1% y-o-y in October from 2.4% in September. Cost-push pressures on inflation abated with both food and energy price inflation softening. China's inflation also edged down slightly due to a temporary slump in vegetable prices.

In Southeast Asia, consumer price inflation moderated in all the economies in October, except for Thailand. (Chart 1c) Indonesia's headline CPI inflation dropped sharply to 6.3% y-o-y from 15% in September, mainly due to the high base last year arising from the fuel subsidy cuts. Notably, all major items in the CPI basket posted slower price increases, supporting a moderation in core inflation. In Malaysia, headline CPI Inflation eased to a 15-month low as all components reported lower or stable inflation. Both headline and core inflation in the Philippines were also lower in October, largely driven by a slowdown in the fuel price increases, from 21% y-o-y in September to 14% in October. In Thailand, CPI inflation picked up slightly in October due to a surge in fruits and vegetables prices which negated the effects of falling energy prices.

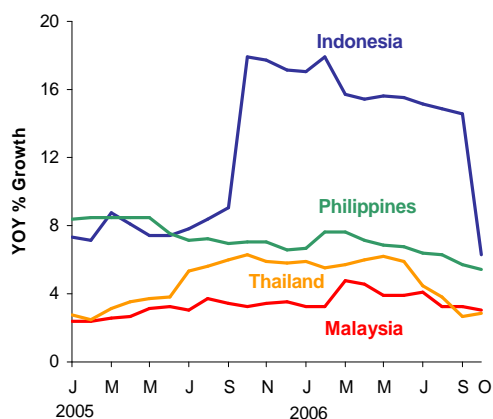
**Chart 1a**  
CPI Inflation (G3 economies)



**Chart 1b**  
CPI Inflation (Northeast Asia)



**Chart 1c  
CPI Inflation (Southeast Asia)**



**Table 1  
External Inflation Indicator**

	Overall Inflation	Food & Beverages	Clothing	Transport & Communication	Housing	Medical Care	Recreation	Education	Miscellaneous
USA	Green	Yellow	Green	Green	Green	Green	Green	Red	Red
EU	Green	Red	Red	Green	Green	Red	Green	Green	Yellow
Japan	Green	Green	Red	Green	Green	Red	Green	Yellow	Green
China	Green	Green	Red	Green	Green	Yellow	Red	Red	Green
Hong Kong	Green	Red	Red	Green	Green	Red	Red	Red	Red
Taiwan	Yellow	Green	Green	Red	Red	Yellow	Green	Red	Green
Korea	Green	Green	Green	Green	Green	Green	Red	Green	Green
Malaysia	Green	Green	Green	Green	Yellow	Green	Yellow	Yellow	Green
Thailand	Red	Red	Yellow	Green	Green	Red	Green	Red	Green
Indonesia	Green	Green	Green	Green	Green	Green	Green	Green	Green
Philippines	Green	Red	Green	Green	Green	Yellow	Yellow	Red	Green
Singapore	Yellow	Green	Green	Red	Green	Green	Red	Green	Red

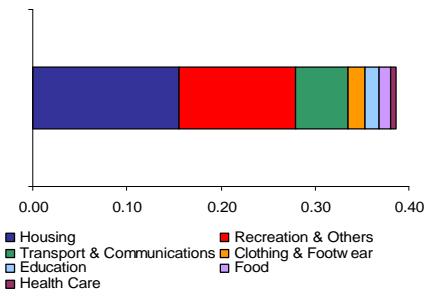
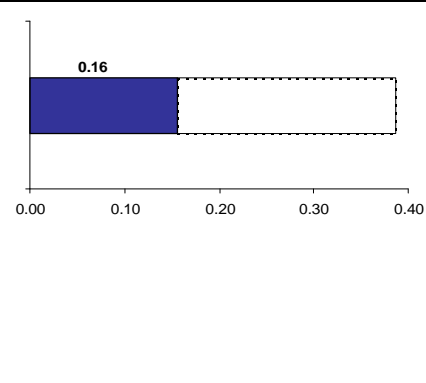
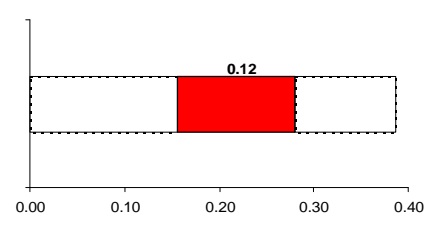
**Interpretation of Colour Codes:**

