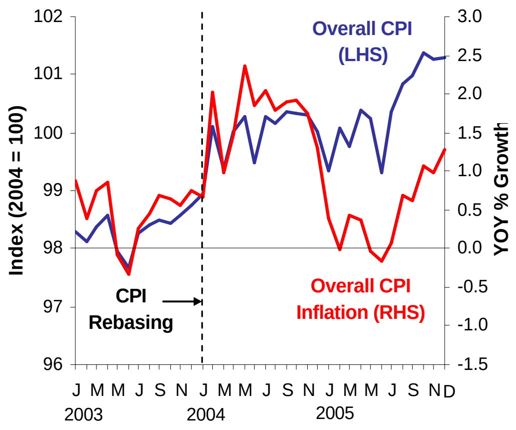
Inflation Monthly
Dec 2005

Inflation Ended the Year on a High Note

CPI (2004 = 100)		
% Growth/ Level	Nov 05	Dec 05
y-o-y	1.0	**1.3**
m-o-m	-0.1	**0.0**
Index	101.3	**101.3**



- **Headline CPI inflation rose to 1.3% in December, the highest rate for the year**
  The MAS underlying inflation measure came in at 2.0%, up from 1.8% in the previous month.

- **On a m-o-m basis, the CPI remained unchanged as price gainers were offset by decliners**
  While there were significant increases in holiday expenses and food prices during the month, they were largely offset by lower private road transport costs and cheaper retail sales items.

- **Outlook: More Signs Pointing to a Pickup in Inflation**
  Businesses are likely to face continued costs burdens from high commodity prices and freight costs. Meanwhile, costs of education are set to rise on impending fee hikes.

- **CPI inflation projected to be around 0.5-1.5% in 2006**
  The MAS underlying inflation measure is to come in at 1.5-2.0%

- **Box: Review of Inflation in 2005**
  In this last issue of the Inflation Monthly for 2005, the included Box provides a brief review of the major drivers and trends in domestic inflation during the year.

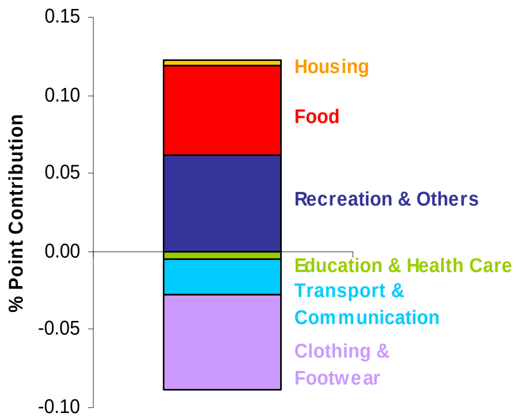
Recent Developments

Inflation Ended the Year on a High Note

Headline CPI inflation strengthened to 1.3% year-on-year (y-o-y) in December, after coming in at 1.0% in November. This brought average inflation for the full year of 2005 to 0.5%. Meanwhile, the MAS underlying inflation measure – which excludes private road transport and accommodation costs – rose to 2.0% y-o-y, and averaged 1.3% in 2005. Notably, both the headline and core inflation figures in December marked the strongest pace of price increase for the year. (The Box reviews the major drivers and trends in domestic inflation for the year of 2005).

On a month-on-month (m-o-m) basis, the CPI remained unchanged in December. Significant increases in holiday expenses (subsumed under Recreation and Others), food prices, and accommodation costs (Housing) were largely offset by lower private road transport costs (Transport & Communications) and cheaper retail sales items (Clothing and Footwear). (Chart 1)

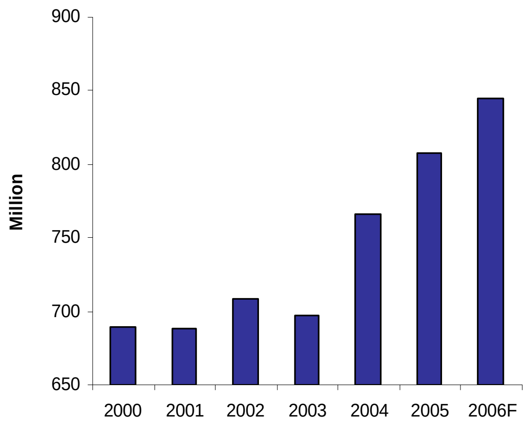
Chart 1
% Point Contribution to CPI Change (m-o-m), Dec 2005



