

HIGHLIGHTS & OUTLOOK

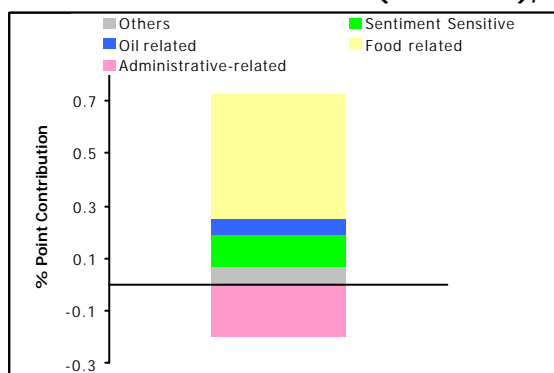
HIGHER CONSUMER PRICES DUE TO POULTRY BAN

CPI INFLATION ROSE TO THE 2% MARK AGAIN

Headline CPI inflation came in at 2.0% year-on-year (y-o-y) in September, a significant increase from 1.6% in the previous month. This brought average inflation for the first three quarters of this year to 1.7%. The headline figure in September was largely boosted by the impact of the poultry ban, as prices of eggs and chicken spiked up due to the temporary supply shortage. Price increases of these items contributed 0.6% points to the headline inflation number for the month. The MAS underlying inflation – which excludes private road transport and accommodation costs – also came in higher at 2.1% in September, from 1.8% in August.

On a month-on-month, seasonally adjusted (m-o-m, SA) basis, consumer prices rose by 0.5% in September, after edging up by 0.1% in the preceding month. As shown in Chart 1, the sequential rise in the CPI was almost entirely attributed to the increase in food prices. The rebound in prices of tour packages (subsumed under sentiment-sensitive) also boosted consumer prices to some extent. The overall price increases were partially offset by the reduction in foreign maid levy (administrative-related), in line with the government's efforts to enhance childcare initiatives for Singaporeans.

Chart 1
% Point Contribution to CPI Increase (m-o-m SA), September



FOOD PRICES SPIKED UP BY TEMPORARY SUPPLY SHORTAGES

Overall food prices rose further in September, largely reflecting the sharp spike in prices of eggs and chicken, following the earlier ban on Malaysian poultry products imposed in mid-August. During the six-week ban, there was an acute shortage of eggs, with prices tripling to as much as 70 cents each at one stage. While the increased imports of Australian eggs helped to alleviate the shortage to some extent, these alternative sources were relatively more expensive. In comparison, the increase in chicken prices was more moderate, with prices reportedly rising to around \$7 per kilogramme – around 50% higher as compared to pre-ban days.

Apart from the poultry-related items, rice, vegetables and pork were also more expensive, pushing food prices higher in September.

QUICK PASS-THROUGH OF COST SAVINGS BY PUMP OPERATORS

Prices of oil-related items exerted some upward pressure on overall consumer prices. Despite a cut of three cents per litre on 8 September, petrol prices were on average still higher in the month, following an earlier hike of five cents in mid-August. Nonetheless, the reduction in retail petrol prices reflected the responsiveness of pump operators in passing on cost savings to consumers, as the internationally traded prices of finished products retreated somewhat in earlier weeks.¹

PENT-UP COST INCREASES PASSED THROUGH INTO CPI

Apart from commodity-related price hikes, some cost increases also filtered through into consumer prices during the month. Specifically, there was an increase in maintenance costs by about 2%, following the upward revision in the service and conservancy (S&C) charges² for HDB flats by several town councils. The hike was the first since 1997, and was mainly attributed to higher maintenance and operational costs, which have risen by some 15-20% over the years. Nonetheless, town councils appear to be mindful of the strain that these increases could have on Singaporeans, passing on just a portion of the actual increase in costs. Apart from HDB flats, S&C charges for commercial premises and market/food stalls were also hiked by some 5-10%. This could have led to some second-round pass-through effects, if operators were to pass them on to consumers.