The indicator is based on the change in inflation over the past month of individual components in y-o-y terms.

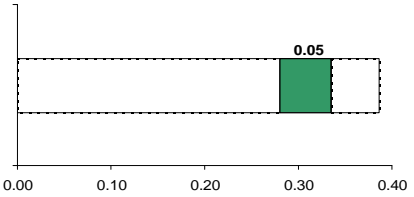
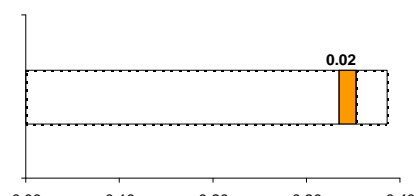
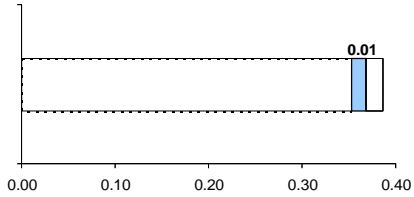
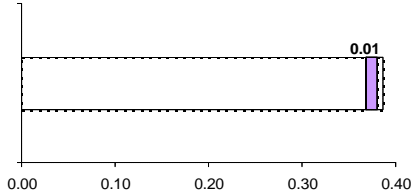
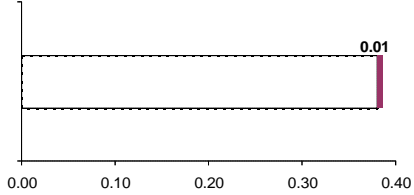
Red	Inflation accelerating
Yellow	No change in inflation
Green	Inflation decelerating

## Recent Developments in Domestic CPI Inflation

Domestic headline CPI inflation came in at 0.4% y-o-y in October, unchanged from the previous month. This brought average inflation to 1.0% for the first ten months of 2006. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – edged down to 1.3% from 1.5% in September. Over the period January–October 2006, it averaged 1.8%.

% Point Contribution, Oct 2006	Group	
 <p>0.00 0.10 0.20 0.30 0.40</p> <p> <span style="color: blue;">■</span> Housing  <span style="color: green;">■</span> Transport &amp; Communications  <span style="color: red;">■</span> Recreation &amp; Others  <span style="color: blue;">■</span> Education  <span style="color: yellow;">■</span> Clothing &amp; Footwear  <span style="color: purple;">■</span> Food  <span style="color: brown;">■</span> Health Care         </p>	<b>Overall (m-o-m)</b>	On a m-o-m basis, the CPI rose by 0.4%. All categories of the CPI basket experienced price increases during the month, with housing and recreation & others contributing to the bulk of the increase.
 <p>0.00 0.10 0.20 0.30 0.40</p> <p>0.16</p>	<b>Housing</b>	Housing costs went up by 0.7% in October, as rebates on Service & Conservancy (S&C) charges were not given out for the month <sup>1</sup> .  Additionally, electricity tariffs for Q4 2006 were revised upwards by another 2.3% following a 3.2% increase last quarter. The revision was mainly on account of higher global oil prices in Q3 which translated into higher fuel cost.
 <p>0.00 0.10 0.20 0.30 0.40</p> <p>0.12</p>	<b>Recreation &amp; Others</b>	Costs of recreation & others also escalated, due primarily to costlier holiday travel. Holiday expenses rose for the second consecutive month in October, led by firmer prices of overseas accommodation and packaged tours.