Continued Rise in Holiday Expenses Elevated Recreation Costs

Recreation costs strengthened during the month, largely reflecting the 2% increase in the overall price of travel-related items arising from higher costs of non-packaged travel (comprising mainly overseas hotel accommodation costs). Anecdotal feedback and industry information suggested that global tourism remained vibrant and hotel room rates were facing demand-push pressures. For instance, according to the latest data released by the World Tourism Organisation, international tourist arrivals worldwide hit a record high of 808 million in 2005, registering a robust 5.5% (y-o-y) growth. (Chart 2) The sharp increase in occupancy rates in hotels across India have induced operators in cities like Mumbai and Delhi to raise room rates by 28-30% in Q4 2005, compared to the peak rates in 2004.

Chart 2
Worldwide International Tourist Arrivals



Source: World Tourism Organisation

FOOD PRICES ROSE ON ACCOUNT OF MORE EXPENSIVE VEGETABLES AND RESTAURANT MEALS

At the same time, food prices climbed 0.2% on the back of more expensive raw and cooked food. In particular, the 1.8% increase in the price of vegetables stemming from higher import prices from Malaysia and China contributed significantly to the overall rise in food prices. In Malaysia, prolonged heavy rainfall in the Cameron Highlands region during November and December was reported to have reduced the country's vegetable production by about 40%, with prices for some products surging by between 40-100%. Similarly, in China, statistics released by the Ministry of Agriculture showed that prices of selected leafy vegetables jumped 26% in December on account of unfavourable weather conditions.

In addition, prices of cooked food in hawker centres and restaurants edged up. In particular, prices of meals sold in restaurants rose 0.8%, largely due to increased demand for restaurant meals during the Christmas festive season, compared to an average increase of 0.1% in the first eleven months of 2005.

SEASONAL SALES LED TO CHEAPER RETAIL SALES ITEMS

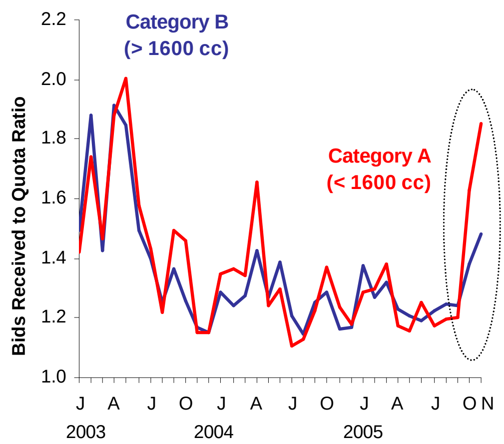
Prices of retail sales items including clothing and footwear fell significantly (-1.7%) during the month, as retailers slashed prices over the festive period. Anecdotal feedback suggested that price competition in the retail sector was particularly intense this year, as retailers introduced creative sales and discount strategies to entice greater spending from shoppers, who have displayed greater optimism with the improvement in the labour market.

For instance, more than 10 shopping centres in both the city and suburban areas extended their operating hours in December, with some shopping centres such as Paragon offering discounts of up to 50% between 9-11pm. Meanwhile, Bishan Junction 8 tied up with SBS Transit to extend the operating hours of selected bus services to 2am, while at the same time offering discount coupons to patrons going to Bishan.

PRIVATE ROAD TRANSPORT COSTS FELL AS CHEAPER PETROL MORE THAN OFFSET DEARER CARS

Private road transport costs came in lower during the month as the fall in petrol prices more than offset the uptick in car prices. Petrol prices declined 4% as consumers continued to benefit from the triple reduction in pump price quotes during November. However, car prices edged up in December, as the significant plunge in COE premiums to around $11,000 in October's first bidding exercise precipitated a flood of car purchases. As shown in Chart 3 below, the massive backlog of orders to be delivered by car dealers led to sharp spike in the ratio of biddings to COE quota in November [1], which eventually sent COE premiums rebounding to above $14,000.

