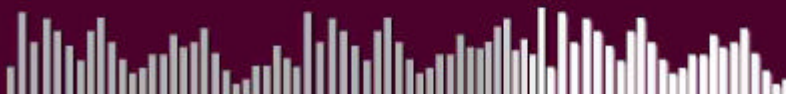


Inflation Monthly

September 2006



Domestic Inflation Moderated Further In September

Singapore's CPI (2004 = 100)		
% Growth/ Level	Aug 06	Sep 06
y-o-y	0.7	0.4
m-o-m	0.0	-0.1
Index	101.5	101.4

- **Most external economies saw inflation eased in September**

Specifically, the pullback in energy prices helped to lower inflation in G3 economies.

- **Singapore's headline CPI inflation fell further to 0.4% during the month**

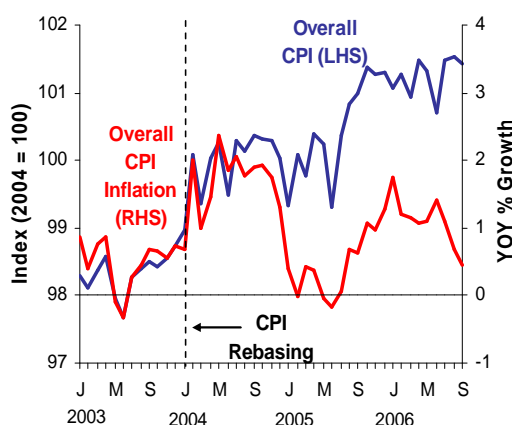
The MAS underlying inflation also edged down to 1.5% in September from 1.6% in the previous month.

- **On a m-o-m basis, the CPI declined marginally**

Costs of housing and clothing & footwear came in lower, more than offset the increases in the costs of recreation & others, education and health care during the month.

- **Unfavourable climate forecast implies higher food prices ahead**

Experts are expecting the persistence of El Niño conditions in the tropical Pacific until Q2 2007. Historically, dry weather conditions in the region meant higher prices of some items such as vegetables.



Recent Developments in External Inflation

In the month of September, inflation eased in all the major economies with the exception of China and Malaysia.

Falling energy prices helped to lower headline inflation in September in all the G3 economies. (Chart 1a) In the US, motor fuel prices fell by 12% y-o-y while household utilities inflation eased as well. Coupled with the high base stemming from the effects of Hurricane Katrina last year, headline inflation moderated to 2.1% y-o-y in September from 3.8% in August. However, core CPI remained elevated at 2.9% y-o-y, the highest since January 1996, as both rentals and owner's equivalent rent accelerated. In the EU, headline inflation moderated significantly to 1.7% y-o-y in September from 2.3% in August. Headline inflation also moderated in Japan to 0.6% y-o-y in September from 0.9% in August, helped by slowing food and energy price inflation.

With the exception of China, consumer price inflation moderated in the Northeast Asian economies, helped by smaller increases in food prices. (Chart 1b) The composite CPI for Hong Kong eased to 2.1% y-o-y in September from a high of 2.5% in August. Virtually all categories of the CPI recorded lower inflation, with moderating food price inflation a major contributing factor to weaker overall inflation. In Korea, both headline and core inflation receded from their highs in August due to lower food and energy price inflation. Taiwan experienced its second consecutive month of negative headline inflation, at -1.2% y-o-y in September from -0.6% in August. This was largely due to the 33% decline in the prices of vegetables arising from the high base in the same period last year because of typhoons. In comparison, China's inflation edged up to 1.5% y-o-y in September from 1.3% in August, reflecting price increases in fresh vegetables.

In Southeast Asia, consumer price inflation moderated in all the economies, except for Malaysia. (Chart 1c) In Thailand, CPI inflation decelerated sharply to 2.7% y-o-y in September from 3.8% in August, mainly due to the much smaller increase in the cost of transportation. Indonesia's headline CPI inflation also inched lower in September, as higher education prices were more than offset by lower inflation in most other components. In the Philippines, both headline and core inflation eased in September on the back of a favourable harvest, lower energy prices and a stronger peso. In Malaysia, headline CPI inflation remained unchanged at 3.3% y-o-y in September as slightly higher food price inflation was offset by lower housing and miscellaneous goods and services price inflation while transport price inflation remained relatively steady.