<sup>1</sup> For 2006, rebates on S&C charges and HDB rentals are given out in the months of January, March, June, September and December.

% Point Contribution, Oct 2006	Group	
 <p>A horizontal bar chart with a dashed border. The x-axis is labeled from 0.00 to 0.40 in increments of 0.10. A green bar extends from the y-axis to the 0.05 mark on the x-axis. The value '0.05' is printed above the bar.</p>	<p><b>Transport &amp; Communications</b></p>	<p>Developments in global oil prices had an impact on domestic transport costs as well, in addition to electricity tariffs. Public road transport operators raised bus and MRT fares, reacting to the mounting energy cost burden over the past year.</p> <p>Nevertheless, local petrol companies, which tend to react more promptly to developments in global oil prices, cut pump prices again in October, after reducing them twice in September. This reflected the pull-back in global oil prices from record high levels in July.</p> <p>Meanwhile, overall transport costs were also lifted by costlier cars and airfares.</p> <p>Communication costs, however, remained on a downward trend due to falling prices of communication equipment.</p>
 <p>A horizontal bar chart with a dashed border. The x-axis is labeled from 0.00 to 0.40 in increments of 0.10. An orange bar extends from the y-axis to the 0.02 mark on the x-axis. The value '0.02' is printed above the bar.</p>	<p><b>Clothing &amp; Footwear</b></p>	<p>With retailers rolling back seasonal discounts offered in September, prices of clothing and footwear rebounded.</p>
 <p>A horizontal bar chart with a dashed border. The x-axis is labeled from 0.00 to 0.40 in increments of 0.10. A light blue bar extends from the y-axis to the 0.01 mark on the x-axis. The value '0.01' is printed above the bar.</p>	<p><b>Education</b></p>	<p>Overall education costs were pushed up by higher course fees at commercial institutions as well as more expensive textbooks, even as prices of personal computers continued to fall.</p>
 <p>A horizontal bar chart with a dashed border. The x-axis is labeled from 0.00 to 0.40 in increments of 0.10. A purple bar extends from the y-axis to the 0.01 mark on the x-axis. The value '0.01' is printed above the bar.</p>	<p><b>Food</b></p>	<p>Dearer restaurant food and dairy &amp; egg products more than offset cheaper meat and vegetables, leading to higher overall food costs.</p>
 <p>A horizontal bar chart with a dashed border. The x-axis is labeled from 0.00 to 0.40 in increments of 0.10. A dark red bar extends from the y-axis to the 0.01 mark on the x-axis. The value '0.01' is printed above the bar.</p>	<p><b>Health Care</b></p>	<p>Costs of medical and dental treatment, and proprietary medicines &amp; supplies, edged up during the month.</p>

## Outlook

### DOMESTIC FOOD PRICES AFFECTED BY PROLONGED DROUGHT IN AUSTRALIA

In the September 2006 issue of the *Inflation Monthly*, we noted that global wheat and corn prices have soared to 10-year high levels recently as a result of the severe drought in Australia and the strong global demand for ethanol respectively. As a consequence, animal feed has risen sharply, in turn leading to dearer meat products. Indeed, anecdotal information indicates that costs of animal feeds in Australia have risen by 70% in the last six months, and Australian pork is now 15% more expensive compared to the same period last year.

Thus it would appear that domestic importers of Australian pork, and Malaysian poultry and eggs, have faced steeper price increases recently, but many of these importers as well as retailers have not passed on these increases, thus keeping consumer price inflation of these products subdued. However, prices are expected to rise as the Chinese New Year season approaches. In fact, some importers feedback that prices may go up by as much as 20% for Australian pork.