PICKUP IN TRAVEL DEMAND STROKE UP TOUR PACKAGE PRICES

Notwithstanding the ongoing competition within the airline industry, prices of tour packages rebounded in September, after falling steadily over the past two months. A possible explanation for the price increases could be the pickup in travel demand. Indeed, feedback from NATAS suggests that travel bookings for both long- and short-haul destinations were snapped up faster than expected during its recent travel fair, which reportedly attracted a record turnout of 57,000 people – a 35% jump from the previous year. In particular, the rise in demand for long-haul trips, which have not been subjected to the same intense competition witnessed in short-haul destinations, could have given tour operators more leeway to raise prices.³

In comparison, the recovery in prices of various mass-market retail items was relatively uneven. While prices of ready-made clothing and footwear rose, prices of personal effects and personal care items declined.

LOWER FOREIGN MAIDE LEVY AS PART OF FAMILY FRIENDLY POLICIES

Nonetheless, there was some respite for consumer prices, arising from the impact of policy-related measures. As part of the government's initiatives to encourage family planning, the foreign maid levy was reduced from \$345 to \$250 for families with young children (under the age of 12) or elderly parents (above the age 65). This led to a significant fall in the prices of household services, by 7.7% during the month.

GLOBAL OIL PRICES TO REMAIN VOLATILE...

After some moderation in early September, global oil prices have been scaling new peaks again in recent weeks, with the NYMEX West Texas Intermediate (WTI) crude oil prices gushing past the US\$55 mark in mid-October. Driving up prices were the continued snags in oil production in the Gulf of Mexico, and the extremely low US

¹ Internationally traded product prices generally refer to the wholesale prices of finished products of petrol, which tend to have a more direct impact on retail petrol prices, as compared to the unprocessed crude oil prices.

² S&C charges cover services such as grass-cutting, cleaning and lift maintenance.

³ Short-haul trips are generally more price competitive, with the proliferation of various low-cost carriers within the region.

crude-oil inventories. Supply disruptions stemming from Hurricane Ivan had also pushed commercial crude inventories to below average levels. The production delays had been of particular concern, as spare global oil-production capacity was at its lowest level in nearly 25 years. This in turn fuelled worries of low stockpiles of heating fuels in the US with the winter season fast approaching.

However, oil prices slipped to around US\$50 at end-October, following reports of an improvement in output from the Gulf of Mexico. The release of a US government survey, which showed commercial crude oil inventories surging to an unexpectedly large margin of four million barrels over the week, also contributed to calming the markets. In addition, China's first interest rate hike in nine years helped to cool prices to some extent, with expectations that it will somewhat dampen oil demand. Nonetheless, Bush's recent victory in the presidential elections led to some gains in oil prices, as markets expected him to continue filling the US emergency oil stockpiles, which would tighten global supplies further.

...WHICH WOULD TRICKLE INTO DOMESTIC PRICES, EVEN THOUGH COMPETITION COULD DAMPEN PRICE INCREASES

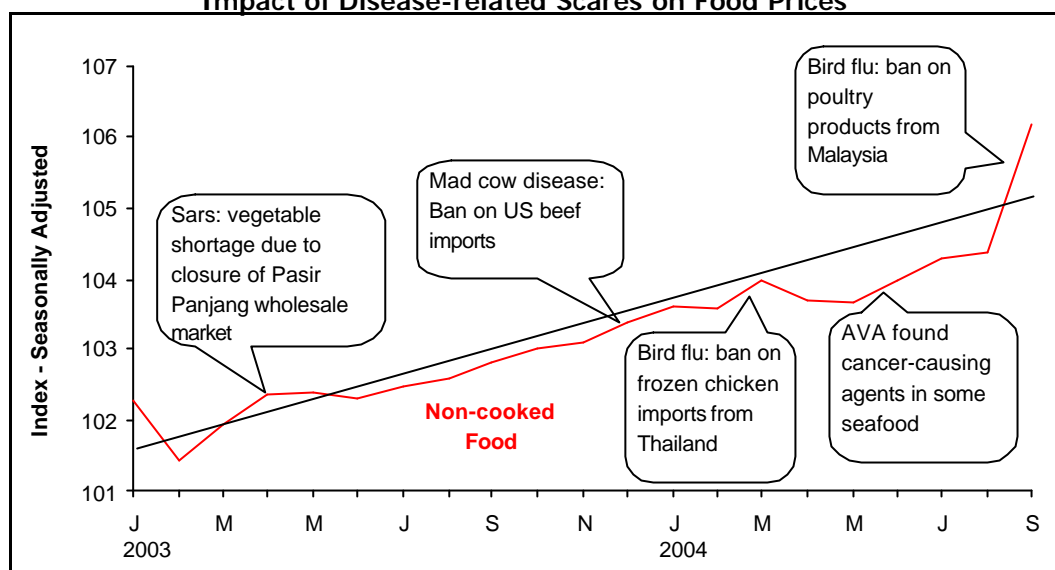
While global oil prices are expected to remain volatile going forward, the pass-through effects are likely to be tempered by domestic competitive pressures. Despite global oil prices averaging above US\$50 in October, for example, domestic pump operators continued to offer substantial island-wide price discounts of up to 10%. Moreover, with Singapore Petroleum Company (SPC) becoming one of the major fuel retailers here following its recent acquisition of British Petroleum's (BP) stake in Singapore, the company's heavy reliance on discounts (rather than loyalty schemes favoured by other players) could further intensify the ongoing petrol price war within the industry.

