



Inflation Monthly

October 2007

Singapore's Consumer Price Index

	2007	
	September	October
y-o-y (%)	2.7	3.6
m-o-m (%)	-0.3	1.3
Index	104.2	105.5

- Singapore's headline CPI inflation rose to 3.6% y-o-y in October from 2.7% in September**

The MAS underlying inflation measure, which excludes accommodation and private road transport costs, increased to 3.2% in October from 3.0% in the preceding month.

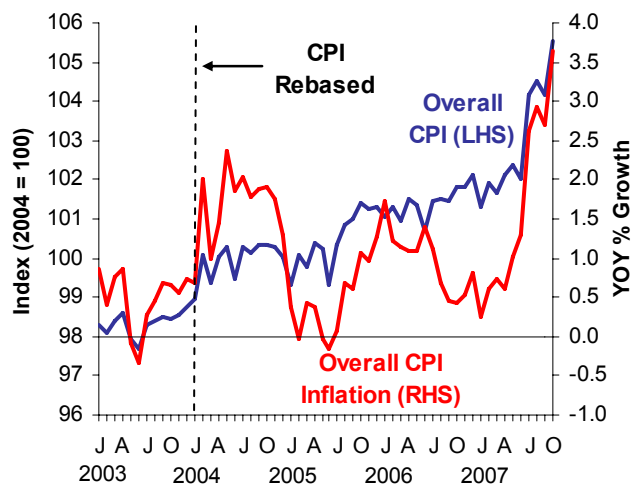
- On a m-o-m basis, Singapore's headline CPI went up by 1.3%, due mainly to higher housing and transport costs**

The withdrawal of rebates on Service & Conservancy Charges (S&CC), increased electricity tariffs, and higher costs of rented and owner-occupied accommodation led to a 2.7% jump in the CPI for housing. Meanwhile, there were upward adjustments in car prices, petrol prices and bus fares in October.

- Outlook: Higher fuel charges to raise business costs and consumer prices**

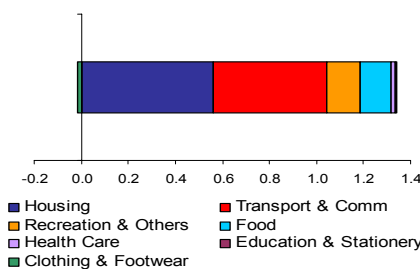
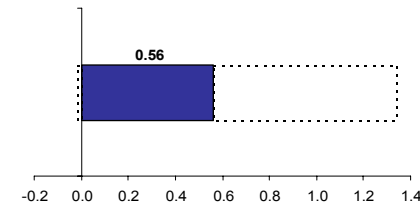
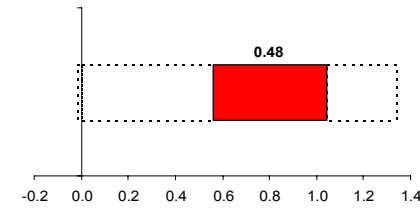
Global oil prices have recently rallied to nearly US\$100 on tight market conditions. This has translated into higher petrol and diesel prices domestically and raised the operating costs of businesses. Firms could thus adjust retail prices of their goods and services going forward to prevent further erosion of profit margins. For instance, a major taxi operator has already announced plans to increase fares in December.

Singapore: CPI and CPI Inflation



Recent Developments in Domestic CPI Inflation

Domestic headline CPI inflation rose to 3.6% y-o-y in October from 2.7% in the previous month, bringing average inflation to 1.6% for the first ten months of 2007. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – increased to 3.2% in October from 3.0% in September. Over the period Jan-Oct 2007, it averaged 1.9%.