Chart 3
Monthly COE Bid to Quota Ratio



Outlook

More Signs Pointing to a Pickup in Inflation

Oil Prices Still a Key Risk Factor

Going forward, oil prices remain one of the key risk factors to domestic inflation. Just when the WTI oil prices appear to be gravitating lower from its record high level of US$70.85 per barrel, a slew of unfavourable geopolitical events since early December has pushed the WTI oil price back up. (See Chart 4 and Table 1 below for a summary of the recent geopolitical events.) These events have once again highlighted the vulnerability of global oil prices to geopolitical instability that may be in the short term decoupled from the underlying supply conditions in the market.

[1] COE premiums in any 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 eventually delivered.

Chart 4
WTI Oil Prices and Recent Geopolitical Developments

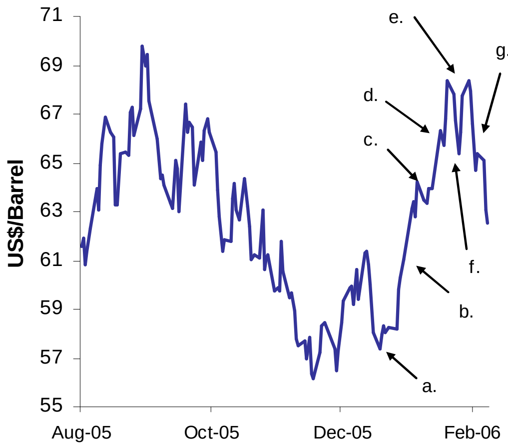


Table 1
Summary of Recent Geopolitical Developments that Influenced Oil Prices

Reference Point in Chart 4	Date	Events
a.	20 Dec 2005	Militants blew up an oil pipeline in Nigeria, killing eight people. The US suffered a cut in output from Nigeria, which is one of its major suppliers.
b.	03 Jan 2006	Russian state-controlled producer Gazprom cut natural gas supplies to Ukraine on 1 January after Ukraine rejected demands to pay four times more for its gas. The move disrupted exports to Europe and raised anxieties over energy supplies.
c.	10 Jan 2006	OPEC-member Iran removed UN seals at its Natanz uranium enrichment plant and resumed nuclear fuel research, prompting the US White House to warn that if Iran continued on its current course, the international community would have to seek action from the United Nation Security Council.
d.	19 Jan 2006	Al-Qaeda leader Osama bin Laden warned of fresh terrorist attacks on the US.
e.	23 Jan 2006	Explosions knocked out a main Russian pipeline to Georgia at a time when exports to Europe were already running below normal due to a bitter winter in Russia.
f.	25 Jan 2006	Gunmen stormed a riverside oil complex in Nigeria. More than 220,000 barrels per day (bpd) of Nigerian crude oil production remained shut in.
g.	06 Feb 2006	i) Venezuelan President Hugo Chavez said on 4 February that US President George Bush was worse than Hitler. Chavez warned that he could shut Venezuelan oil refineries in the US and sell oil elsewhere if the US terminates diplomatic ties. ii) International Atomic Energy Agency (IAEA) decided to report Iran's nuclear ambitions to the UN Security Council. Iran ended all voluntary cooperation with the IAEA and said that uranium enrichment will start in "due course".

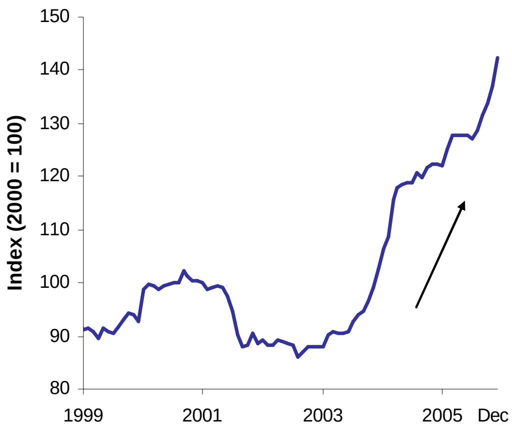
Source: Various news sources.

The upward price adjustments in domestic petrol, electricity and gas services in the second half of 2005 suggest that the pass-through to domestic CPI inflation is likely to be significant should oil prices continue to increase. Already, pump operators have jacked up petrol and diesel prices in January in response to the rise in input prices. This is likely to increase the cost burdens of public transport operators as well as other businesses which rely on transportation for the delivery of goods.