SOME DOWNWARD PRICE STICKINESS IN POULTRY PRODUCTS

Meanwhile, the impact of the recent bird flu outbreak on the prices of poultry products has taken longer than expected to subside. Although Singapore has lifted the ban on imports from Johor and Malacca since end-September, prices of these products are reportedly still higher than before the ban. This was despite anecdotal feedback from poultry importers that some Malaysian farms have lowered their prices to below levels prior to the ban, due to the glut in supplies that had accumulated during the ban. Thus, the downward price stickiness in Singapore could suggest some attempts by local wholesalers/retailers to support higher prices. Nonetheless, it is unlikely that this could be sustained over the longer term.

Increasingly, several food-related items have been subjected to various disease-related scares, which introduced increased volatility to prices. There were at least five such incidents over the last two years, arising from various scares such as Sars, the mad cow disease as well as the bird flu. (Chart 2) Even though most of these outbreaks did not originate in Singapore, the resulting shortages in the affected food supplies invariably led to spikes in domestic prices, given our high dependence on food imports.

Chart 2
Impact of Disease-related Scares on Food Prices



COST INCREASES TO EXERT UPWARD PRESSURE ON CPI

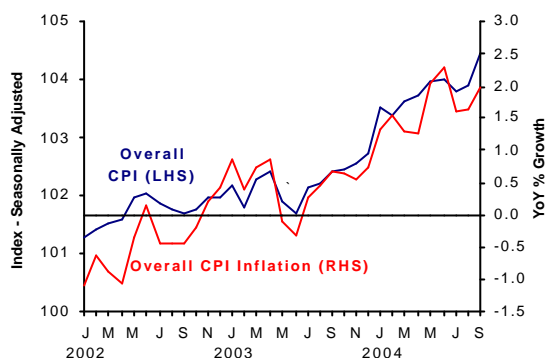
Apart from commodity-related price increases, consumer prices could also experience the pass-through of rising operating costs that had built up during the earlier years of economic weakness. Some of these increases include the hikes in school miscellaneous fees and local university tuition fees from January and July 2005 respectively. With rising labour and fuel costs over the years, public road transport costs may also be adjusted upwards next year, after being frozen for the past two years.

DEMAND-SIDE PRICE PRESSURES TO EMERGE MORE STRONGLY

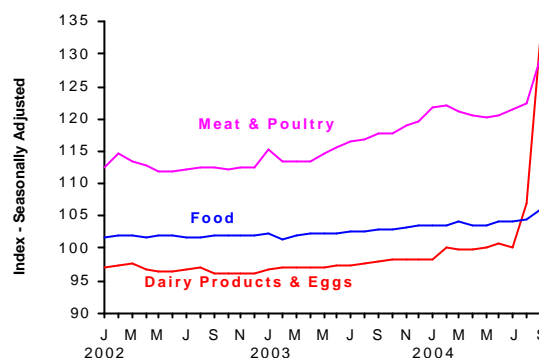
Alongside the continued improvement in the labour market, some demand-side price pressures could emerge more strongly in the coming months. In particular, prices of sentiment-sensitive items, which have been experiencing mild increases after the Great Singapore Sale, are likely to see further recovery, although some mitigating factors may dampen price increases somewhat. For example, while the demand for cars are likely to remain strong, prices are not expected to rise significantly given the substantial upward adjustments in the number of COEs released in the market. In addition, regional competition could hold down prices of mass-market retail items.

