

Inflation Monthly

September 2007

Singapore's Consumer Price Index

	2007	
	Aug	Sep
y-o-y (%)	2.9	2.7
m-o-m (%)	0.3	-0.3
Index	104.5	104.2

- Singapore's headline CPI inflation eased to 2.7% y-o-y in September from 2.9% in August**

The MAS underlying inflation, which excludes accommodation and private road transport costs, rose to 3.0% in September from 2.8% in the preceding month.

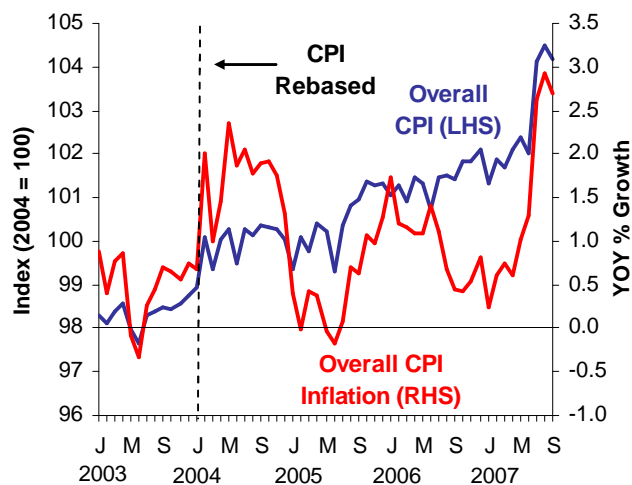
- Singapore's headline CPI declined by 0.3% on a m-o-m basis**

The CPI was dragged down by lower car prices in September, as COE premiums plunged in the preceding month. At the same time, rebates on HDB Service & Conservancy Charges (S&CC) were given out during the month, which offset the increase in food prices and the costs of holiday travel.

- Outlook: Higher wheat prices could lead to a further rise in domestic food prices**

Global wheat prices surged to an all-time high in September 2007 due to poor harvests in major wheat exporting countries. Flour prices for domestic food producers have thus increased substantially. Amidst higher fuel, wage, rental and materials costs, domestic retailers of both cooked and non-cooked food products could hike prices more significantly going forward.

Singapore: CPI and CPI Inflation



Recent Developments in External Inflation

CPI inflation remained benign for the industrialised economies but accelerated for most of the Asian economies in Q3 2007 due to the sustained gain in food and energy prices. However, after stripping away these volatile components, core inflation fell across the board in Q3, with few exceptions.

In the US, despite higher food and gasoline prices, headline inflation decelerated to 2.4% y-o-y in Q3, from 2.7% in Q2. (Chart 1a) A substantial price discounting on new vehicles and the ongoing housing slump held down core inflation to 2.2% in Q3 from 2.3% in the previous quarter. Concurrently, both headline and core inflation stayed unchanged at 1.9% y-o-y in the Euro Zone and -0.1% y-o-y in Japan for the third consecutive quarter. These economies saw little or no pass-through of higher wholesale food prices to the retail level in Q3. Stronger currencies relative to the US dollar also helped to contain energy price inflation.

China's inflation rose sharply to a decade high of 6.1% y-o-y in Q3 from 3.6% in Q2, exacerbated by the unabated increase in meat and poultry prices. (Chart 1b) To keep a lid on inflation, the Chinese government froze all state-controlled prices which led to a fall in core inflation to 0.5% in Q3 from 0.8% previously. In Hong Kong, surging food price inflation imported from China pushed up inflation to 1.6% in Q3 from 1.3% in Q2, although the increase was tempered by the government's reduction in school fees, property tax concession and an 11% public housing rent cut. In comparison, the acceleration in Taiwan's inflation to 1.4% in Q3 from 0.3% in Q2 was more broad-based. While food prices contributed to price pressures, core inflation also doubled to 1.6% in Q3. South Korea was one of the few Asian economies where inflation moderated slightly, to 2.3% in Q3.

After several quarters of mild inflation, prices rose at a faster pace for most of the Southeast Asian economies. Inflation in Indonesia reached 6.5% in Q3, up from 6% in Q2, due mainly to higher food prices during the Ramadan season. (Chart 1c) In Malaysia, robust domestic demand, partly due to the civil service wage hike, resulted in price increases across all the broad categories of the CPI basket. Consequently, inflation rebounded to 1.8% in Q3 from 1.5% in Q2. In contrast, continued weak domestic demand led to lower inflation of 1.6% in Thailand, which was the mildest since 2003. Inflation rose slightly but remained muted in the Philippines.