Metal Prices Rallied to Multi-Year Highs

Apart from oil-related cost pressures, prices of other commodities such as metals have risen significantly over the past two years. As show in Chart 5, prices of non-ferrous metals (consisting of products of silver, platinum, copper, nickel, aluminium, lead, zinc and tin) faced by local importers rose further by another 10% in 2005 after having surged by more than 30% in the previous two years.

Chart 5
Non-ferrous Metals IPI



Market observers have attributed the price increase to strong institutional buying on the back of ample liquidity in the global financial system, which has induced investment funds to seek alternative assets apart from equity and bonds. Such behaviour, along with rising demand from the rapidly industrialising emerging economies, have driven prices of metals such as gold, silver, platinum, zinc, lead and aluminium to multi-year highs.

Not only are prices of primary inputs going up, the costs of transporting them are also on the uptrend, driven by increasing demand for cargoes by Asian manufacturers. The 11 member lines of the Westbound Transpacific Stabilisation Agreement (WTSA), whose container shipping lines operate on the westbound trans-Pacific route from the US to Asia, have announced hikes in freight rates for commodities and plastic materials starting in March 2006.

Fee Hikes at Education Institutions

As mentioned in the October 2005 issue of the *Inflation Monthly*, tuition and school fees can be expected to increase on account of higher fees for independent junior colleges, kindergartens, child-care centres as well as foreign universities. The latest to hike fees are the universities, polytechnics and the Institute of Technical Education (ITE) colleges, which have recently announced plans to raise tuition fees in 2006. Pressured by higher manpower and operating costs, the National University of Singapore and the Nanyang Technological University will increase the fees of undergraduate courses by 3% while new students entering into the Singapore Management University will face an upfront rise of 15% in tuition fees. Meanwhile, the five polytechnics colleges will raise annual fees by $50 to $2,100 (+2.4%) when the new academic year commences in April, while the three ITE colleges will hike fees by $10 to $260 (+4%) in May.

Taking a longer-term perspective, education costs in Singapore have risen steadily in the last decade, reflecting quality improvements in human capital, better teaching facilities and declining student to teacher ratio (Chart 6a). However, the rate of increase in education costs in Singapore has been relatively benign when compared to developed countries such as Australia, UK and US. As shown in Chart 10b, the rate of increase of education costs in Singapore averaged 3.5% per annum over the last decade, compared to an average of 5.6% for the three countries over the same period (Chart 6b).

Chart 6a
Education and Tuition & Other Fees CPI

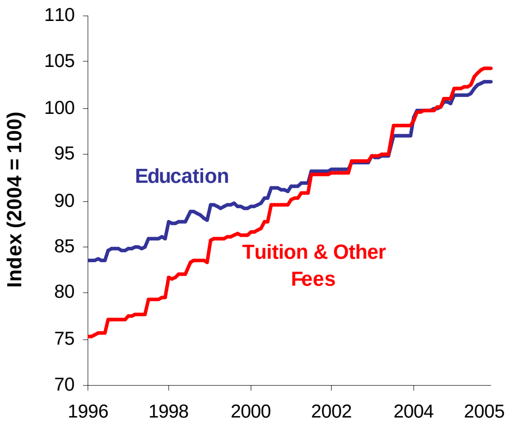
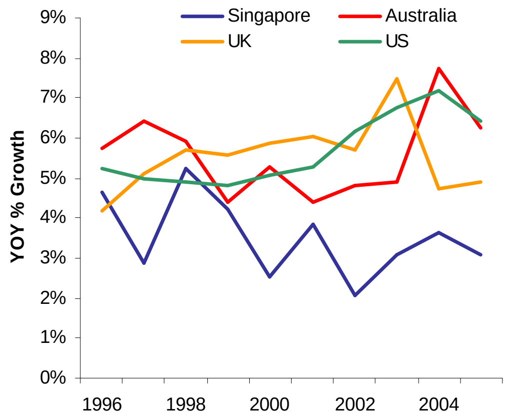


Chart 6b
Education Inflation in Australia, UK, US and Singapore*



* For Singapore and US, indices of sub-categories reflecting tuition fees were used for comparability instead of the overall education CPI, which included other components such as costs of books, newspapers and computers.