### INDIRECT PASS-THROUGH EFFECTS OF OIL PRICES CONTINUE TO FILTER THROUGH

Meanwhile, benchmark WTI oil prices have plummeted to the year's low of about US\$56 per barrel in November from a record high of more than US\$78 in July. This pullback is likely to exert downward pressure on prices of some direct energy-related items in the CPI basket in the months ahead. For instance, electricity tariffs for Q1 2007, which are determined based on forward fuel prices in October 2006, could come in lower.

Nevertheless, oil prices are expected to hover around current levels of US\$60 per barrel. In view of the build-up in oil inventories, OPEC producers announced a further reduction in their production quota by 0.5 million barrels per day (mbd) come February 2007, after cutting output by 1.2 in November 2006. With 2006 average oil prices some 18% higher than last year's, the indirect pass-through effects are likely to persist as domestic businesses continue to pass-on the accumulated increased energy costs. For example, Singapore Post has announced a raise in charges for domestic and international airmail effective 18 December 2008, citing escalating fuel costs as one of motivations for the price revision.

### EDUCATION COSTS TO TREND HIGHER

Meanwhile, education costs also look set to trend higher with some fee revisions in the pipeline. Particularly, students from the Integrated Programme (IP) in independent institutions will have to pay higher fees going forward, as schools look to strengthen teaching resources to provide better quality courses. For instance, Junior College (JC) 1 and 2 students in Hwa Chong Institution will see monthly school fees increased from the current \$225 and \$26 respectively, to \$250 for both levels in 2008 and subsequently to \$300 in 2009. Similarly, Year 1 and 2 students at Raffles JC will be charged higher monthly fees of \$300 and \$250 respectively next year, from the current \$250 and \$28. Other schools such as Raffles Institution, Raffles Girls School and Nanyang Girls School will also adjust fees to varying extents.

### SINGAPORE'S HEADLINE CPI INFLATION TO COME IN AT 0.5-1.5% IN 2006 AND 2007

Despite the anticipated price increases detailed above, overall, domestic inflation is expected to be well-contained going forward. Wage growth should remain modest at 3.5-4% in both

2006 and 2007. In addition to the tapering off of the direct pass-through effects of oil prices, the persistent fall in prices of household durables (particularly electrical appliances), handsets and computer products are also likely to dampen upward price pressures.

Domestic headline inflation is projected to be in the 0.5-1.5% range for both 2006 and 2007 while the MAS underlying inflation measure, which excludes accommodation and private road transport costs, is expected to come in at 1.5-2% in 2006 and 1-2% in 2007. These forecasts do not take into account the impending GST hike as details are not yet available.

## Statistical Appendix

**Table A.1**  
**Singapore's Consumer Price Index**

	All Items	Food	Clothing & Footwear	Housing	Tpt & Comm	Educ- ion & Stationery	Health Care	Recreation & Others
Weights	10000	2338	357	2126	2176	819	525	1659
	INDEX (2004 = 100)							
2005 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
Jun	100.7	102.8	97.4	102.0	95.8	103.6	101.3	101.7
Jul	101.5	103.1	99.9	104.1	96.7	104.0	101.4	101.3
Aug	101.5	103.0	101.8	104.0	96.6	104.1	101.3	101.5
Sep	101.4	103	100.6	103.5	96.5	104.3	101.5	101.7
Oct	101.8	103.1	101.2	104.2	96.8	104.5	101.6	102.5

Source: Singapore Department of Statistics

**Table A.2**  
**Selected Inflation Indicators**

	CPI	MAS Underlying Index	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH				
2005 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	24.5	30.5
May	1.1	1.7	6.1	36.7	39.9
Jun	1.4	1.8	4.4	30.5	25.3
Jul	1.1	1.7	4.1	34.5	29.8
Aug	0.7	1.6	3.1	33.1	19.3
Sep	0.4	1.5	-1.2	31.7	2.8
Oct	0.4	1.3	-2.6	33.2	0.9

Source: Singapore Department of Statistics, IMF and Bloomberg