Chart 1a
CPI Inflation (G3 economies)

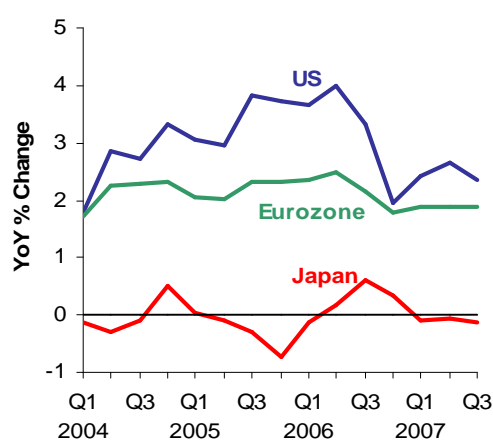


Chart 1b
CPI Inflation (Northeast Asia)

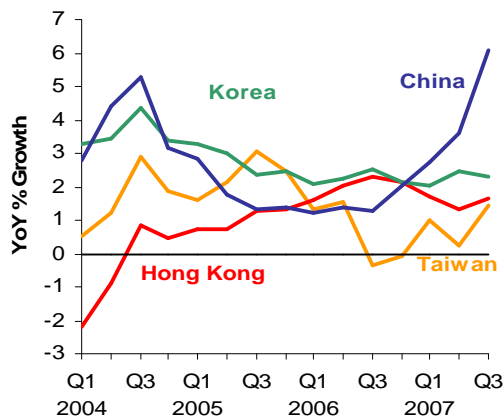


Chart 1c
CPI Inflation (Southeast Asia)

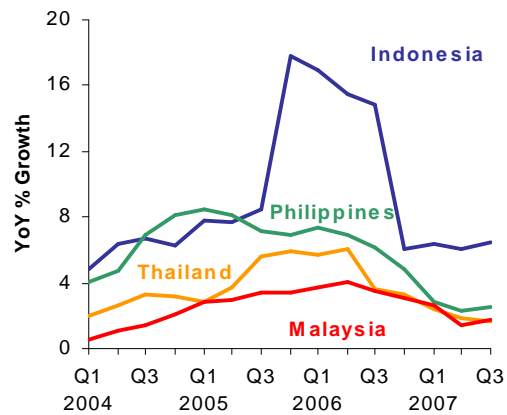


Table 1
External Inflation Indicator

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

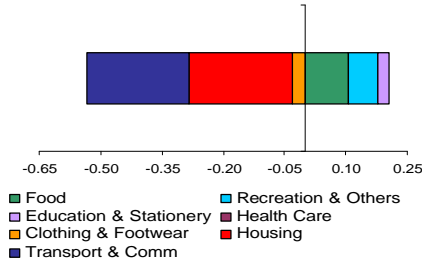
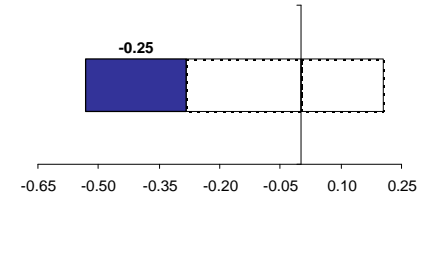
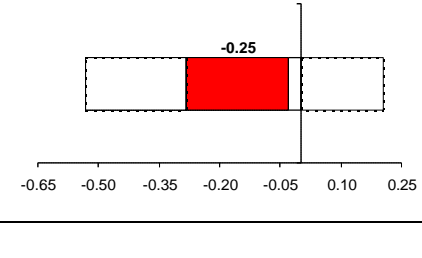
Interpretation of Colour Codes:

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

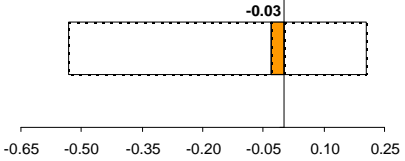
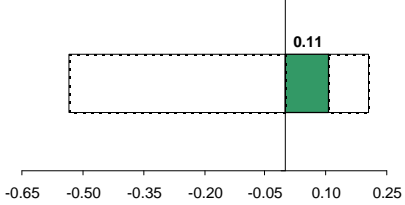
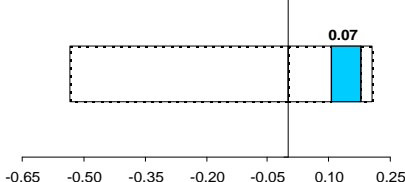
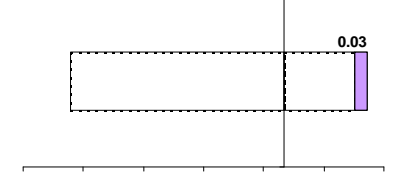
Red	Inflation accelerating
Yellow	No change in inflation
Green	Inflation decelerating

Recent Developments in Domestic CPI Inflation

Domestic headline CPI inflation fell to 2.7% y-o-y in September from 2.9% in the previous month, bringing average inflation to 1.4% for the first nine months of 2007. The MAS underlying inflation measure – which excludes accommodation and private road transport costs – rose to 3.0% in September from 2.8% in August. Over the period Jan-Sep 2007, it averaged 1.8%.