January CPI likely to Register a Spike in Food Prices

In the near term, food prices are expected to see a spike, as the prolonged rainy spell in Singapore and Malaysia in January caused a sharp plunge in Malaysian food supply, including vegetables, eggs and seafood. In addition, the supply shortage coincided with the run-up to the Chinese New Year – a season when strong demand for uncooked food would usually result in significant increases in food prices.

Car Prices Likely to remain Weak and Offset Inflationary Pressures

Against the backdrop of increasing inflation pressures from several fronts, weak car prices could continue to play a mitigating effect. COE premiums tumbled to a 20-year low of around $8,000 January. Yet, market watchers are suggesting that demand for cars could remain lacklustre for various reasons. First, interest rates on car loans are now above 3%, compared to about 2% one to two years ago. This is likely to deter some existing owners, who have locked in their loans at lower rates, from replacing their vehicles. Second, the car population has become younger, implying relatively less replacement demand. Moreover, the falling COE premiums would also mean negative equity for some owners, lessening the incentives for switching to a new car. Third, with COE premiums continuously touching multi-year lows, new car buyers might prefer to adopt a “wait-and-see” attitude.

Taking all factors into consideration, headline CPI inflation is forecast to be around 0.5-1.5% for 2006 while the MAS underlying inflation measure is projected to come in at 1.5-2.0%.

Box: Review of Inflation in 2005

Despite the surging commodity prices, Singapore's **headline CPI inflation** came in at a mild **0.5%** for the full year of 2005, compared to 1.7% in 2004. Overall inflationary pressures were dragged down by the weakness in car prices. Excluding private road transport and accommodation costs, the **MAS underlying inflation measure** registered **1.3%**, comparable to the average rate of 1.2% over the last five years. This Box Item provides a brief review of the major drivers and trends in domestic inflation for the year of 2005.

OIL PRICES IN THE LIMELIGHT

During the year, there were considerable costs pressures from soaring oil prices as the WTI climbed to an average of US$56 per barrel, from US$41 per barrel in 2004. As such, oil-related items in the CPI basket contributed about **0.6% points** to overall CPI inflation, nearly 0.2% points higher than that in the previous year. (Chart 1)

Chart 1
% Point Contributions of Oil-related Items, 2003 - 2005

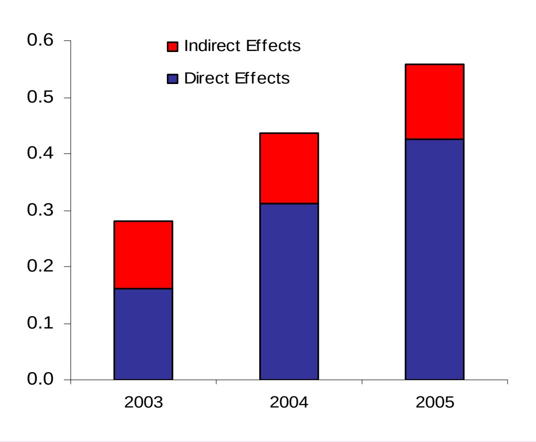
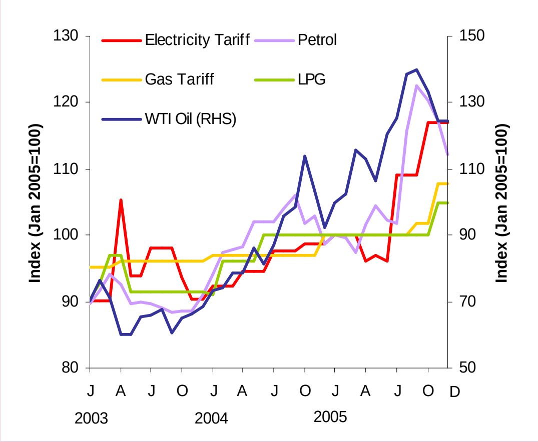


Chart 2
WTI Oil Prices and Price Index of Direct Oil-related Items



Among the direct oil-related items, **electricity tariffs** and **petrol** emerged as the largest contributors, each contributing 0.2% points to overall inflation. Electricity tariffs rose by more than 10% for the full year, on account of three quarterly upward adjustments. This marks the largest price increase since year 2000. Meanwhile, **petrol** prices rose by 7%, although lower than the 11% increase in 2004. Indeed, price increases would have been much larger if not for the intense price wars amongst petrol pump operators during mid-2005. Residential **town gas tariffs** were also raised twice by a total of 4.4%, while retailers of **LPG** hiked prices by 2.9% after having kept them unchanged since June 2004. (Chart 2)