Taking the above factors into account, the headline CPI inflation forecast for 2004 remains unchanged at **1.5-2.0%**. For next year, CPI inflation is expected to come in at **1-2%**.

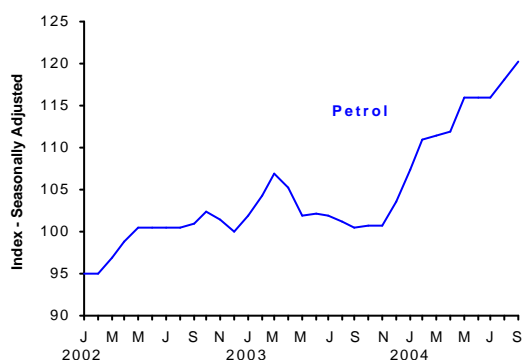
Headline CPI inflation rose to 2.0% in September, from 1.6% in August. The seasonally adjusted CPI also jumped up by 0.5%.



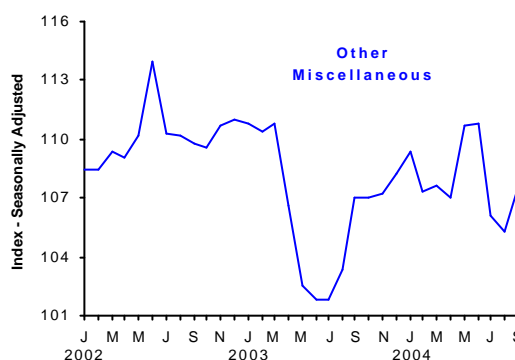
The rise in consumer prices was largely attributed to more expensive food, as the poultry ban pushed up prices of eggs and chicken.



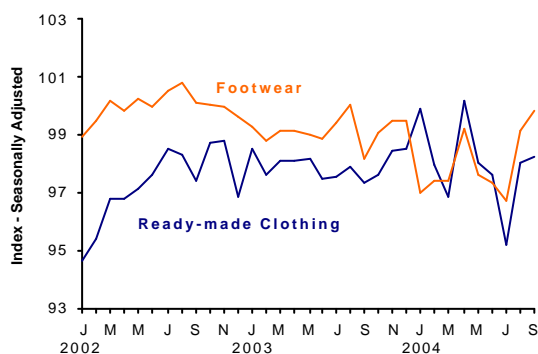
Petrol prices were on average higher than the previous month, despite a cut of three cents in September.



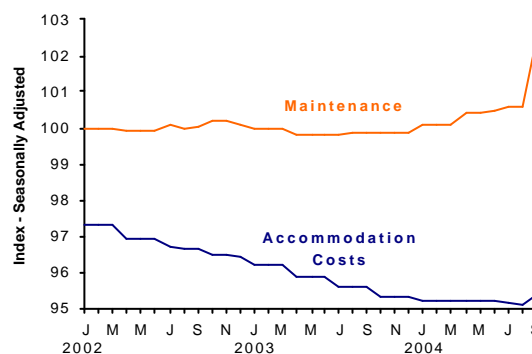
Prices of "other miscellaneous" items also rose higher, as demand for travel continued to pick up.



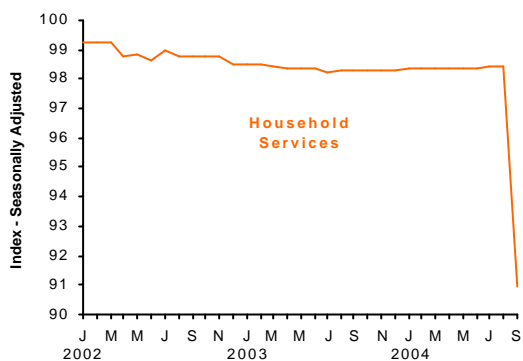
Prices of several sentiment-sensitive retail items such as ready-made clothing and footwear increased marginally during the month.



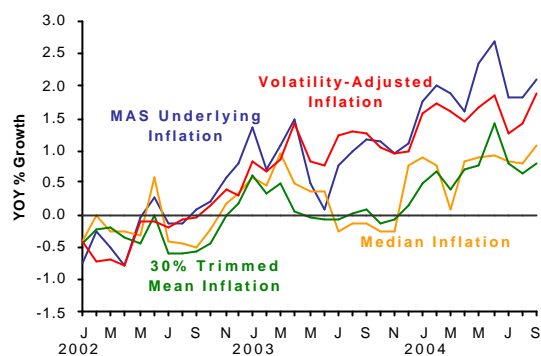
Overall accommodation costs rose, on the back of higher service and conservancy charges.