Chart 1a
CPI Inflation (G3 economies)

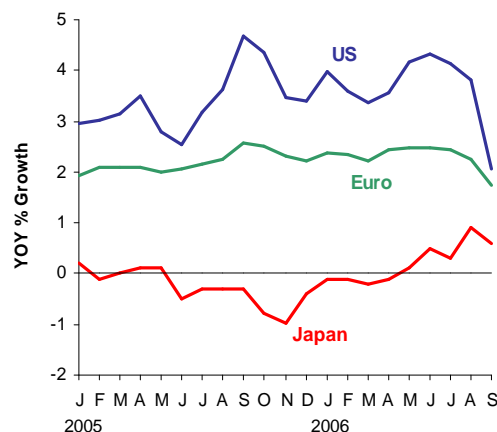


Chart 1b
CPI Inflation (Northeast Asia)

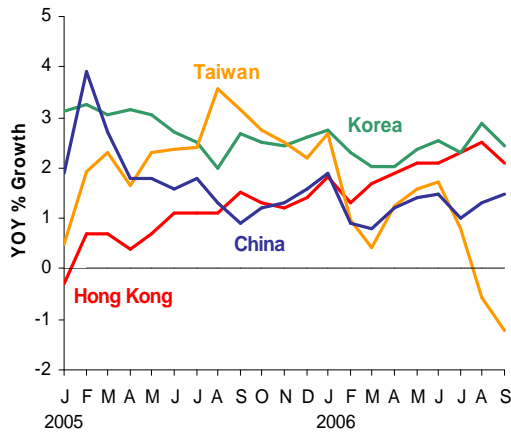


Chart 1c
CPI Inflation (Southeast Asia)

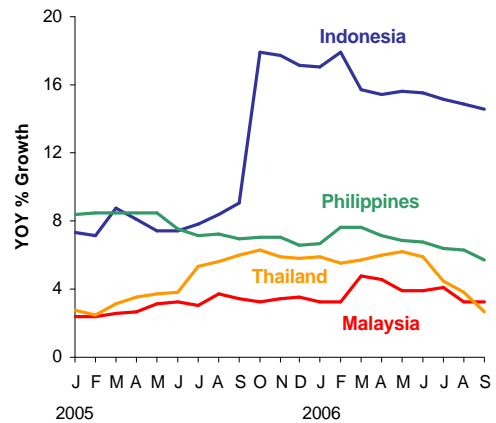


Table 1
External Inflation Indicator

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

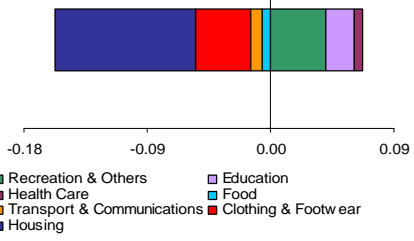
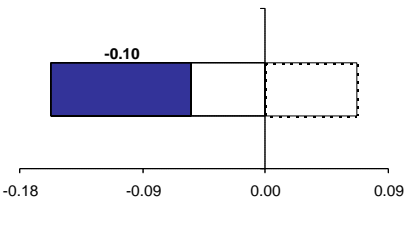
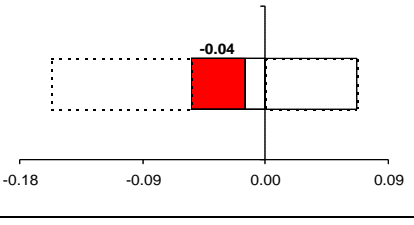
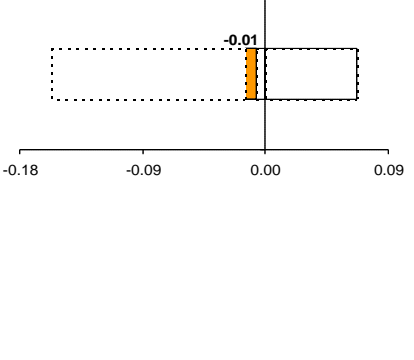
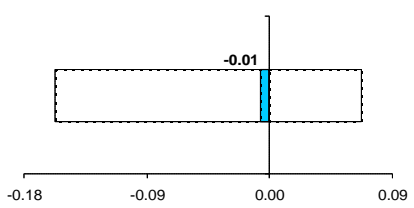
Interpretation of Colour Codes:

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

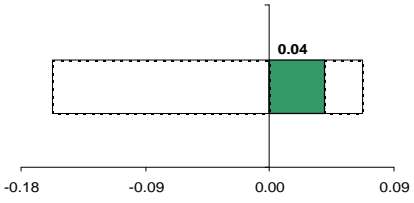
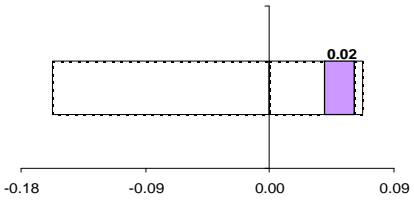
Red	Inflation accelerating
Yellow	No change in inflation
Green	Inflation decelerating

Recent Developments in Domestic CPI Inflation

Headline CPI inflation in Singapore fell for the third consecutive month to a mild 0.4% in September from 1.4% in June 2006. This brought average inflation to 1.1% for the first nine months of 2006, compared with 0.5% for the whole of 2005. Meanwhile, the MAS underlying inflation measure – which excludes accommodation and private road transport costs – came in slightly lower at 1.5%, from 1.6% in the previous month. Over the period January - September 2006, it averaged 1.8%, after registering 1.3% in 2005.

% Point Contribution, Sep 2006	Group	
 <p data-bbox="268 741 683 846"> -0.18 -0.09 0.00 0.09 Recreation & Others Education Health Care Food Transport & Communications Clothing & Footwear Housing </p>	Overall (m-o-m)	On a m-o-m basis, CPI fell marginally by 0.1% in September, led by a drop in the costs of housing and clothing & footwear. These price declines, along with others, more than offset the increases in the costs of recreation & others, education and health care.
 <p data-bbox="268 1043 683 1088"> -0.18 -0.09 0.00 0.09 -0.10 </p>	Housing	Housing costs fell by 0.5% in September on account of lower maintenance charges and domestic refuse removal fees for HDB estates.
 <p data-bbox="268 1285 683 1330"> -0.18 -0.09 0.00 0.09 -0.04 </p>	Clothing & Footwear	At the same time, retail prices of clothing and footwear also declined due to seasonal sales.
 <p data-bbox="268 1662 683 1706"> -0.18 -0.09 0.00 0.09 -0.01 </p>	Transport & Communications	Although car prices rebounded in tandem with higher COE premiums in August ¹ , overall transport costs were dragged down by the reduction in petrol pump prices. With the pullback in global oil prices from a record high of US\$77.03 per barrel to levels close to US\$60 in September, petrol companies passed on some of the cost savings by cutting pump prices twice by a total of \$0.11 during the month.
 <p data-bbox="268 1908 683 1930"> -0.18 -0.09 0.00 0.09 -0.01 </p>	Food	Overall food prices edged down as cheaper meat & poultry and seafood more than offset higher prices for rice, vegetables, fruits and cooked food.

¹ COE premiums in a particular month tend to be reflected in overall car prices in the following month, given that car dealers need to secure the certificates before the cars are delivered.

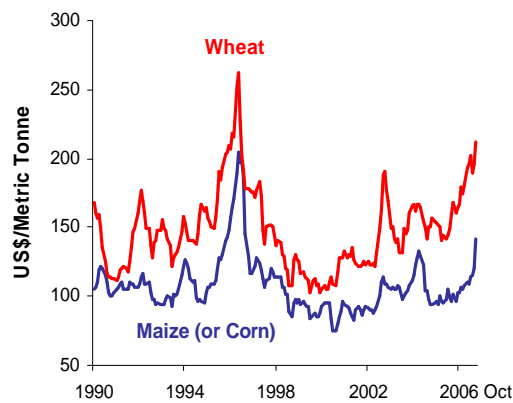
% Point Contribution, Sep 2006	Group	
	<p>Re-creation & others</p>	<p>Meanwhile, costs of recreation & others rose on the back of a 1.4% increase in the costs of holiday travel. The higher holiday expenses were mainly due to dearer packaged tours.</p>
	<p>Education</p>	<p>Costs of education were lifted by the upward revision of tuition fees in some universities abroad as well as fee increases at some private kindergartens.</p>