There were also indirect oil-related prices pressures in the CPI basket which contributed 0.1% points to overall inflation. Mounting fuel costs compelled public road transport operators to raise **bus and MRT fares** by a maximum permitted amount of 2.4%. With mounting costs stemming from higher gas, electricity and wage bills, **restaurants and hawker centres** also raised prices. Despite the increase in airline fuel surcharges, the intense competition posed by budget carriers brought overall **air fares** lower.

PRICES OF NON-COOKED FOOD WERE SIGNIFICANT CONTRIBUTORS

Prices of non-cooked food also contributed significantly to domestic inflation for the year (**0.2% points)**. Except for fruits, price increases were evident in all sub-categories of the CPI food basket. Prices of **meat and poultry** rose further by 4.8% in 2005, after registering 7.9% in 2004. Although poultry prices have subsided from the spike during the avian-flu outbreak in Malaysia in 2004, prices in general have yet to return to pre-ban levels. The higher prices could have reflected the pass-through of cost increases through the supply chain, with several levels of checks and compliances at the AVA accredited farms and at the various checkpoints. Pork prices also became more expensive, on account of dearer imported chilled pork, while the higher **seafood** and **vegetable** prices were affected by unfavourable weather conditions in the region.

POLICY-INDUCED FACTORS INFLUENCED INFLATION

Policy-induced factors contributed **0.2% points** to overall CPI inflation. The 20% **tax hike on cigarettes** boosted recreation costs to a significant extent, but was partially offset by the reduction in **foreign maid levy**. In addition, housing maintenance costs rose due to the lesser amount of **service and conservancy (S&C) rebates** granted to four- and five-room flats in 2005.

"PENT UP" COSTS PRESSURES IN EDUCATION, BUT BENIGN INFLATION FOR HEALTH CARE SERVICES

Education costs went up 2.0%, due largely to higher tuition and other fees, which contributed **0.2% points** to overall CPI inflation. Several school or tuition fee hikes were announced in 2005, reflecting the pass-through of "pent-up" costs over the years, especially during times of economic uncertainty. For the first time in 14 years, the Ministry of Education called for an increase in **school miscellaneous fees** to cope with rising operating expenses. For the same reason, the 2002 freeze on **university tuition fees** was lifted, and the monthly charges by various private child-care centres, kindergarten and nurseries were raised. Costs of **overseas education** saw some increase as well.

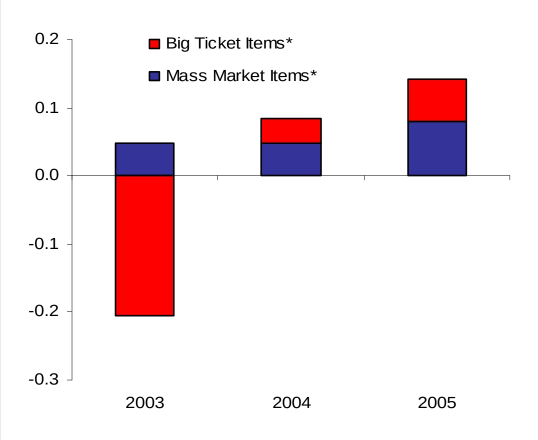
Health care costs edged up by 0.4%, contributing **0.02% points** to overall CPI inflation. The milder price increases in health care costs could have reflected the success of the government's ongoing effort in making medical treatment more affordable through various policy reforms, such as the requirement for greater transparency in hospital treatment charges.

SOME PRICE PRESSURES FROM SENTIMENT-SENSITIVE ITEMS

Notably, the price pressures from sentiment-sensitive items in 2005 were larger compared to the previous two years, due to stronger increase in recreation costs, with the cost of **holiday travel** rising by 2.9% during the year. (Chart 3) Domestically, the healthy growth in wages and the improvement in the economy are likely to have bolstered demand for tour packages. Externally, the resurgence of global tourism over the last two years resulted in higher overseas accommodation rates for Singaporeans. Apart from travel expenses, steeper operating costs also led cinema operators to raise **prices of movie tickets**, after having kept them unchanged for the past three years.