Meanwhile, household services fell significantly, due to the reduction in the foreign maid levy for households.



All core inflation measures were up from the previous month. In particular, the MAS underlying inflation rose to 2.1%.



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							
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	106.4	105.1
Mar	101.5	101.9	97.5	99.5	98.3	106.4	109.0	105.0
Apr	101.6	101.8	97.5	99.3	98.6	106.3	109.2	104.7
May	102.0	101.9	97.8	99.6	99.0	106.4	109.3	106.0
Jun	102.0	101.9	98.2	99.7	98.7	106.6	109.4	107.4
Jul	101.9	101.8	98.9	99.8	98.8	106.3	109.6	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	109.7	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	110.2	105.7
Dec	102.0	102.1	97.5	99.8	98.4	107.3	110.3	106.0
2003 Jan	102.2	102.3	98.7	99.4	99.1	107.6	110.6	106.4
Feb	101.8	101.4	97.9	99.1	99.2	107.7	110.7	106.2
Mar	102.3	101.9	98.3	99.1	99.6	107.8	110.7	107.4
Apr	102.4	102.4	98.4	100.4	98.7	108.0	111.0	105.9
May	101.9	102.4	98.5	99.4	98.0	108.1	110.9	104.6
Jun	101.7	102.3	97.8	99.5	98.2	108.3	111.1	104.6
Jul	102.1	102.5	98.0	99.4	98.1	109.7	111.6	105.6
Aug	102.2	102.6	98.4	99.3	98.1	109.7	111.6	106.2
Sep	102.4	102.8	98.0	99.2	98.0	110.0	111.6	107.1
Oct	102.4	103.0	98.0	98.6	98.2	110.2	111.8	107.5
Nov	102.6	103.1	98.7	98.4	98.5	110.4	111.9	107.7
Dec	102.7	103.4	98.8	98.3	98.9	110.6	111.6	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	117.6	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	118.0	109.0
May	104.0	103.6	97.9	99.2	99.9	113.2	117.8	110.0
Jun	104.0	104.0	97.4	99.3	99.9	113.3	117.8	110.4
Jul	103.8	104.3	95.6	99.1	99.6	114.0	118.2	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	118.1	108.3

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	-0.8	-2.8	-8.7
Feb	-0.6	-0.2	-2.8	-7.6
Mar	-0.9	-0.5	-2.3	-4.6
Apr	-1.1	-0.8	-2.7	-5.2
May	-0.3	0.0	-3.2	-6.3
Jun	0.1	0.2	-3.7	-2.7
Jul	-0.4	-0.1	-3.2	0.2
Aug	-0.4	-0.1	-2.0	1.4
Sep	-0.4	0.1	-1.3	7.9
Oct	-0.2	0.2	-0.5	13.5
Nov	0.2	0.6	-1.1	11.3
Dec	0.4	0.8	0.0	11.4
2003 Jan	0.9	1.3	1.0	11.8
Feb	0.4	0.7	2.5	11.5
Mar	0.8	1.1	2.1	7.3
Apr	0.9	1.5	0.0	7.2
May	-0.1	0.5	-1.2	6.9
Jun	-0.3	0.1	-0.3	3.9
Jul	0.3	0.8	0.1	1.4
Aug	0.5	1.0	0.6	4.0
Sep	0.7	1.2	-0.9	3.1
Oct	0.6	1.1	-1.0	6.8
Nov	0.6	1.0	0.4	9.6
Dec	0.7	1.1	0.2	12.2
2004 Jan	1.3	1.7	0.3	15.8
Feb	1.5	2.0	-2.0	19.2
Mar	1.3	1.9	-1.9	23.7
Apr	1.3	1.6	-0.3	24.7
May	2.0	2.3	2.6	21.8
Jun	2.3	2.7	2.9	22.2
Jul	1.6	1.8	3.0	22.9
Aug	1.6	1.8	3.6	20.3
Sep	2.0	2.1	4.1	17.6

Source: Department of Statistics, IMF and Bloomberg