Outlook

UNFAVOURABLE CLIMATE FORECASTS FOR THE REGION POINT TO HIGHER FOOD PRICES AHEAD

Recent global climate developments have been unfavourable for agricultural production and have led to surges in the price of food commodities. For instance, prices of wheat traded at the Chicago Board of Trade (CBOT) soared to a 10-year high in October 2006 (Chart 2) due to the severe drought in the world's third largest wheat exporter, Australia. The shortage of rainfall has drastically reduced wheat production and inventories, heightening buyers' concerns of supply shortages which, in turn, pushed up wheat prices.

Chart 2
CBOT Wheat and Maize Prices



Source: IMF

In the US, hurricane-induced crop damages, along with a shortage of rainfall, are expected to result in a 16-year low orange harvest in Florida². The projected orange shortfall, together with increased energy costs, has prompted orange juice suppliers in the US to raise prices of

² Florida is the world's second largest orange juice producing region after Brazil.

their products. Notably, Coca-Cola Co. has revised upwards prices four times this year for its Minute Maid and Simply Oranges juice products, after keeping them constant for the past five years.

Experts have attributed the dry weather in Australia and other parts of the world to the El Niño phenomenon that has developed in recent months³. The Climate Prediction Center of the US National Oceanic and Atmospheric Administration is forecasting the El Niño conditions to intensify in the next three months and persist until Q2 2007. Given the associating dry weather conditions in the Asia-Pacific from the El Niño phenomenon and the importance of the region as an import source, prices of domestic consumer non-cooked food items could face further upward pressures, after having risen by 1.3% in the first nine months of the year. (Chart 3a) Specifically, as shown in Chart 3b, y-o-y changes in the prices of vegetables tend to rise sharply when the Southern Oscillation Index (SOI) turns negative – the SOI is a measure of the atmospheric pressure conditions over the Pacific and Australasia region which indicates El Niño and La Niña events⁴. Sustained negative values of the SOI point to El Niño events and prolonged dry weather in the Asia-Pacific Region.

Chart 3a
Non-cooked Food CPI and Prices of Selected Sub-categories

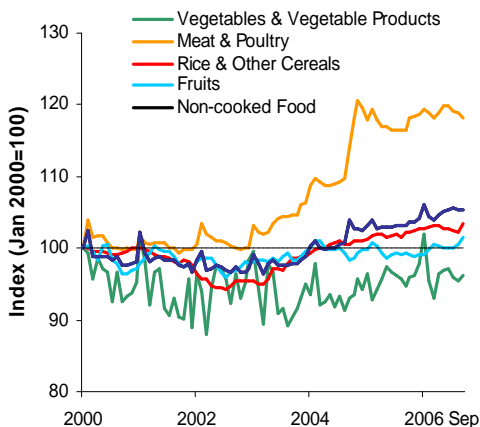
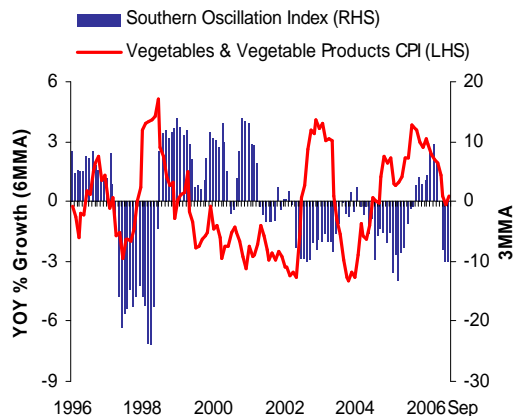


Chart 3b
The Southern Oscillation Index and Domestic Vegetable Prices



Source: Bureau of Meteorology, Australian Government for the SOI.

In addition, the run-up in wheat prices has led to dearer input costs for producers of wheat-related products such as flour, bread, biscuits and cereal products. Consumer prices of these items (which, together with rice, constitute about 1.9% of the CPI basket) could rise when producers pass on the cost increases. Moreover, anecdotal feedback from industrial sources also suggest that the rise in wheat prices, along with the recent rally in corn prices that had been driven by strong ethanol demand, has led to costlier grain feeds for cows and chickens. This could indirectly translate into higher prices for meat products such as poultry, beef and pork. Meanwhile, domestic retail prices of orange juices could also be somewhat affected by the supply shortage in Florida, given that the US is currently our main import source for fruit and vegetable juices (import share of 23%).