The **clothing & footwear CPI remained unchanged** for the year as the deep discounts offered during the Great Singapore Sale (GSS) from May-July were offset by stronger prices in the latter half of the year. During the annual GSS, many retailers began offering attractive discounts before the official start of the Sale and the event was successfully extended island-wide to include participating outlets in the heartlands. Nevertheless, prices of retail sales items strengthened more than anticipated after the Sale, possibly reflecting an increase in the capacity of retailers to pass on cost pressures arising from higher rental charges, utilities bills and wages, alongside the continued improvement in consumer sentiment.

Chart 3
% Point Contributions of Sentiment-Sensitive Items, 2003 - 2005



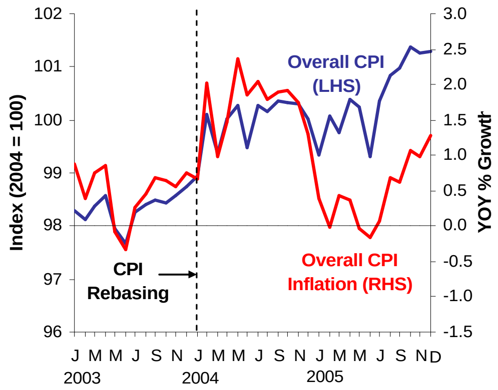
* Big-ticket items include household durables and holiday expenses. Mass-market items include clothing & footwear, personal care and personal effects.

TUMBLING CAR PRICES THE MAIN DRAG ON INFLATION

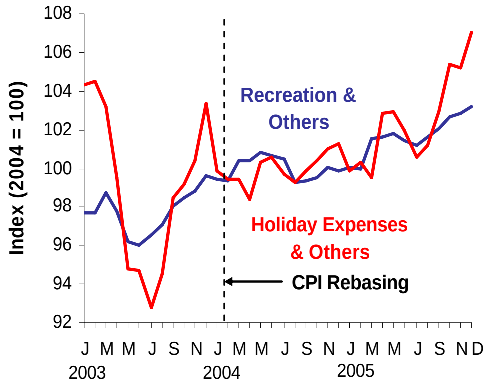
Transport costs fell 2.5% in 2005, due largely to falling car prices. **Car** prices tumbled to new lows during the course of the year, as the supply of COEs by the LTA increased amidst some weakening in demand. The weaker demand could be attributed to several factors. First, as the car population becomes "younger", the incentive to replace cars diminished. Moreover, buyers who recently replaced their cars may experience negative equity. Second, with the increase in the proportion of "large" cars (above 1,600cc), demand from car owners to upgrade could also have weakened somewhat. Third, some new car buyers may have adopted a "wait-and-see" attitude. Fourth, some potential buyers may have been deterred by the increasing costs of car usage due to more expensive petrol and parking charges as well as a greater number of ERP gantries.

Summary of Recent Domestic Price Developments

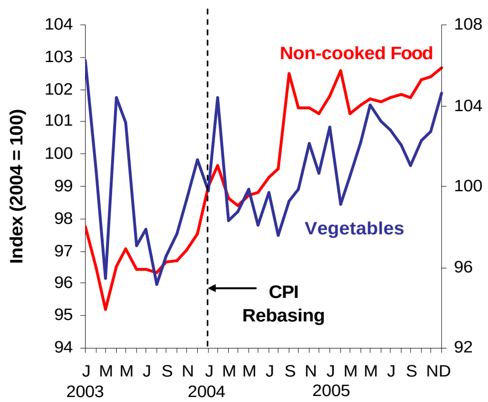
Headline CPI inflation rose to 1.3% y-o-y in December, from 1.0% in November. On a m-o-m basis, the CPI remained unchanged.



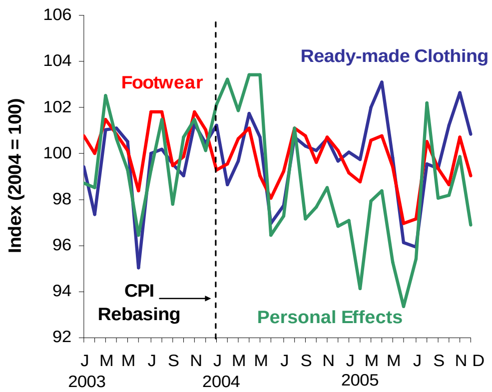
Costs of recreation & others continued to rise on account of costlier holiday expenses, which were lifted by dearer overseas hotel room rates.