% Point Contribution (m-o-m), October 2007	Group	
 <p>Legend:</p> <ul style="list-style-type: none"> Housing Transport & Comm Recreation & Others Food Health Care Education & Stationery Clothing & Footwear 	Overall (m-o-m)	On a m-o-m basis, the CPI went up by 1.3% in October, led by higher costs of housing and transport & communications.
	Housing	Housing costs rose by 2.7% in October due to a confluence of factors. First, S&CC rebates which were administered in September were withdrawn in October ¹ . Second, electricity tariffs for Q4 were raised by 4.2% (q-o-q) following the surge in global oil prices in the previous quarter, which meant higher production costs for generation companies. Third, cost of owner-occupied accommodation edged up by 0.9% in October due to increases in both the public and private housing components. Fourth, cost of rented accommodation was also higher.
	Transport & Communications	The 2.3% jump in the transport & communications index was mainly due to increases in the transport cost components. Car prices rose in tandem with higher COE premiums in the previous month. The run-up in global oil prices to above US\$80 per barrel led domestic petrol companies to raise pump prices. Domestic public bus operators also raised bus fares this month, on account of rising fuel and other operating costs in the past year.

¹ For 2007, rebates on S&C charges and HDB rentals are given out in the months of January, March, June, September and December. For more details on the schedule of rebates, please refer to: http://www.mof.gov.sg/budget_2007/budget_speech/downloads/FY2007_Schedule_of_Rebates.pdf

	<p>Re-creation & Others</p>	<p>The CPI for recreation & others was pushed up by costlier holiday travel and cable TV subscription. Cost of holiday travel surged by 3.0% in October to an all-time high, driven by more expensive overseas accommodation, packaged tours as well as air fares.</p>
	<p>Food</p>	<p>Food prices continued to climb for the sixth consecutive month in October, by 0.5%.</p> <p>In the cooked food category, there were significant price increases at restaurants and, to a lesser extent, hawker stalls.</p> <p>In the non-cooked food components, prices of meat & poultry posted a substantial 2.2% increase during the month, as meat imports were more expensive. Prices of cooking oil & fats jumped by 3.1% due to higher prices of palm and other edible oil products globally. Meanwhile, the recent surge in global wheat prices led to domestic bakeries and confectioneries raising prices, resulting in a significant 1% increase in the CPI for rice & cereals. Dearer milk products pushed up the CPI for dairy products & eggs by 0.9% in October, after the 8.0% increase over the period Jan – Sep 07.</p>
	<p>Health Care</p>	<p>Health care costs were marginally higher in October on account of increased charges for medical treatment, dental treatment and Chinese herbs.</p>

Outlook

HIGHER FUEL CHARGES TO RAISE BUSINESS COSTS AND CONSUMER PRICES

Tight oil market conditions in recent months have driven oil prices to new highs. On 21 November 2007, the benchmark West Texas Intermediate (WTI) oil price surged to a record US\$99.29 per barrel, nearly doubling the price of US\$50 per barrel at the beginning of the year.

The surge in global oil prices has directly translated into costlier petrol and diesel for domestic consumers and businesses. Petrol companies have raised pump prices of some petrol grades to record levels of above S\$2.00 per litre. They also appeared to have reduced the extent of discounts, as evident from the smaller gap between average pump prices and the petrol CPI

(which includes net price of petrol after accounting for discounts). (Chart 1a) Similarly, diesel prices have also been raised to new highs. (Chart 1b)

Chart 1a
Petrol Pump Prices and CPI Petrol

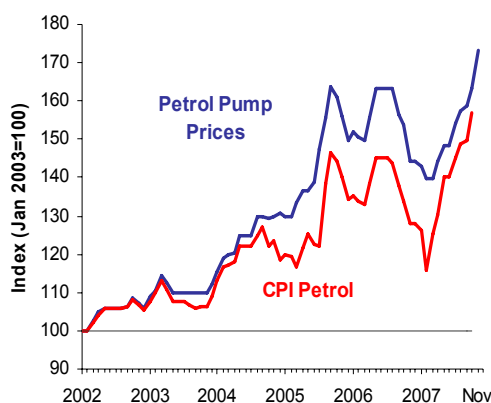
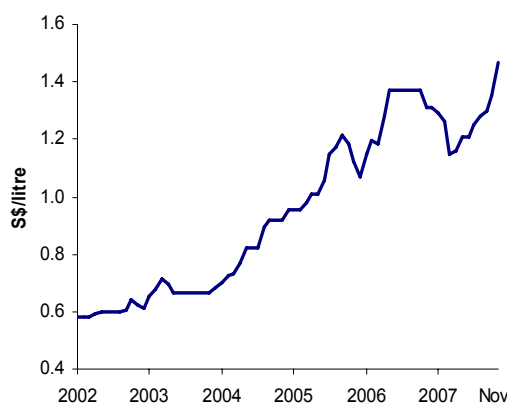