% Point Contribution (m-o-m), September 2007	Group	
 <p>Legend:</p> <ul style="list-style-type: none"> Food Education & Stationery Clothing & Footwear Transport & Comm Recreation & Others Health Care Housing 	Overall (m-o-m)	On a m-o-m basis, the CPI went down by 0.3% in September, as lower costs of transport & communications and housing more than offset price increases of food and recreation & others.
	Transport & Communications	<p>Costs of transportation & communications fell by 1.2% in September. This was largely due to a sharp decline in COE premiums in August¹ which led to lower car prices. In August, premiums for Category A cars plunged to \$8,118 during the month's second bidding exercise, from \$17,001 in the first bidding exercise.</p> <p>Road tax for motor vehicles was also reduced in September, as part of the government's fiscal package to mitigate the impact of the GST hike on households' expenditure.</p> <p>Petrol prices in the CPI were, however, 0.8% higher compared to the preceding month, as several petrol companies raised pump prices by two cents for all petrol grades amidst rising global oil prices.</p>
	Housing	Housing cost was dragged down by rebates for HDB Service & Conservancy Charges in September, which more than offset the increase in other components of housing costs.

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.

	Clothing & Footwear	Prices of clothing & footwear dipped by 0.9%, due to cheaper ready-made garments.
	Food	Food prices rose by 0.4% in September, after having gone up by 2.7% over Jan-Aug 2007. The increase was partly attributed to more expensive cooked food at hawker centres. At the same time, prices of most retail non-cooked food items were also higher, particularly non-alcoholic beverages, dairy products & eggs, and meat & poultry.
	Re-creation & Others	Higher costs of holiday travel lifted the price index for recreation & others by 0.4% in September. The rise in the cost of overseas accommodation and airfares has led to an average 7.2% (y-o-y) increase in the costs of holiday travel in the first nine months of the year.
	Education & Stationery	Costs of education & stationery rose due mainly to higher tuition fees at overseas universities.

Outlook

PRICES OF SOME DOMESTIC FOOD ITEMS COULD RISE FURTHER IN RESPONSE TO HIGHER GLOBAL WHEAT PRICES

Global wheat prices surged to an all-time high in September 2007 (Chart 2a), as wheat produce was depressed by drought and bad-weather in major wheat exporting countries such as Australia and Canada. Global inventories have also fallen to record low levels, providing little buffer against supply shocks, while global demand for food commodities has strengthened due to robust income growth. The combination of these factors has added to upward pressure on prices.

Chart 2
CBOT Wheat Prices

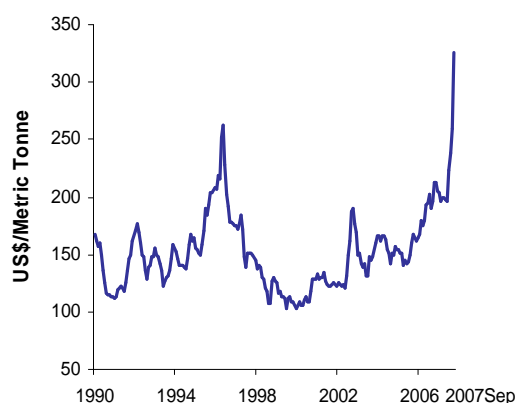
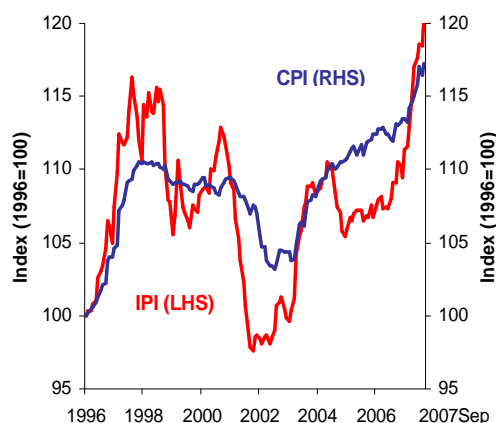


Chart 2b
Rice & Other Cereals CPI & IPI *



*IPI category: Cereal & Cereal Preparation

The significantly higher costs of wheat (and flour) and other food commodities have raised the input costs for domestic producers of related food products such as bread and noodles.

For example, since the beginning of the year, prices of cereal and cereal preparation products in the Import Price Index as well as the prices of rice & cereal in the CPI have jumped by 9.9% and 3.3% respectively. (Chart 2b)

HEADLINE CPI INFLATION FORECAST REVISED TO AROUND 2% IN 2007, AND 3.5-4.5% IN 2008

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 Annual Values (AVs) for a pre-selected sample of housing units.

IRAS has recently announced that the AVs for all HDB types will be increased with effect from 1 January 2008, reflecting the significant rise in their market rental values. In light of the AV adjustment, EPD has revised its inflation forecast for 2007 and 2008. 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, it has been revised upwards to 3.5%-4.5%, reflecting the impact of the AV revision for HDB flats.

Notwithstanding the higher headline inflation forecast, our assessment of underlying cost and inflation pressures has remained unchanged from the time of the MPS release in October. Therefore, the forecast for the MAS underlying inflation measure remains at 1.5%-2.5% for 2008.

Table A.1
Singapore's 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 Oct	101.8	103.1	101.2	104.2	96.8	104.5	101.6	102.5
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

Source: Singapore Department of Statistics

Table A.2
Selected Inflation Indicators for Singapore

	CPI	MAS Underlying Index	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY% GROWTH				
2006 Oct	0.4	1.3	-2.4	34.1	0.9
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

Source: Singapore Department of Statistics, IMF and Bloomberg