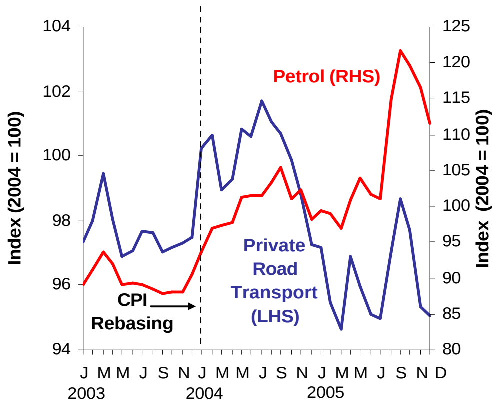
Meanwhile, unfavourable weather conditions in exporting countries led to more expensive vegetables locally.



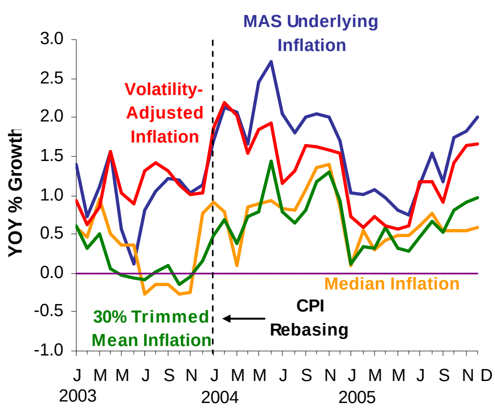
As anticipated, prices of retail sales items like clothing, footwear and personal effects fell sharply as retailers conducted seasonal sales.



Private road transport costs came in lower during the month as the rise in car prices was offset by the decline in petrol prices.



All measures of core inflation rose in December. The MAS underlying inflation measure increased to 2.0% (y-o-y), from 1.8% in the previous month.



Statistical Appendix

Table A.1
Consumer Price Index

	All Items	Food	Clothing & Footwear	Housing	Tpt & Comm	Education & Stationery	Health Care	Recreation & Others
Weights	10000	2338	357	2126	2176	819	525	1659
	INDEX (2004 = 100)							
2005 Jan	99.3	101.0	99.9	96.9	98.4	101.4	100.2	100.0
Feb	100.1	101.5	99.6	100.9	97.4	101.4	100.2	100.0
Mar	99.8	100.8	101.7	99.2	96.9	101.4	100.1	101.6
Apr	100.4	101.0	102.5	100.5	98.0	101.4	100.3	101.6
May	100.2	101.1	99.8	100.5	97.5	101.5	100.2	101.8
Jun	99.3	101.1	96.4	97.4	97.1	101.5	100.3	101.4
Jul	100.4	101.2	96.3	101.9	97.3	102.2	100.5	101.2
Aug	100.8	101.3	99.8	101.9	98.4	102.5	100.5	101.6
Sep	101.0	101.2	99.4	101.4	99.2	102.7	100.6	102.0
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

Source: Singapore Department of Statistics

Table A.2
Selected Inflation Indicators

	CPI	MAS Underlying Inflation Measure	Import Price Index	Non-fuel Primary Commodities	OPEC Oil Price
	YOY % GROWTH				
2005 Jan	0.4	1.0	1.4	8.7	33.9
Feb	0.0	1.0	2.3	8.0	42.4
Mar	0.4	1.1	4.2	9.6	53.6
Apr	0.4	1.0	5.6	6.8	53.4
May	0.0	0.8	3.2	7.2	28.1
Jun	-0.2	0.8	5.1	8.1	49.8
Jul	0.1	1.1	5.9	7.7	46.2
Aug	0.7	1.5	5.3	11.5	43.1
Sep	0.6	1.2	8.1	12.1	44.3
Oct	1.1	1.7	6.6	13.3	20.8
Nov	1.0	1.8	6.6	17.9	32.3
Dec	1.3	2.0	7.4	17.0	46.8

Source: Singapore Department of Statistics, IMF and Bloomberg