Chart 1b
Diesel Pump Prices



The increase in fuel prices will increase the operating costs of many domestic businesses in the form of higher transport costs. Firms may in turn raise prices to prevent further declines in profit margins. For instance, domestic taxi operator ComfortDelGro has recently announced a hike in taxi flag-down and meter charges, after feedback from taxi drivers that rising fuel costs have significantly eroded their net income. The fare increase would lead to higher public road transport cost component in the CPI ahead. In addition, cooked food retailers, who already faced rising rentals and imported food prices, may further adjust retail prices upwards as utility charges go up in tandem with the climb in oil prices.

Nevertheless, for the overall CPI, there could be some offsetting effects from higher fuel prices. Higher petrol prices have raised the cost of car ownership and usage. This could dampen the demand for cars and limit the increase in bid prices for COEs and consequently car prices.

HEADLINE CPI INFLATION TO COME IN AROUND 2% IN 2007 AND 3.5-4.5% IN 2008

The Singapore economy turned in another strong performance in 2007. Given the robust growth in recent years and the current advanced stage of the business cycle, domestic cost pressures stemming from a tight labour market and shortage of commercial space will persist, amidst external pressures from higher oil and food prices.

IRAS has recently announced that the Annual Value (AV) for all HDB types will be increased with effect from 1 January 2008, reflecting the significant rise in their market rental values. The cost of owner-occupied accommodation in the CPI is computed based on the rental equivalence method, which measures shelter cost in terms of the expected rental the owner would have to pay if he was the tenant of the premise. To track changes in the imputed rental over a period of time, the Department of Statistics (DOS) obtains from the Inland Revenue Authority of Singapore (IRAS) the AVs for a pre-selected sample of housing units.

In light of the AV adjustment, CPI Inflation is now forecast to come in at around 2% in 2007, which is the upper end of the previous forecast range of 1.5-2.0%. For next year, the forecast has been revised upwards to 3.5%-4.5%, principally due to the AV revision for HDB flats. The forecast for the MAS underlying inflation measure remains unchanged at 1.5%-2.5%.

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)							
2006 Nov	101.8	103.2	101.5	104.3	95.7	104.3	101.7	103.6
Dec	102.1	103.6	100.3	104.3	96.2	104.4	101.7	104.5
2007 Jan	101.3	104.4	99.2	100.6	95.6	104.9	102.0	103.9
Feb	101.9	104.8	100.7	103.2	94.9	105	102.5	103.7
Mar	101.7	103.8	102.8	103.2	94.4	104.9	102.7	104.1
Apr	102.1	103.7	102.8	102.7	96.3	103.9	103.7	105.3
May	102.4	104.1	100.9	102.6	97.8	103.9	104.4	104.5
Jun	102.0	104.6	97.3	99.9	98.5	103.8	104.9	105.0
Jul	104.1	106.0	101.1	104.8	99.4	106.0	107.2	105.6
Aug	104.5	106.4	102.5	105.1	99.9	105.9	107.4	105.9
Sep	104.2	106.9	101.6	103.9	98.7	106.3	107.4	106.3
Oct	105.5	107.5	101.1	106.6	101.0	106.3	107.8	107.2

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				
2006 Nov	0.5	1.4	-2.4	34.7	8.5
Dec	0.8	1.6	-2.0	31.2	10.1
2007 Jan	0.2	0.9	-5.4	23.7	-13.4
Feb	0.6	1.3	-4.5	22.5	-3.7
Mar	0.7	1.2	-3.5	25.2	1.5
Apr	0.6	1.2	-4.0	24.1	-1.9
May	1.0	1.3	-3.2	15.2	-1.1
Jun	1.3	1.5	-3.4	19.4	3.1
Jul	2.6	2.7	-3.5	16.0	4.0
Aug	2.9	2.8	-3.1	10.4	-0.6
Sep	2.7	3.0	-0.2	11.3	24.3
Oct	3.6	3.2	0.6	9.6	43.6

Source: Singapore Department of Statistics, IMF and Bloomberg