³ An El Niño event is the result of an abnormal warming of the sea surface in tropical Pacific, and is often associated with increased rainfall and destructive flooding across the southern tier of the US and in Latin America, along with droughts in Australia and parts of Asia.

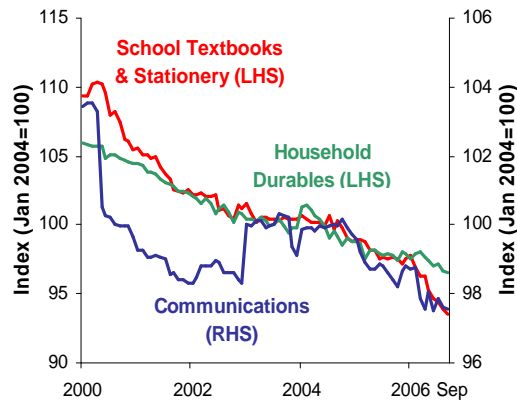
⁴ The SOI is defined as the standardised sea level pressure difference between Darwin, Australia and Tahiti, French Polynesia. Positive values indicate La Niña events (wet weather) in Australia, while negative values are linked to El Niño (dry weather) in Australia.

At the same time, the weather-induced supply shortages of food commodities are taking place against the backdrop of strong consumer demand from China and India. This will add upward pressure on food prices.

DECLINING PRICES IN CONSUMER ELECTRONICS ARE LIKELY TO PERSIST

While consumers could face higher food prices, overall inflationary pressures could be mitigated by declining prices of consumer electronics such as LCD TVs, MP3 players⁵, computers & accessories⁶, and mobile phones⁷. Prices of household durables, textbooks & stationery, and communications in the CPI basket, which have already fallen by 1.4%, 4.1% and 1.3% respectively since the beginning of the year, look set to trend down further due to downward price pressures on electronics inputs. (Chart 4)

Chart 4
Prices of Household Durables, School Textbooks & Stationery and Communications.



Currently, industry research suggests excess inventories of semiconductors could be carried over into H1 2007. Specifically, the supply overhang of NAND flash memory⁸ could lead to a further fall in prices, after having seen substantial weakness this year. At the same time, given the ease of switching between DRAM⁹ and NAND production without much capital investment, manufacturers have also begun switching production to increase DRAM supply in view of the launch of Microsoft's new operating system Vista next year. The increased production could therefore exert some downward pressure on DRAM prices and overall PC prices. At the same time, aggressive competition, rapid technological advancement and strong build-up in production capacity are likely to lead to further declines in the prices of LCD monitors and TVs, which have slid by about 30% annually since 2003¹⁰.

⁵ LCD TVs and MP3 players are subsumed under the CPI category "household durables".

⁶ Computers & accessories are subsumed under the CPI category "school textbooks and stationery".

⁷ Mobile phones are subsumed under the CPI category "communications".

⁸ NAND flash memory is a type of memory chips commonly used for file storage in consumer electronic devices such as MP3 players and digital cameras.

⁹ DRAM is the most common type of memory used in PCs.

¹⁰ Based on prices estimates by DisplaySearch, a US firm which provides market research and consulting on flat panel displays.

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

Overall, domestic inflation is expected to be well-contained going forward. With the recent correction in global oil prices, prices of direct oil-related items are expected to weaken in the months ahead. Despite strong employment gains, wage growth should remain modest at 3.5-4% in both 2006 and 2007.

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 adjust for the impending GST hike as details are not 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 Oct	101.4	101.5	100.7	102.7	98.7	102.8	100.8	102.7
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

Source: Singapore Department of Statistics

Table A.2
Selected Inflation Indicators

	Singapore's CPI	MAS Underlying Index	Singapore's Import Price Index	IMF Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH				
2006 Oct	1.1	1.7	6.6	13.1	20.8
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	32.9	19.3
Sep	0.4	1.5	-1.2	32.4	2.8

Source: Singapore Department of Statistics, IMF and Bloomberg